



The Pakistan Credit Rating Agency Limited

Rating Report

Engro Corporation Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Jun-2023	AA+	A1+	Stable	Maintain	-
25-Jun-2022	AA+	A1+	Stable	Maintain	-
25-Jun-2021	AA+	A1+	Stable	Maintain	-
26-Jun-2020	AA+	A1+	Stable	Maintain	-
27-Dec-2019	AA+	A1+	Stable	Maintain	-
28-Jun-2019	AA+	A1+	Stable	Maintain	-
28-Dec-2018	AA+	A1+	Stable	Maintain	-
27-Jun-2018	AA+	A1+	Stable	Upgrade	-

Rating Rationale and Key Rating Drivers

Engro Corporation Limited's ("ECorp" or "the Company") has established its position as a conglomerate with a diverse pool of investments under five verticals: i) food and agriculture, ii) petrochemicals, iii) energy and related infrastructure, iv) telecommunication infrastructure, and v) international trading. The Company holds very strong risk profile with exceptional liquidity. ECorp's various investments in diversified sectors have witnessed sustainable growth in terms of financial performances and position, despite the ongoing economic crisis. Thus, exhibiting resilience and strength in the Company's investment philosophy. Engro Fertilizer (EFERT) continues to be a prominent player in the fertilizer sector, though the market share declined due to dip in the overall DAP market. Engro Eximp, basmati rice player, is still evolving and is yet to improve its market presence. Engro Polymer and Chemical (EPCL) has a fortified position in the local PVC industry with capacity enhancements, Hydrogen PerOxide project; however, import restrictions and global inflation has impacted the net performance. The Company holds considerable standing in the energy domain, through Engro Energy, and are progressing in a timely manner. Engro Enfrashare's telecom tower business is booming as the Company managed to grab considerable market share, through equity injection, and plans to double it, going forward. The Company plans to enhance its footings in the petrochemical vertical by setting up a polypropylene facility. Moreover, the Company may expand its exposure in the renewable energy and LNG sectors.

The Company continues to enjoy consistent dividend income from its subsidiaries. EFERT announced slightly lower dividends. While, EPCL shared substantial dividends during CY22. This was further supported by a dividend share from Engro Energy and Engro Elengy. Thus, compensating no dividend income from Engro Connect and FrieslandCampina. Engro Vopak remained a cash producer, as well. The Company has a low leveraged capital structure with very strong coverages and liquidity signifying its robust financial risk profile. Moreover, initiating share buyback during CY22 will further enhance ECorp's market valuation. The ability to limit debt levels to fifty percent of its equity at Group level provides comfort to ECorp's ratings. Also, factor in ECorp's strong organizational structure, designed to control the strategic direction of its subsidiaries, and strong governance framework.

The ratings are dependent on the management's ability to execute its envisaged strategy of growth and expansion amidst prevailing economic environment. Sustainability in the performance of subsidiaries, stable dividends and effective management of financial profile is important. Meanwhile, effective utilization of liquid assets to enhance investment portfolio is critical.

Disclosure

Name of Rated Entity	Engro Corporation Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22),Methodology Holding Company Rating(Jun-22)
Related Research	Sector Study Holding Company(Aug-22)
Rating Analysts	Shujat Ehsanullah Wasim Shujat.Ehsan@pacra.com +92-42-35869504



Profile

Background Engro Corporation Limited ('Engro Corp' or 'the Company') is a Holding company, with scrips listed on Pakistan stock exchange. The Company is included in the KSE- 100 index. Esso Pakistan Fertilizer Company Limited was established in 1965 following the discovery of Mari gas field and was the nations' first fertilizer brand. Post exit of its foreign partners, it was renamed as 'Engro Chemicals'. Over the years, Engro Corp has built a diverse set of businesses alongside fertilizer. It now manages all its distinct businesses through separate corporate structures – being subsidiaries, JV or associate of Engro Corp.

Structural Analysis The principal activity of the Company is to manage its investments in subsidiaries, associates and joint ventures, engaged in fertilizer manufacturing and trading, PVC resin manufacturing and marketing, food, power generation, coal mining, telecommunication infrastructure, LNG and bulk chemical handling terminal and storage businesses.

Ownership

Ownership Structure Dawood Group holds ~47% stake in Engro Corp, through Dawood Hercules Corporation Limited (~37%), related corporate entities (~3%), and individuals of Dawood family (~7%). Around 25% is held by general public and the remaining ~28% shares are held by corporate entities, financial institution and others.

Stability Ownership of the Company is seen as stable as its major shareholding vests with the sponsors (Dawood Family) and its HoldCo. structure.

Business Acumen Dawood Group is a conglomerate with over three generations of experience in commercial and social enterprises. Currently, the Group has interests in various sectors including Fertilizer, Foods, Power Generation, Technology, Financial Services, Chemical Storage, and Petrochemicals. Strong affiliation and technical track record with international JVs have added to the success of companies within the Group.

