



The Pakistan Credit Rating Agency Limited

**Rating Report**

**Mega Conglomerate (Pvt.) Limited**

Report Contents
1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
14-Dec-2023	AA-	A1	Stable	Maintain	-
14-Dec-2022	AA-	A1	Stable	Maintain	-
14-Dec-2021	AA-	A1	Stable	Maintain	-
14-Dec-2020	AA-	A1	Stable	Maintain	-
14-Dec-2019	AA-	A1	Stable	Maintain	-
14-Jun-2019	AA-	A1	Stable	Initial	-

**Rating Rationale and Key Rating Drivers**

The ratings herein reflect the affiliation of Mega Conglomerate (Private) Limited ('the Company') with the Mega & Forbes Group of Companies, a well-established conglomerate with a formidable presence spanning the domains of energy, cement, shipping, logistics, real estate development, and the food industry. The operational framework of the Company is characterized by a holding company structure, strategically designed to facilitate the acquisition and consolidation of the Group's investments in the energy, real estate, and food sectors. The Hub Power Company Limited (HUBCO) holds an integral position within the Mega Conglomerate, with a substantial ownership stake of 19.4%. The company extends its influence across diverse sectors, manifesting through its interests in Haleeb Foods via Mega Foods (Pvt.) Limited, real estate investments facilitated by Imperial Developers and Builders (Pvt.) Limited. The Company derives its primary revenue from the dividend streams generated by its underlying investments. During FY23, the Company experienced a noteworthy surge of ~109% in its dividend income from HUBCO. This augmentation has contributed to an enhanced financial performance when compared with preceding year. HUBCO maintains a robust footprint in the power sector, with strategic investments in Narowal Energy Limited, Laraib Energy Limited, and China Power Hub Generation Company. Collectively, these ventures boast a cumulative installed power generation capacity of 3,581MW. The company bears significant financial charges due to debt incurred for its investment portfolio. Although highly leveraged, the debt is fully secured by liquid assets, including HUBCO shares. The equity base is reinforced through equity injections and subordinated loans from sponsors and affiliated companies. Looking ahead, a consistent dividend stream, strengthened by energy sector investments, is anticipated to bolster the company's financial profile. Additionally, the favorable ratings are supported by ample liquid investments, particularly in TFCs, on the company's balance sheet, with the expectation of sponsor support if needed.

The ratings hinge on the performance of current strategic investments and the effective execution of their envisioned business strategies, leading to a consistent dividend stream. Enhancing the governance framework is imperative for maintaining and improving the ratings.

**Disclosure**

<b>Name of Rated Entity</b>	Mega Conglomerate (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Holding Company Rating(Jul-23),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Rating Modifiers(Apr-23)
<b>Related Research</b>	Sector Study   Holding Company(Aug-23)
<b>Rating Analysts</b>	Muhammad Zain Ayaz   zain.ayaz@pacra.com   +92-42-35869504



## Profile

**Background** Mega Conglomerate (Pvt.) Limited ('Mega' or 'the Company') was incorporated as a private limited company in 2010 in Pakistan under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017).

**Structural Analysis** As a holding company Mega has strategic investments of ~ PKR 26bln. These include: two associated companies - The Hub Power Company Limited (HUBCO) ~19% shareholding, and two wholly owned subsidiaries - Mega Foods (Pvt.) Ltd. and G4 Mega Pakistan (Pvt.) Ltd. Mega Foods has 56% stake in Haleeb Foods. Whereas G4 owns 100% stake in Imperial Developers and Builders (Pvt.) Ltd. (IDBL). IDBL is engaged in real estate development and has sizable investment property in Karachi.

## Ownership

**Ownership Structure** The Company is owned by Mr. M. Habibullah Khan (56%) and Mrs. Nusrat Khan (44%). Mr. Habibullah Khan is the founder and Chairman of Mega & Forbes Group.

**Stability** Ownership of the business is seen as stable as the major ownership vests with the founding sponsors of Mega & Forbes Group.

**Business Acumen** Mega & Forbes Group has interests in the country's largest container terminal, third largest dairy producer, a cement manufacturer, an integrated shipping company and progressive real estate developer responsible for the only L.E.E.D (Leadership in Energy and Environmental Design) certified commercial buildings in Pakistan. Additionally, the group has presence in energy sector through HUBCO.

**Financial Strength** The Company derives its financial strength from Mega and Forbes Group and associated companies. The sponsors have sufficient net worth to support the Company in times of distress.

## Governance

**Board Structure** Mega's Board comprises four members, consisting of the sponsoring family. Despite being a private limited company, small size of the Board and lack of independent oversight indicates room for improvement in the governance framework, especially considering its holding structure.

