



The Pakistan Credit Rating Agency Limited

Rating Report

Mega Conglomerate (Pvt.) Limited | Short Term Sukuk

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
10-Jun-2019	-	A1	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The rating 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. Mega has substantial debt on its balance sheet. However, this debt is fully backed by liquid investments and securities including HUBCO shares, TDRs, and TFCs. Mega intends to issue a short term Sukuk to alleviate liquidity pressure and subsequently substitute the same through a long term Sukuk. The rating draws comfort from built in covenants for timely Sukuk payment including commitment from the Company to have sufficient liquid investment on the balance sheet at the time of repayment.

The rating is dependent on timely and successful issuance of short term Sukuk and, subsequently, a long term Sukuk to re-profile the debt to improve the Company's liquidity position. Adherence to agreed covenants and maintenance of adequate resources for repayment remains critical.

Disclosure

Name of Rated Entity	Mega Conglomerate (Pvt.) Limited Short Term Sukuk
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Sukuk(Jun-18),Methodology Holding Company (Jun-18)
Related Research	Sector Study Holding Company(Aug-18)
Rating Analysts	Adnan Dilawar adnan@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 shipping, logistics, real estate development, cement, energy and food sectors. 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.) Limited formerly called VMFG (Pvt.) Ltd.) and investment property (through Imperial Developers and Builders (Pvt.) Ltd.).

Operations Mega has strategic investments of PKR 24.6bln (as at Dec-18) in an associated company - Hub Power Company Limited (HUBCO) and wholly owned subsidiaries – Mega Foods (Pvt.) Limited Formerly called VMFG (Pvt.) Limited, and G4 Mega Pakistan (Pvt.) Limited (G4). Mega Foods (Pvt.) Limited has 56% stake in Haleeb Foods. Whereas G4 owns 100% stake in Imperial Developers and Builders (Pvt.) Limited (IDBL). IDBL owns 100% stake of Karachi Properties Investment (Pvt.) Limited (Hotel Metropole). IDBL is engaged in real estate development and has sizeable investment property in Karachi.

Ownership

Ownership Structure The Company is owned by Mr. 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 sponsors i.e. the founder 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 energy utility co., 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.

Financial Strength Mega & Forbes Group's local holding company, Mega, has a strong consolidated asset base of PKR 65bln supported by an equity base of PKR 15bln as at June'18. Consolidated revenue and net profit stood at PKR 115bln and PKR 1.1bln, respectively. As at June'18, Mega & Forbes Group had an equity base PKR 54bln with total debt of PKR 105bln. Group's total revenue is PKR 116bln with net profit of PKR 14bln.

Governance

Board Structure The Board of Mega comprises two members. Despite being a private limited company, the 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 The Board is Chaired by Mr. M. Habibullah Khan. He has over three decades of diverse experience mainly in shipping and container terminals. He 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.

Board Effectiveness The Board is assisted by its sub-committees, Audit, Investment and Compensation Committees. Board Audit Committee, comprising four members, reviews and reports 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 auditors are Muniff Ziauddin & Co. (internationally affiliated with BKR International) and have issued an unmodified auditor's report on FY18 financial statements. The firm is QCR rated by ICAP and is on SBP panel of auditors in category 'A'.

Management

Organizational Structure The Company's organizational structure draws strength from the Group. All departmental Heads report to the Group CEO - Mr. Habibullah Khan. The subsidiaries have independent management teams and organizational structure. This structure caters to performance monitoring, devising strategy and policy at the Group level.

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 also the Chairman of Pioneer Cement Ltd., Director of Hub Power Company Ltd., Chairman of Haleeb Foods Ltd., 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. Besides these reports, 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.

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 19.36% in The Hub Power Company Limited (HUBCO). It has two wholly owned subsidiaries -- Mega Foods (Pvt.) Limited formerly called VMFG (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 has 100% stake in Imperial Developers and Builders (Pvt.) Ltd. (IDBL). IDBL owns 100% stake of Karachi Properties Investment (Pvt.) Ltd. (Hotel Metropole). 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 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 6MFY19, dividend income of ~PKR 630mln (FY18: PKR 390mln) emanating from HUBCO was received. Interest income from short-term investments in the form of TDRs and significant liquid assets added ~PKR 188mln (FY18: PKR 101mln).

Margins Margins are a function of the Company's finance cost and taxation. The Company posted a loss of PKR 50mln in 6MFY19 (FY18: loss of PKR 73mln). 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 acquired once the project starts.

Financial Risk

Working Capital The Company has minimal working capital requirements skewed towards strategic (long-term) investments. Liquid assets in the form of TFC's, TDRs, and cash balance (6MFY19: PKR 6.6bln) provide the necessary cushion. The liquidity of the company is expected to improve with issuance of short-term sukuk.

