



The Pakistan Credit Rating Agency Limited

ENGRO FERTILIZERS LIMITED (EFERT)

ENTITY & DEBT INSTRUMENT RATING

	NEW [DEC-17]	PREVIOUS [APR-17]
Entity Rating:		
Long-Term	AA-	AA-
Short-Term	A1+	A1+
Outlook	Stable	Stable
Sukuk III	AA-	AA-

DECEMBER 2017



Engro Fertilizers Limited (EFert)

BALANCE SHEET	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
	9MCY17	CY16	CY15	CY14
Non-Current Assets	73,437	74,740	72,459	75,175
Investments (Incl. Associates)	651	703	16,297	25,084
Equity	560	560	4,383	-
Debt	91	143	11,914	25,084
Current Assets	30,849	26,985	16,627	11,467
Inventory	5,991	6,820	6,942	1,101
Trade Receivables	9,392	7,585	2,262	757
Others	15,466	12,580	7,423	9,609
Total Assets	104,937	102,428	105,382	111,726
Debt	31,134	34,601	36,074	44,003
Long-term (Incl. Current Maturity of Long-Term Debt)	31,134	34,601	36,074	44,003
Other Short-term Liabilities	24,784	18,827	20,164	27,898
Other Long-term Liabilities	7,420	7,718	6,617	5,347
Shareholder's Equity	41,599	41,283	42,526	34,478
Total Liabilities & Equity	104,937	102,428	105,382	111,726
INCOME STATEMENT				
Turnover	47,732	69,519	85,003	61,425
Gross Profit	14,617	17,111	29,568	22,603
Other Income	3,394	6,991	2,506	1,131
Financial Charges	(1,978)	(3,136)	(4,588)	(6,625)
Net Income	6,696	9,025	15,028	8,208
Cashflow Statement				
Free Cashflow from Operations (FCFO)	13,811	17,995	26,174	19,493
Net Cash changes in Working Capital	(1,044)	(13,839)	(17,142)	6,661
Net Cash from Operating Activities	10,574	775	4,642	19,063
Net Cash from Investing Activities	(2,263)	(2,422)	8,165	(5,641)
Net Cash from Financing Activities	(7,537)	(10,748)	(16,384)	(13,692)
Net Cash generated during the period	775	(12,394)	(3,577)	(270)
Ratio Analysis				
Performance				
Turnover Growth	16.7%	-18.2%	38.4%	22.5%
Gross Margin	30.6%	24.6%	34.8%	36.8%
Net Margin	14.0%	13.0%	17.7%	13.4%
Coverages				
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	1.7	2.2	1.8	1.5
Interest Coverage (x) (FCFO/Gross Interest)	6.9	5.7	6.0	3.2
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Term Borrowings) / FCFO)	2.0	2.3	1.6	3.0
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	7.8	9.1	-21.3	-25.2
Capital Structure (Total Debt/Total Debt+Equity)	43.6%	46.7%	45.9%	56.1%



STANDARD RATING SCALES & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

LONG TERM RATINGS		SHORT TERM RATINGS
AAA	<p>Highest credit quality. Lowest expectation of credit risk.</p> <p>Indicate exceptionally strong capacity for timely payment of financial commitments.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+ AA AA-	<p>Very high credit quality. Very low expectation of credit risk.</p> <p>Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p>	
A+ A A-	<p>High credit quality. Low expectation of credit risk.</p> <p>The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.</p>	
BBB+ BBB BBB-	<p>Good credit quality. Currently a low expectation of credit risk.</p> <p>The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.</p>	
BB+ BB BB-	<p>Moderate risk. Possibility of credit risk developing.</p> <p>There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.</p>	
B+ B B-	<p>High credit risk.</p> <p>A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business, and economic environment.</p>	
CCC CC C	<p>Very high credit risk.</p> <p>“CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.</p>	
D	<p>Obligations are currently in default.</p>	

<p>Rating Watch</p> <p>Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.</p>	<p>Outlook (Stable, Positive, Negative, Developing)</p> <p>Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.</p>	<p>Suspension</p> <p>It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, a suspended rating should be considered withdrawn.</p>	<p>Withdrawn</p> <p>A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.</p>
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Disclaimer: PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.



Name of Issuer
Sector
Type of Relationship

Engro Fertilizers Limited
Fertilizers
Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
30-Dec-17	AA-	A1+	Stable	Maintain
20-Apr-17	AA-	A1+	Stable	Maintain
18-Nov-16	AA-	A1+	Stable	Maintain
18-Nov-15	AA-	A1+	Stable	Upgrade
8-Jan-15	A+	A1	Stable	Upgrade

Related Criteria and Research

Rating Methodology
Research:

Corporate Rating Methodology | Instrument Rating Methodology
Fertilizer Sector | Overview | October 2017

Rating Analysts

Faraan Taimoor
faraan.taimoor@pacra.com
(92-42-35869504)

Jhangeer Hanif
jhangeer@pacra.com
(92-42-35869504)

[Rating Team Statement](#)

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

[Disclaimer](#)

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entity being rated or issuer of the debt instrument, and ii) fee mandate - signed with the payer, which can be different from the entity

PACRA ensures that the credit rating assigned to an entity or instrument should not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence

of such a relationship

Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to

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PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

Reporting of Misconduct

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circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

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[Probability of Default \(PD\)](#)

PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance

behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating

may not follow the pattern observed in the past