



The Pakistan Credit Rating Agency Limited

ENGRO ISLAMIC RUPIYAH CERTIFICATE

	NEW [DEC-16]	PREVIOUS [DEC-15]
Long-Term	AA+	AA+
Outlook	Stable	Stable

REPORT CONTENTS
1. RATING ANALYSES
2. FINANCIAL INFORMATION
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

Profile

- Engro Corporation Limited (ECL) – a billion dollar corporate conglomerate in turnover terms – has expanded its footings in diversified business avenues with sizable portfolio of strategic investments.
- The group’s business portfolio spans across various sectors including fertilizers, PVC resin, manufacturing and marketing, food, energy, exploration and chemical terminal and storage businesses.
- Dawood Group – DG holds a major stake of 45% in ECL through corporate and individuals

Governance

- ECL’s nine member’s board of directors (BoD) comprises six non-executive directors, CEO and two independent members
- The board collectively directs the company affairs by providing visionary support and guidance for effective management of subsidiaries
- The BoD has constituted three committees to assist the board in governing the affairs of the company. These comprise: a) Board Compensation Committee, b) Board Audit Committee, and c) Board Investment Committee.

Management & Controls

- Mr. Khalid S. Subhani has stepped down from his position after serving from May’15 till Nov’16. He was succeeded by Mr. Ghias Khan w.e.f Dec 2016
- ECL functions as a pure holding company. ECL has instituted a well-designed organizational structure which is divided across various functional divisions
- ECL has one principal management committee – Executive Committee (ExCom) which is chaired by the ECL CEO and comprises of the CEOs of all the subsidiary companies

Business Risk

Entity	Revenue			PAT			Dividends		
	CY14	CY15	9MCY16	CY14	CY15	9MCY16	CY14	CY15	9MCY16
EFert	61,425	88,033	40,911	8,208	14,819	5,745		6,571	4,648
EFoods	42,602	49,834	34,311	889	3,162	2,595			
EAgri	7,125	1,878	667	(4,302)	(4,517)	(356)			
EPolymer	23,819	22,264	16,610	(1,109)	(664)	32			
Epowergen Qadirpur	12,041	13,354	8,106	2,021	1,797	1,527	49		
EVopak	2,168	2,599	2,336	1,419	1,574	1,511	630	788	720
Total	149,180	177,962	102,941	7,126	16,171	11,054	679	7,359	5,368
Consolidated	175,958	184,264	107,835	7,007	13,784	8,583	1,233	7,359	5,368

- The company’s standalone income comprises dividend and royalty income from its subsidiaries and joint ventures
- During the year, ECL divested 22.33% stake, as part of strategic re-alignment to explore opportunities in Energy sector
- Dividend income clocked in at PKR 5.4bln at end Sep-16 (end Sep15: PKR 5.6bln). The royalty income however shown a major dip of 25% on YoY basis (end Sep16: PKR 472mln, end Sep15: PKR 627mln).
- The holdco’s consolidated top line posted a decline of ~2% on YoY basis and stood at PKR 107.8bln as end-Sep16 (end Sep15: PKR 125bln). The decline in the topline is an outcome of lower UREA offtake and dip in EFoods sales volume due to change in tax regime.
- The group’s finance costs decreased significantly by ~ 31% on YoY basis and were at PKR 4.5bln at end-Sep16 (end-Sep15: PKR 6.5bln)
- The overall consolidated profitability witnessed a meager growth of 3% and posted a profit of PKR 11.3bln at end-Sep16 (end Sep15: PKR 11.0bln)

Financial Risk

- ECL’s consolidated leveraging came down though still at high level (Sep16:PKR 72bln, Dec15: PKR 60bln, Sep15: PKR 63bln).
- EFert’s debt (Sep16:PKR 36bln) is the major portion in the consolidated debt of the holding company
- During the year, Engro Group acquired additional debt of PKR 37bln whilst repaid loan amounting to PKR 21bln
- On a standalone basis, the leverage on ECL’s books is entirely represented by its Islamic instruments. The PKR 4bln debt comprises two instruments, Engro Islamic Rupiya Certificate I and II.

RATING RATIONALE

The ratings reflect the sustained risk profile of holding company. As a holdco, ECL has a diverse pool of investment: core as well as strategic under the umbrella of its three strategic pillars i.e. fertilizer, consumer goods and energy. Mostly, ECL’s investment book is characterized by companies having intensive engineering and mechanical setup. Hence, the group envisage sizeable expansion in the energy sector. Efert is stabilized though it faces challenges emanating from international price parity and smooth offloading of its main product. ECL has generated sizeable cash from divestment of Efert and Efoods hence future investment avenue would play a crucial role in its overall risk profiling. With focused and intensive efforts, ECL has been successful in overcoming challenges faced by polymer business. ECL has benefited from its LNG venture which continued bearing fruits for the company. Vopak is a sustained cash producer. The ratings draw comfort from Engro Corp’s well-articulated mandate, which, in a structured manner, targets development of a central pool of executive management, a focused strategy setting and capital allocation function, and nurturing of governance framework.

KEY RATING DRIVERS

Partnership with the foreign international player in the food business is expected to bring advantages to the group. The ratings remain dependent upon the company’s ability to uphold the robust monitoring mechanism aimed at providing holistic direction to all subsidiaries while maintaining a strong control environment. Sustainability in the performance of subsidiaries along with effective management of financial profile on a group-wide basis remains important.

ABOUT THE INSTRUMENT

The Sukuk (PKR4,000mln), issued in Jul-14 has two tranches; a) a tenor of 3 years (PKR3,000mln) maturity in July-17 and b) a tenor of 5 years (PKR1,000mln) maturity in July-19. The profit rates on the tranches are 13% and 13.5% respectively which is paid semi-annually. Principal repayment will be at the end of the tenor or early through put option available to Sukuk holders.