Financial Strength Dawood Group's main holding companies are DH Corp and Dawood Lawrencepur Limited. The Group's main investments in Engro Corp are consolidated in DH Corp. Engro Corp has a strong consolidated asset base of ~PKR 755bln supported by an equity base of ~PKR 241bln as at CY22.

Governance

Board Structure The control of the Company vests with the ten-member Board of Directors. There are four Non-Executive Directors, one Executive Director and five Independent Directors. The Board is dominated by the sponsoring family. Majority of the members have long association with the Company

Members' Profile The Board is chaired by Mr. Hussain Dawood, the patriarch of Dawood Family. He is a businessman and philanthropist and chairs an array of profit and not-for-profit ventures. All members are seasoned professionals with experience in energy, chemical, technology and financial sectors, bringing a diverse range of requisite skills.

Board Effectiveness The BoD has three committees to assist the Board in governing the affairs of the Company. These comprise: a) Board People's Committee, b) Board Audit Committee, and c) Board Investment Committee. The committees remain an important medium through which strategic matters of Engro Corp and its subsidiaries are brought to the BoD.

Transparency The Company's external Auditors are A.F. Ferguson & Co. They have issued an unqualified opinion on annual financial statements of CY22.

Management

Organizational Structure Engro Corp functions has a well-designed organizational structure which is divided across various functional divisions/departments of Finance, Strategy, Information Systems, Internal Audit, Human Resources, Corporate Communication, Legal, Public Affairs and affairs. Heads of these functions report directly to the CEO. Internal Audit and HR heads administratively reports to the CEO and functionally reports to the Board Committees.

Management Team Mr. Ghias Khan has been CEO of the Company since Dec-16 and holds a 15 years of association with the Group. Prior to joining as CEO of Engro Corp, he was CEO of Inbox Business Technologies - a subsidiary of DH Investments. Mr Mazhar Abbas Hasnani joined as the CFO of Engro Corp in CY20. The management comprises experienced professionals.

Management Effectiveness Engro Corp has an Executive Committee, which includes CEOs of all its' subsidiary companies, Engro Corp's CFO, Chief HR Officer and Chief Secretary Officer. This is chaired by the CEO for efficacious management of the Group as a whole.

Control Environment Engro Corp has an in-house internal audit function, which reports directly to the audit committee for all critical issues. Internal Audit Department (IAD) is centralized at Group level with small teams present at the location of sizeable businesses.

Investment Strategy

Investment Decision-Making For investment decision making, the Company has three separate teams at Group level i.e., Strategy team, Treasury team and Merger & Acquisition team. Strategy team is involved in devising new ventures for the group companies and the Head of Strategy is reportable to CEO. Treasury team is responsible for handling short-term investment book. While, M&A team evaluates opportunities in the market for mergers and acquisitions. Heads of both teams are reportable to the CFO.

Investment Policy The Company has conservative short term investment portfolio as the portfolio i.e. ~99%, consists of Government Securities and Debt Instruments. Moreover, the equity portfolio spans across various sectors including chemical, fertilizers, PVC, food, power generation, coal mining and LNG storage

Investment Committee Effectiveness The Group investment team liaisons with the rest of the Group companies, and receives updates on their performance regularly. The team then presents them to the BOD on a quarterly basis.

Business Risk

Diversification The equity investment portfolio of the Company is diversified across various sectors including Food (~20%) Fertilizers (~15%), Petrochemicals (~13%), Energy (~7%), Terminal Services (~3%) and Telecommunication Infrastructure (~42%).

Portfolio Assessment The Company has three type of investments on its balance sheet: Core, Strategic and Non-Strategic investments. i) Core investments include a mix of Listed and Unlisted subsidiaries. ii) Strategic investments include JV's, associates and other investments. iii) Non-Strategic investments include short term investments in Government Securities & debt instruments, Mutual Funds & Fixed Income placements.

Income Assessment The Company's topline comprises investment income from its investment book along with interest income on associated company lending. ~75% of investment income comprises dividends from equity portfolio and ~25% from short-term portfolio along with the interest income on loan. During CY22, total investment income experienced an increase of ~23% (CY22: ~PKR 30bln, CY21: ~PKR 24bln). Despite an increase of ~35% in tax, the net profit showed improvement and stood at ~PKR 21bln (CY21: ~PKR 19bln). Major inflow of dividends was from Engro Fertilizer & Engro Chemicals comprising 81% (PKR 18bln) of the total dividends (PKR 22bln) received.

Financial Risk

Coverages In CY22, the Company's total operating cashflows stood at PKR 21.8bln (CY21: PKR 22.7bln) exhibiting a decrease of 4% due to high non-core income, despite high profits. Finance cost, on the other hand, has increased to PKR 87mln (CY21: PKR 51mln). Owing to high total cash flows, as of CY22 the coverages remain quite strong with interest ratio at 411.9x (CY21: 873.7x) and debt coverage at 81.6x (CY21: 62.2x). As of 3MCY23 the interest and debt coverage ratio stood at 10.9x and 5.2x respectively.

