



The Pakistan Credit Rating Agency Limited

Rating Report

Mega Conglomerate (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
14-Dec-2019	AA-	A1	Stable	Maintain	-
14-Jun-2019	AA-	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflects the Company's association with Mega & Forbes Group of Companies, an established group with presence in shipping, logistics, real estate development, cement, energy and food sectors. Mega Conglomerate (Mega) operates under a holding company structure with an aim to acquire and consolidate some of the group's investments in energy, real estate and food sectors. The rating incorporates the Company's sizeable holding in The Hub Power Company and stake in Haleeb Foods (through Mega Foods (Pvt.) Limited formerly called VMFG (Pvt.) Ltd.) and investment property (through Imperial Developers and Builders (Pvt.) Ltd.). The Company primarily drives its income from dividend stream of underlying investments. The profitability remains under pressure due to high interest expense emanating from debt acquired for financing the investment portfolio. However, the debt is fully backed by liquid investments and securities including HUBCO shares. The Company has redesigned its debt structure to improve liquidity and release certain underlying securities. The equity base strengthened on the back of equity injection and sub-ordinate loan from sponsors/group companies. Ratings draw comfort from presence of sufficient liquid investment, in form of TDR's and TFC's, on the the Company's balance sheet and expected support from sponsors, if needed.

The ratings are dependent on the performance of existing strategic investments and execution of their envisaged business strategies resulting in sustainable revenue stream. Strengthening the governance framework would be important for the ratings.

Disclosure

Name of Rated Entity	Mega Conglomerate (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-19),PACRA_Methodology_Holding Company_FY19(Jun-19),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria Rating Modifier(Jun-19)
Related Research	Sector Study Holding Company(Aug-19)
Rating Analysts	Ayesha Malik ayesha.malik@pacra.com +92-42-35869504



Profile

Legal Structure Mega Conglomerate (Pvt.) Limited (Mega) was incorporated as a private limited company in 2010 in Pakistan under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017).

Background Mega is associated with Mega & Forbes Group of Companies, an established group with presence in logistics, real estate development, cement, energy, food and digital payment solutions sector. Mega operates under a holding company structure. The Company has sizeable holding in The Hub Power Company and stake in Haleeb Foods (through Mega Foods (Pvt.) Ltd.) and investment property (through Imperial Developers and Builders (Pvt.) Ltd.).

Operations As a holding company Mega has strategic investments of ~ PKR 26bln in different companies. These include: an associated company - Hub Power Company Limited (HUBCO) and wholly owned subsidiaries -Mega Foods (Pvt.) Limited and G4 Mega Pakistan (Pvt.) Limited (G4). Mega Foods has 56% stake in Haleeb Foods. Whereas G4 owns 100% stake in Imperial Developers and Builders (Pvt.) Limited (IDBL). IDBL is engaged in real estate development and has sizeable investment property in Karachi. During FY20, Mega has acquired 50% ownership in ConnectPay (Pvt.) Ltd.

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 building's in Pakistan. Additionally, the group has presence in energy sector through HUBCO.

Financial Strength Mega & Forbes Group's main holding company, Mega, has a strong consolidated asset base of PKR 67bln supported by an equity base of PKR 152bln as at Jun19. Consolidated revenue stood at PKR 9.6bln with a net loss of PKR 489mln in FY19.

Governance

Board Structure Mega's Board comprises four members. 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 over 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. During FY20, Mr. Aly Khan and Ms. Aleeya Khan have been 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 assists 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.

Financial Transparency Mega's external auditor, Muniff Ziauddin & Co., is QCR rated by ICAP and also on SBP panel of auditors in Category 'A'. The firm has issued a qualified audit opinion on FY19 financial statements. The qualified audit opinion 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. Habiullah 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 over 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.

Effectiveness The management is assisted by Management Committee, comprising CEO, CFO, Head of Investments, Head of HR and Admin and Head of IT. The Committee met as per requirement during the year and is Chaired by Mr. M. Habibullah Khan.

MIS Mega generates standardized MIS report for the Group and Business Units. Group level reports are generated on monthly and weekly basis. While, Business Unit level reports are generated on daily and monthly basis. The Company submits monthly performance reports to the Board.

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

Business Risk

Industry Dynamics Holding companies are an emerging phenomena in Pakistan. Some operating companies diversified and grew by gradually making strategic investments. Eventually, they de-merged their operations and structured themselves as a holding company to focus on existing and new investments.

Relative Position Mega has made strategic investment and owns 19.48% in The Hub Power Company Limited (HUBCO). It has two wholly owned subsidiaries - Mega Foods (Pvt.) Limited and G4 Mega Pakistan (Pvt.) Limited (G4). HUBCO is the largest power producer in Pakistan. Mega owns 56% stake in Haleeb Foods, a known brand for allied dairy and food products, through Mega Foods. G4 owns 100% stake in Imperial Developers and Builders (Pvt.) Limited (IDBL). IDBL is engaged in real estate development and is responsible for the only L.E.E.D (Leadership in Energy and Environmental Design) certified commercial building's in Pakistan and has sizeable investment property in Karachi.