**Members' Profile** Board's Chairman, Mr. M. Habibullah Khan, has more than three decades of diverse experience mainly in shipping and container terminals. He also chairs the Board of other group companies. Mrs. Nusrat Khan, Director since 1999, is on the Board of Qasim International Container Terminal / DP World Karachi, currently Pakistan's leading terminal. Mr. Aly Khan and Ms. Aleeya Khan are also inducted as Directors on the Company's Board.

**Board Effectiveness** The Board is assisted by its sub-committees, Audit, Investment and Compensation Committees. Board Audit Committee, comprising four members, reviews group level information. Board Investment Committee, comprising five members, reviews and assist in evaluating the Company's investment performance and opportunities. Compensation Committee, comprising four members, reviews and recommends employee development policies. These Committees met four times during the year and are Chaired by Mr. M. Habibullah Khan.

**Transparency** Mega's external auditor, Muniff Ziauddin & Co., is on the SBP panel of auditors in Category 'A'. The firm has issued a qualified audit opinion on FY22 financial statements. It relates to the non-disclosure of related party transactions according to IAS 24 and Companies Act 2017.

## Management

**Organizational Structure** The Company's organizational structure draws strength from the Group. All departmental Heads reports to the Group CEO - Mr. Habibullah Khan. The subsidiaries have independent management teams and organizational structure. This structure caters to monitoring performance of its subsidiaries, devising strategy and policies for the Group.

**Management Team** Mega's CEO, Mr. M. Habibullah Khan, is the key source of guidance for the Group with an experience of more than three decades. Mr. Aly Khan, Executive Director, is the Chairman of Pioneer Cement Ltd., Director of Hub Power Company Limited, Director of Haleeb Foods Limited, Director of Qasim International Container Terminal and an SECP certified Director in corporate governance.

**Management Effectiveness** The management is assisted by Management Committee, comprising CEO, CFO, Head of Investments, Head of HR & Admin, and Head of IT. The Committee met as required and is Chaired by Mr. M. Habibullah Khan.

**Control Environment** The risk management is handled by the CEO and Head of Investments, by setting up investment management and developing risk management procedures.

## Investment Strategy

**Investment Decision-Making** The Company's investment decisions are taken by the Investment Committee of Mega and Forbes at Group level.

**Investment Policy** Mega has a prudent investment strategy as the Company has exposure in limited sectors: Power Generation, Food Products and Real Estate.

**Investment Committee Effectiveness** The company currently follows a flexible approach to investment guidelines. Management convenes meetings as needed to collaboratively make investment decisions for the company.

## Business Risk

**Diversification** The portfolio comprises total investment value of PKR 26bln, and PKR 24.88bln of total investment value is invested in power generation through HUBCO (96% of total investments). Whereas the remaining is invested in food products PKR 899mln through Mega Foods (Pvt.) Ltd. (3.45%) and real estate PKR 281mln through G4 Mega Pakistan (Pvt.) Ltd. (1%) and short-term investment in TFC's worth 1,209mln.

**Portfolio Assessment** The Company holds two kinds of investments on its books: Core and Strategic investments. Core investments include two wholly owned subsidiaries: Mega Foods (Pvt.) Ltd. and G4 Mega Pakistan (Pvt.) Ltd. Mega Foods has 56% stake in Haleeb Foods. Mega Foods returned profit of PKR ~1.1bln during FY23. G4 Mega has investments in real estate and developmental projects, and wholly owned Imperial Developers and Builders (Pvt.) Ltd. (IDBL). Strategic investment includes 19.48% stake in Hub Power Company Limited (HUBCO) which is the main dividend and income generating investment of the Company.

**Income Assessment** The Company's total investment income during FY23 witnessed ~107% increase YoY and stood at PKR 6,297mln (FY22: PKR 3,045mln) mainly due to higher dividend income from HUBCO of PKR 6,063mln (FY22: 2,905mln). Moreover, PKR 234mln was received as interest income (FY22: PKR 139mln). Subsequently, the Company's net income witnessed significant improvement and stood at PKR 3,407mln (FY22: PKR 1,184mln). Going forward, the Company is expected to receive consistent dividend income from HUBCO.

## Financial Risk

**Coverages** In FY23, coverage ratio improved to 3.3x (FY22: 1.8x), due to significant dividend income and increased total investment income. Higher dividend income from HUBCO has provided the much-needed support to the Company's coverages. Similarly, the Company's debt coverage ratio also witnessed improvement and stood at 1.6x in FY23 (FY22: 0.9x). Going forward, the Company's coverages are expected to remain improved given the consistent dividend income from HUBCO and reduction in borrowings from financial institutions.