The Pakistan Credit Rating Agency Limited

Holding Company

Financials (Summary)

PKR mln

Engro Corporation Limited (ECL)

BALANCE SHEET

	30-Sep-16 9MCY16	31-Dec-15 Annual	31-Dec-14 Annual	31-Dec-13 Annual
Non-Current Assets	140,130	134,593	138,061	135,395
Investments (Incl. associates)	27,319	17,170	31,722	23,240
Current Assets	20,329	14,089	11,567	20,700
Inventory	63,555	30,440	35,737	27,573
Total Assets	251,333	196,292	217,087	206,908
Borrowings	53,110	36,993	55,380	78,321
Total Liabilities (Excluding Borrowings)	83,416	73,626	93,682	72,383
Shareholder's Equity	114,807	85,673	68,025	56,203
Total Liabilities & Equity	251,333	196,292	217,087	206,907

INCOME STATEMENT

Turnover	107,834	184,264	175,958	155,360
Gross Profit	26,332	51,495	36,189	40,597
Other Income	954	1,019	723	610
Financial Charges	(4,492)	(8,425)	(12,344)	(13,101)
Net Income	11,322	17,268	7,801	8,690

Cashflow Statement

EBITDA	20,667	45,442	30,763	33,066
Free Cashflow from Operations (FCFO)	13,109	39,055	26,059	30,487
Net Cash from Operating Activities	(11,413)	5,966	29,160	31,506
Net Cash from Investing Activities	(15,103)	17,230	(12,902)	(22,765)
Net Cash from Financing Activities	18,731	(20,428)	(10,912)	(6,505)

Ratio Analysis

Gross Margin	24.0%	28.0%	21.0%	26.0%
ROE	40.0%	81.0%	46.0%	16.0%
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	1.3	2.3	1.0	0.7
Capital Structure (Total Debt/Total Debt+Equity)	40.0%	43.0%	56.0%	64.0%

Engro Corporation Limited (ECL)

December 2016

www.pacra.com



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
AAA	<p>Highest credit quality. Lowest expectation of credit risk.</p> <p>Indicate exceptionally strong capacity for timely payment of financial commitments.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+ AA AA-	<p>Very high credit quality. Very low expectation of credit risk.</p> <p>Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p>	
A+ A A-	<p>High credit quality. Low expectation of credit risk.</p> <p>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>	
BBB+ BBB BBB-	<p>Good credit quality. Currently a low expectation of credit risk.</p> <p>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>	
BB+ BB BB-	<p>Moderate risk. Possibility of credit risk developing.</p> <p>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-	<p>High credit risk.</p> <p>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>	
CCC CC C	<p>Very high credit risk.</p> <p>“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>	
D	<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
Purpose of the Rating

Engro Corporation Limited (ECL)
 Engro Islamic Rupiyah Certificate
 Holding Company
 Solicited
 Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
22-Dec-16	AA+	-	Stable	Maintain
22-Dec-15	AA+	-	Stable	Upgrade
13-Jan-15	AA	-	Positive	Maintain
2-Apr-14	AA	-	Stable	Initial
24-Feb-14	AA	-	Stable	Preliminary

Instrument Details

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Nature of Assets	Trustee
Listed Sukuk	Tranche I @ 3bn & Tranche II @ 1bn	Tranche I - 3years & Tranche II - 5years	The Sukuk has been secured by way of first ranking pari passu charge over all the present and future movable properties (including investments) of Engro Corporation Limited but excluding present and future trademarks and copyrights of Engro Corp. and excluding its shares in Engro Powergen Qadirpur Limited and Engro Polymer & Chemicals Limited at 125% of the outstanding principal amount.	All movable assets excluding the investments in Engro Powergen Qadirpur Limited and Engro Polymer & Chemicals Limited	Meezan Bank

Engro Corporation Limited | Engro Islamic Rupiyah Certificate I & II | Redemption Schedule

	Opening Principal	Principal Repayment	Markup		Markup Payment	Installment Payable	Principal Outstanding
	PKR in mln		Due Date	Rate		PKR in mln	
Tranche I	3,000	-	10-Jan-15	13.0%	195	195	3,000
	3,000	-	10-Jul-15	13.0%	195	195	3,000
	3,000	-	10-Jan-16	13.0%	195	195	3,000
	3,000	-	10-Jul-16	13.0%	195	195	3,000
	3,000	-	10-Jan-17	13.0%	195	195	3,000
	3,000	3,000	10-Jul-17	13.0%	195	3,195	-
Tranche II	1,000	-	10-Jan-15	13.5%	67.5	68	1,000
	1,000	-	10-Jul-15	13.5%	67.5	68	1,000
	1,000	-	10-Jan-16	13.5%	67.5	68	1,000
	1,000	-	10-Jul-16	13.5%	67.5	68	1,000
	1,000	-	10-Jan-17	13.5%	67.5	68	1,000
	1,000	-	10-Jul-17	13.5%	67.5	68	1,000
	1,000	-	10-Jan-18	13.5%	67.5	68	1,000
	1,000	-	10-Jul-18	13.5%	67.5	68	1,000
	1,000	-	10-Jan-19	13.5%	67.5	68	1,000
	1,000	1,000	10-Jul-19	13.5%	67.5	1,068	-

Related Criteria and Research

Rating Methodology

Debt Instrument Rating Methodology

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[Rating Team Statement](#)

Rating Procedure

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[Probability of Default \(PD\)](#)

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