Capital Structure Engro Corp has largely an equity based capital structure and the leveraging ratio stood at ~1.2% as at CY22 (CY21: ~0.5%) and 1.3% as at 3MCY23 (3MCY22: 0.3%).

Consolidated Position The Company derives its financial strength from Dawood Group and subsidiary companies. Engro Corp's consolidated borrowings stood at PKR 346bln as at 3MCY23 (3MCY22: PKR 248bln) against consolidated equity base of PKR 235bln (3MCY22: PKR 251bln) translating into consolidated leveraging of ~59% (3MCY22: ~50%). The consolidated topline during 3MCY23 increased and stood at PKR 104bln (3MCY22: PKR 93bln) but, owing to the inflation and high finance costs the net profit deteriorated to PKR 8.8bln (3MCY22: PKR 14.9bln).



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

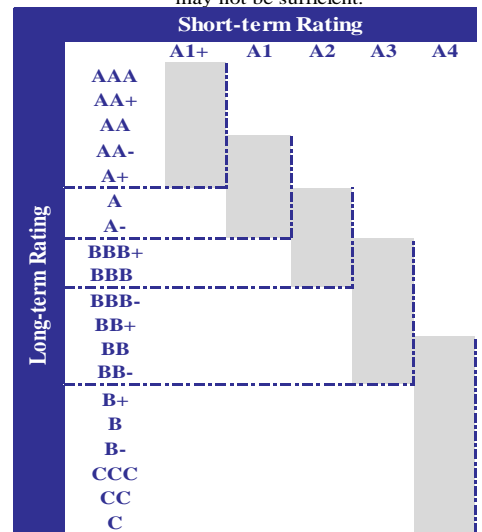
Engro Corporation Limited Holding Company	Mar-23	Dec-22	Dec-21	Dec-20
	3M	12M	12M	12M
	Management	Audited	Audited	Audited
A BALANCE SHEET				
1 Investments	35,576	48,060	40,247	47,840
2 Related Party Investments	53,520	54,061	58,020	42,572
3 Non-Current Assets	2,433	2,567	1,303	1,251
4 Current Assets	10,042	1,978	2,184	5,322
5 Total Assets	101,572	106,666	101,755	96,986
6 Current Liabilities	13,368	12,716	9,431	8,360
7 Borrowings	1,111	1,151	357	630
8 Related Party Exposure	1,781	1,490	1,373	964
9 Non-Current Liabilities	63	43	59	31
10 Net Assets	85,247	91,265	90,535	87,001
11 Shareholders' Equity	85,247	91,265	90,535	87,001
B INCOME STATEMENT				
1 Total Investment Income	7,870	29,685	24,144	20,959
a Cost of Investments	(87)	(87)	(51)	(62)
2 Net Investment Income	7,783	29,598	24,093	20,897
a Other Income	463	1,368	1,288	1,091
b Operating Expenses	(1,199)	(7,448)	(5,139)	(4,879)
4 Profit or (Loss) before Interest and Tax	7,047	23,518	20,241	17,109
a Taxation	(1,008)	(2,321)	(1,725)	(807)
6 Net Income Or (Loss)	6,039	21,196	18,516	16,301
C CASH FLOW STATEMENT				
a Total Cash Flow	578	21,793	22,699	10,908
b Net Cash from Operating Activities before Working Capital Changes	530	21,768	22,672	10,892
c Changes in Working Capital	278	72	352	2,364
1 Net Cash provided by Operating Activities	808	21,839	23,024	13,256
2 Net Cash (Used in) or Available From Investing Activities	346	(40,247)	13,420	15,389
3 Net increase (decrease) in long term borrowings	-	-	-	-
4 Net Cash (Used in) or Available From Financing Activities	(80)	(19,843)	(15,313)	(14,725)
5 Net Cash generated or (Used) during the period	1,073	(38,251)	21,131	13,920
D RATIO ANALYSIS				
1 Performance				
a Asset Concentration (Market Value of Largest Investment / Market Value of	37.5%	32.7%	31.7%	31.1%
b Core Investments / Market Value of Equity Investments	68.8%	61.4%	63.1%	52.2%
c Marketable Investments / Total Investments at Market Value	16.6%	20.5%	17.3%	22.0%
2 Coverages				
a TCF / Finance Cost	10.9	411.9	873.7	221.8
b TCF / Finance Cost + CMLTB	5.2	81.6	62.2	33.9
c Loan to Value (Funding / Market Value of Equity Investments)	0.0	0.0	0.0	0.0
3 Capital Structure (Total Debt/Total Debt+Equity)				
a Leveraging [Funding / (Funding + Shareholders' Equity)]	1.3%	1.2%	0.4%	0.7%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	1.3%	1.3%	0.4%	0.7%

Credit Rating

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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-	
CCC	
CC	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	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*The correlation shown is indicative and, in certain cases, may not hold.

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 some material identifiable event with indeterminable rating implications. 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 rating 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.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

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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

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(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 | Clause 11-(A)(p).

(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)

Independence & Conflict of interest

(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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