**Capital Structure** Mega has a highly leveraged capital structure (FY23: ~71%, FY22: ~96%) and saw an increase in their equity base (FY23: PKR 5,280mln, FY22: PKR 814mln). Mega has also reduced their borrowings (FY23: PKR 20.9bln, FY22: PKR 26bln). The Company is supported by substantial loan from associated companies (FY23: PKR 12.9bln, FY22: PKR 13.4bln). Meanwhile, sizable liquid assets (TFCs amounting to PKR 1,210mln as at FY23) eases the net leveraging, with HUBCO shares provided as collateral providing additional comfort.

**Consolidated Position** Mega & Forbes is the Group's main holding company, Mega & Forbes' consolidated revenue stood at PKR 20.6bln with a net profit of PKR 9.6bln during FY23. The consolidated equity base stood at PKR 37.4bln as at FY23.



**The Pakistan Credit Rating Agency Limited**

Mega Conglomerate (Private) Limited Holding Company	Jun-23	Jun-22	Jun-21
	12M	12M	12M
	Management	Audited	Audited
<b>A BALANCE SHEET</b>			
1 Investments	26,090	26,090	26,090
2 Related Party Investments	1,301	1,281	1,601
3 Non-Current Assets	-	-	-
4 Current Assets	63	116	142
<b>5 Total Assets</b>	<b>27,454</b>	<b>27,487</b>	<b>27,833</b>
6 Current Liabilities	1,300	368	362
7 Borrowings	7,918	12,921	17,192
8 Related Party Exposure	12,956	13,384	10,911
9 Non-Current Liabilities	-	-	-
<b>10 Net Assets</b>	<b>5,280</b>	<b>814</b>	<b>(632)</b>
<b>11 Shareholders' Equity</b>	<b>5,280</b>	<b>814</b>	<b>(632)</b>
<b>B INCOME STATEMENT</b>			
1 Total Investment Income	6,297	3,045	1,880
a Cost of Investments	(1,739)	(1,582)	(1,440)
<b>2 Net Investment Income</b>	<b>4,558</b>	<b>1,463</b>	<b>440</b>
a Other Income	-	-	-
b Operating Expenses	(4)	(3)	(69)
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>4,554</b>	<b>1,460</b>	<b>371</b>
a Taxation	(1,148)	(276)	(133)
<b>6 Net Income Or (Loss)</b>	<b>3,407</b>	<b>1,184</b>	<b>238</b>
<b>C CASH FLOW STATEMENT</b>			
a Total Cash Flow	5,804	2,803	1,727
b Net Cash from Operating Activities before Working Capital Ch	4,418	1,262	(479)
c Changes in Working Capital	(23)	282	72
<b>1 Net Cash (Used in) or Available From Investing Activities</b>	<b>4,395</b>	<b>1,544</b>	<b>(407)</b>
<b>2 Net increase (decrease) in long term borrowings</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>3 Net Cash (Used in) or Available From Financing Activities</b>	<b>(4,373)</b>	<b>(1,535)</b>	<b>351</b>
<b>4 Net Cash generated or (Used) during the period</b>	<b>22</b>	<b>9</b>	<b>(56)</b>
<b>D RATIO ANALYSIS</b>			
<b>1 Performance</b>			
a Asset Concentration (Market Value of Largest Investment / Mar	95.3%	93.6%	94.3%
b Core Investments / Market Value of Equity Investments	4.6%	6.4%	5.5%
c Marketable Investments / Total Investments at Market Value	96.6%	132.3%	113.7%
<b>2 Coverages</b>			
a TCF / Finance Cost	3.3	1.8	1.2
b TCF / Finance Cost + CMLTB	1.6	0.9	0.5
c Loan to Value (Funding / Market Value of Equity Investments )	0.5	1.0	1.0
<b>3 Capital Structure (Total Debt/Total Debt+Equity)</b>			
a Leveraging [Funding / (Funding + Shareholders' Equity)]	70.7%	95.6%	103.0%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	240.9%	2176.0%	-3479.3%

### Credit Rating

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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	<b>High credit quality.</b> Low expectation of credit risk. 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.
A-	
BBB+	
BBB	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	
BB	<b>Moderate risk.</b> Possibility of credit risk developing. 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.
BB-	
B+	
B	<b>High credit risk.</b> 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.
B-	
CCC	
CC	<b>Very high credit risk.</b> Substantial credit risk "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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



\*The correlation shown is indicative and, in certain cases, may not hold.

**Outlook (Stable, Positive, Negative, Developing)** 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'.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

**Suspension** 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, the rating should be considered withdrawn.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
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- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
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### **Probability of Default**

(22) 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; | Chapter III | 14-3(f)(vii)

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