## Rating Action

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# PACRA MAINTAINS RATINGS OF ENGRO POLYMER AND CHEMICALS

The Pakistan Credit Rating Agency (PACRA) has maintained the long term and short term entity ratings of Engro Polymer and Chemicals Limited (EPCL) at **"A-"** (Single A Minus) and **"A2"** (A Two) respectively. The ratings denote a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments.

The ratings reflect EPCL's association with one of the country's leading conglomerate - Engro Corp. This association has benefited the company; lately provided debt facility of PKR 4bln. EPCL's profile benefits from its position as the sole producer of PVC resins in the country, supplemented by sustained product demand and vertically integrated operations. However, margins were under pressure due to disruption in ethylene supply; stability therein should support the company. EPCL has limited influence on both price ends (i) Ethylene - key raw material, and (ii) PVC - key product, wherein inherent volatility enhances the challenge in the short term. Lately, reduction in duty on import of raw material and reversal of GIDC should benefit. On the Caustic Soda front (the other major product), the company enjoys adequate margins and eloquent market share in the southern region, close to plant location. EPCL's business profile has exerted pressure on its financial risk reflected in weakening trend of coverages; comfort is drawn by ~25% contribution by the parent in the total debt.

The ratings are dependent upon sustained operations and ability to strengthen margins. Maintaining an adequate financial discipline; wherein capex may be adopted according to available financial flexibility remains critical.

## About the Management Company:

EPCL, established in 1997, started commercial production in 1999. The company is listed on Pakistan Stock Exchange. EPCL is a subsidiary of Engro Corporation Limited (ECL) having majority stake of 56%. The other major shareholders of EPCL are Mitsubishi Corporation (10%) and International Finance Corporation (15%).

Lately, A.T.S Synthetic (Pvt.) Ltd - has showed intent to acquire Engro Corporation's full stake (~56%) in EPCL. Due diligence is underway. In the meantime, EPCL is operating on a business as usual basis. though CAPEX is under check. In case of non-materialization of potential acquisition, the management intends to draw further support from the parent company. PACRA would monitor the divestiture and update its opinion accordingly.

The Board of Directors (BoD) comprises ten members including four members from the parent organization including the CEO, two senior executives from Engro Group and a member of Dawood family, while two members represent Mitsubishi Corporation. The remaining four members are independent directors. Mr. Imran Anwer, elevated as CEO in 2015, has been associated with Engro since 2005. He is a seasoned professional with over two decades of experience. The company has an experienced team.

## *Applicable Criteria and Related Research*

- Chemicals - Polyvinyl Chloride | Jun-16
- Corporate Rating Methodology

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