Revenues The Company's standalone revenue stream comprises dividend and interest income from its investments and financial assets. During FY19, dividend income of PKR 624mln emanating mainly from HUBCO was received. Interest income from short-term investments in the form of TDRs/ TFCs and significant liquid assets added PKR 71mln (FY19: PKR 445mln). Total revenue for 3MFY20 stood at PKR 96mln.

Margins Margins are a function of the Company's finance cost and taxation. The profitability remain suppressed due to high finance cost. In FY19, the Company posted a loss of PKR 833mln. During 3MFY20, loss was PKR 502mln. Going forward, finance cost is expected to further increase. However, management believes that substantial amount of dividend inflow from the associate and subsidiaries will have a positive impact on the Company's bottom-line, going forward.

Sustainability A steady dividend stream is expected from HUBCO. Meanwhile, IDBL plans to construct a multi-floor building for commercial and business purposes. Long term debt will be obtained, once the project starts. Materialization of these initiatives is critical for future sustainability.

Financial Risk

Working Capital The Company has minimal working capital requirements skewed towards strategic (long-term) investments. The recent strong performance of stock market has improved valuation of Mega's investment. Liquid assets in the form of TFCs and TDRs (3MFY20: PKR 1.71bln) provide the necessary cushion.

Coverages The Company experienced diminishing coverages standing at 0.2x at the end of 3MFY20 (FY19: 0.6x) on the back of higher finance cost. The Company's coverages are expected to remain under pressure in the current rising interest rate scenario. Meanwhile, necessary support from associated Companies are expected to help meet maintain timely payments.

Capitalization Mega has a leveraged capital structure due to small equity base (3MFY20: PKR 2.1bln, FY19: PKR 3.7mln). The Company is redesigning its debt mix to improve liquidity. It has paid off long term loan through short term borrowing. These will be concerted by term debt later with better collateral terms. The Company is supported by substantial loan from associated companies. Meanwhile, sizeable liquid assets (TDRs, TFCs) bring net leveraging down with HUBCO shares provided as collateral, giving additional comfort.



Mega Conglomerate (Pvt.) Limited

BALANCE SHEET	30-Sep-19	30-Jun-19	30-Jun-18	30-Jun-17	30-Jun-16
	3M	Annual	Annual	Annual	Annual
Non-Current Assets	-	-	-	-	-
Investments (Incl. associates)	26,160	26,060	24,649	1,179	1,179
Equity	26,160	26,060	24,649	1,179	1,179
Others	-	-	-	-	-
Advance against Investment	-	-	-	-	-
Current Assets	1,934	6,231	6,348	6	74
Inventory	-	-	-	-	-
Trade Receivables	-	-	-	-	-
Others	1,934	6,231	6,348	6	74
Total Assets	28,094	32,291	30,997	1,185	1,253
Debt	17,341	20,613	19,202	-	-
Short-term	16,391	1,411	-	-	-
Long-term (Incl. Current Maturity of long-term debt)	950	19,202	19,202	-	-
Other short-term liabilities	5,244	6,614	10,697	14	68
Other Long-term Liabilities	4,800	4,800	-	-	14
Shareholder's Equity	709	264	1,098	1,170	1,171
Total Liabilities & Equity	28,094	32,291	30,997	1,184	1,253

INCOME STATEMENT

Turnover	96	628	390	-	-
Gross Profit	96	628	390	-	-
Other Income	68	445	101	0	-
Financial Charges	(644)	(1,841)	(397)	-	-
Net Income	(505)	(833)	(73)	(0)	(0)

Cashflow Statement

Free Cashflow from Operations (FCFO)	116	964	316	(68)	(0)
Net Cash changes in Working Capital	(6)	(30)	17	69	(68)
Net Cash from Operating Activities	(1,108)	(1,300)	(57)	0	(68)
Net Cash from Investing Activities	1,934	(916)	(26,709)	-	(50)
Net Cash from Financing Activities	(3,118)	1,909	29,472	-	14

Ratio Analysis

Performance					
Dividend Growth	NA	NA	100%	NA	NA
Coverages					
Interest Coverage (FCFO/Gross Interest)	0.2	0.5	0.8	NA	NA
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	0.0	0.3	0.8	NA	NA
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	0.0	0.1	-0.2	NA	NA
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	-10.4	-27.4	-236.6	0.0	-121.4
Capital Structure (Total Debt/Total Debt+Equity)	97%	99%	95%	0.0%	1%

Credit Rating Scale & 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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+ AA AA-	Very high credit quality. 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.	A1	A strong capacity for timely repayment.
A+ A A-	High credit quality. 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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ BBB BBB-	Good credit quality. 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB BB-	Moderate risk. 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.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ B B-	High credit risk. 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.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	Very high credit risk. 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.		
D	Obligations are currently in default.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) 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.

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Rating Team Statements

(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

Restrictions

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- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (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.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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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)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is 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 | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

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-(F-VII)

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