Coverages The Company experienced adequate coverages standing at 1x at end 6MFY19 (FY18: 0.8x) on the back of increased taxation and finance cost. The Company's coverages are expected to remain under pressure. Meanwhile, necessary support from associated Companies are expected to help meet timely payments.

Capitalization Mega has a leveraged capital structure due to small equity base (6MFY19: PKR 1bln, FY18: 1.1bln) and significant amount of long term debt (6MFY19: PKR 19bln - including current maturity, FY18: 19bln). The Company has also obtained substantial loan from associated companies. However, sizeable liquid assets (TDRs, TFCs, cash) bring net leveraging down. Further, HUBCO shares are provided as collateral. The Company plans to issue a short term, sharia compliant, rated, unsecured & privately placed Sukuk of PKR 8,500mln (inclusive of Greenshoe options of PKR 4,500mln), carrying markup at the rate of 3 months KIBOR plus 1.25% per annum that will be redeemed at the maturity date i.e. 6 months from the issue date.



Mega Conglomerate (Pvt.) Limited

BALANCE SHEET	31-Dec-18	30-Jun-18	30-Jun-17	30-Jun-16
	6MFY19	Annual	Annual	Annual
Non-Current Assets	-	-	-	-
Investments (Incl. associates)	24,649	24,649	1,179	1,179
Equity	24,649	24,649	1,179	1,179
Others	-	-	-	-
Advance against Investment	-	-	-	-
Current Assets	6,768	6,348	6	74
Inventory	-	-	-	-
Trade Receivables	-	-	-	-
Others	6,768	6,348	6	74
Total Assets	31,417	30,997	1,185	1,253
Debt	19,202	19,202	-	-
Short-term	-	-	-	-
Long-term (Incl. Current Maturity of long-term debt)	19,202	19,202	-	-
Other short-term liabilities	11,167	10,697	14	68
Other Long-term Liabilities	-	-	-	14
Shareholder's Equity	1,048	1,098	1,170	1,171
Total Liabilities & Equity	31,417	30,997	1,184	1,253

INCOME STATEMENT

Turnover	650	390	-	-
Gross Profit	650	390	-	-
Other Income	169	101	0	-
Financial Charges	(807)	(397)	-	-
Net Income	(50)	(73)	(0)	(0)

Cashflow Statement

Free Cashflow from Operations (FCFO)	(810)	316	(68)	(0)
Net Cash changes in Working Capital	-	17	69	(68)
Net Cash from Operating Activities	(1,459)	(57)	0	(68)
Net Cash from Investing Activities	650	(26,709)	-	(50)
Net Cash from Financing Activities	-	29,472	-	14

Ratio Analysis

Performance				
Dividend Growth	233%	100%	NA	NA
Coverages				
Interest Coverage (FCFO/Gross Interest)	-1.0	0.8	NA	NA
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	-0.7	0.8	NA	NA
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	-1.3	-0.2	NA	NA
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	-5.9	-236.6	0.0	-242.8
Capital Structure (Total Debt/Total Debt+Equity)	94.8%	94.6%	0.0%	2.3%

DEBT INSTRUMENT RATING SCALE & DEFINITIONS

The instrument rating reflects forward-looking opinion on credit worthiness of underlying debt 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.		
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+:	The highest 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.	A1:	A strong capacity for timely repayment.
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.	A2:	A satisfactory capacity for timely repayment. This may be 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.	A3:	An adequate capacity for timely repayment. Such capacity is 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.	B:	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C:	An inadequate capacity to ensure timely repayment.
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) 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	

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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)

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- (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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The Pakistan Credit Rating Agency Limited

Debt Repayment Schedule

Short Term, Sharia Compliant, Rated, Unsecured & Privately Placed Sukuk

Name of Issuer	Mega Conglomerate (Pvt.) Limited
Placement	Privately Placed
Issue size	PKR 8,500mln (Inclusive of Greenshoe Option of PKR 4,000mln)
Issue Date	Preliminary
Tenor	06 months
Maturity	06 months from the issue date
Profit Rate	3M KIBOR plus 1.25% per annum; paid on maturity
Principal Repayment	Bullet paid at the time of maturity
Put Option	N/A
Security	The Sukuk is an unsecured instrument.
Trustee	Dubai Islamic Bank Pakistan Limited

Opening Principal	Principal Repayment	Markup		Markup Payment	Installment Payable	Principal Outstanding
PKR in mln		Due Date	Rate	PKR in mln		
8,500	-	6-Jun-19		0	-	8,500
8,500	8,500	4-Dec-19	15.1%	642	9,142	-