



The Pakistan Credit Rating Agency Limited

# ENGRO FERTILIZERS LIMITED (EFERT)

## INSTRUMENT RATING REPORT

		INITIAL [MAY-16]	REPORT CONTENTS
	[Nov-16]		
Privately Placed Sukuk Certificates (PKR 5,000mln)	AA-	AA-	1. SUMMARY REPORT 2. FINANCIAL SUMMARY 3. RATING SCALE
Outlook	Stable	Stable	4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

NOVEMBER 2016





**Engro Fertilizers Limited (EFert)**

<b>BALANCE SHEET</b>	<b>30-Sep-16</b>	<b>31-Dec-15</b>	<b>31-Dec-14</b>	<b>31-Dec-13</b>
	<b>9M</b>	<b>Annual</b>	<b>Annual</b>	<b>Annual</b>
<b>Non-Current Assets</b>	<b>75,971</b>	<b>72,459</b>	<b>75,175</b>	<b>79,563</b>
<b>Investments (Incl. Associates)</b>	<b>560</b>	<b>4,383</b>	-	-
Equity	560	4,383	-	-
<b>Current Assets</b>	<b>34,742</b>	<b>16,627</b>	<b>11,221</b>	<b>12,308</b>
Inventory	16,477	6,942	1,101	1,382
Trade Receivables	6,790	2,262	757	758
Others	11,474	7,423	9,363	10,168
<b>Total Assets</b>	<b>111,916</b>	<b>105,382</b>	<b>111,472</b>	<b>109,929</b>
<b>Debt</b>	<b>36,421</b>	<b>36,074</b>	<b>44,003</b>	<b>55,821</b>
Long-term (Incl. Current Maturity of Long-Term Debt)	36,421	36,074	44,003	55,821
Other Short-term Liabilities	26,448	20,164	27,643	19,749
Other Long-term Liabilities	7,820	6,617	5,347	9,290
<b>Shareholder's Equity</b>	<b>41,227</b>	<b>42,526</b>	<b>34,478</b>	<b>25,069</b>
<b>Total Liabilities &amp; Equity</b>	<b>111,916</b>	<b>105,382</b>	<b>111,472</b>	<b>109,929</b>

**INCOME STATEMENT**

<b>Turnover</b>	<b>40,892</b>	<b>87,615</b>	<b>61,425</b>	<b>50,129</b>
Gross Profit	11,442	32,180	22,603	22,121
Other Income	3,623	(771)	409	293
Financial Charges	(2,363)	(3,923)	(5,903)	(9,918)
<b>Net Income</b>	<b>5,656</b>	<b>15,027</b>	<b>8,208</b>	<b>5,497</b>

**Cashflow Statement**

Free Cashflow from Operations (FCFO)	12,391	26,173	19,493	21,350
Net Cash changes in Working Capital	(20,211)	(17,142)	6,661	10,055
Net Cash from Operating Activities	(10,507)	4,641	19,063	24,808
Net Cash from Investing Activities	7,579	8,165	(5,641)	(17,794)
Net Cash from Financing Activities	2,097	(16,384)	(13,692)	(5,821)
Net Cash generated during the period	(831)	(3,578)	(270)	1,193

**Ratio Analysis**

<b>Performance</b>				
Turnover Growth	-21.3%	42.6%	22.5%	63.7%
Gross Margin	28.0%	36.7%	36.8%	44.1%
Net Margin	12.5%	17.2%	13.4%	11.0%
ROE	26.6%	34.4%	25.0%	23.4%
<b>Coverages</b>				
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	1.3	1.9	1.6	1.1
Interest Coverage (x) (FCFO/Gross Interest)	5.3	7.0	3.6	2.2
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Term Borrowings) / FCFO)	2.7	1.5	2.8	6.1
<b>Liquidity</b>				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	66.8	-86.3	-13.9	6.2
<b>Capital Structure</b> (Total Debt/Total Debt+Equity)	29.7%	45.9%	56.1%	71.1%



## 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
<b>AAA</b>  <b>AA+</b> <b>AA</b> <b>AA-</b>  <b>A+</b> <b>A</b> <b>A-</b>	<p><b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.</p> <p><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.</p> <p><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.</p>	<p><b>A1+:</b> The highest capacity for timely repayment.</p> <p><b>A1:</b> A strong capacity for timely repayment.</p> <p><b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>C:</b> An inadequate capacity to ensure timely repayment.</p>
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<p><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 or economic conditions are more likely to impair this capacity.</p>	
<b>BB+</b> <b>BB</b> <b>BB-</b>	<p><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.</p>	
<b>B+</b> <b>B</b> <b>B-</b>	<p><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.</p>	
<b>CCC</b> <b>CC</b> <b>C</b>	<p><b>Very high credit risk.</b> “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>	
<b>D</b>	<p>Obligations are currently in default.</p>	

### 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. 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.

### 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’.

### 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, a suspended 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, or e) the entity/issuer defaults.

**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.



Regulatory and Supplementary Disclosure

Name of Issuer
Name of Issue
Sector
Type of Relationship

Engro Fertilizers Limited
Engro Fertilizers Limited | Sukuk | TBI
Fertilizer
Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Table with 4 columns: Dissemination Date, Rating, Outlook, Action. Rows for 18-Nov-16 and 02-May-16.

Instrument Details

Table with 6 columns: Nature of Instrument, Size of Issue (PKR mln), Tenor (yrs), Security, Nature of Assets, Trustee. Row for Sukuk, PKR 5,000mln, 0.5, 2nd ranking charge with 20% margin on all present and future stocks and receivables of Efert, Stores, spares and loose tools, stock-in-trade, trade debts and other receivables, Dubai Islamic Bank Pakistan Limited.

Amortization Schedule

Refer to Annexure

Related Criteria and Research

Fertilizer Sector | Overview | October 2016

Rating Methodology

Corporate Rating Methodology
Debt Instrument Rating Methodology

Rating Analysts

Shoaib Afzal Amara S. Gondal
shoaib.afzal@pacra.com amara.gondal@pacra.com
(92-42-35869504) (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

Rating Shopping
PACRA maintains principle of integrity in seeking rating business.
PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public sources we consider to be reliable but its accuracy or completeness is not guaranteed.
Conflict of Interest
At PACRA, the analysts involved in the rating process, and members of its rating committee do not have any conflict of interest relating to the credit rating done by them.
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 the market, in a timely and effective manner, after appropriate consultation with the entity/issuer.
Reporting of Misconduct
PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge.
Confidentiality
PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties.
Prohibition
None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's written consent.
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.



Due Date Principal	Opening Principal	Principal Repayment	Due Date Markup/ Profit	Markup/Profit Rate		Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln			Base	Spread			
Drawdown	5,000	0	Drawdown	6M Kibor	40bps	0	0	5,000
end-Month 1	5,000	0	end-Month 1	6M Kibor	40bps	0	0	5,000
end-Month 2	5,000	0	end-Month 2	6M Kibor	40bps	0	0	5,000
end-Month 3	5,000	0	end-Month 3	6M Kibor	40bps	0	0	5,000
end-Month 4	5,000	0	end-Month 4	6M Kibor	40bps	0	0	5,000
end-Month 5	5,000	0	end-Month 5	6M Kibor	40bps	0	0	5,000
end-Month 6	5,000	5,000	end-Month 6	6M Kibor	40bps	169	5169	0