



The Pakistan Credit Rating Agency Limited

## Rating Report

### Engro Elengy Terminal (Private) Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
04-Jul-2022	AA-	A1	Stable	Maintain	-
06-Jul-2021	AA-	A1	Stable	Maintain	-
07-Aug-2020	AA-	A1	Stable	Maintain	-
09-Aug-2019	AA-	A1	Stable	Upgrade	-
04-Mar-2019	A+	A1	Stable	Maintain	-
04-Sep-2018	A+	A1	Stable	Maintain	-
27-Feb-2018	A+	A1	Stable	Upgrade	-
26-Apr-2017	A	A1	Stable	Maintain	-
30-Dec-2016	A	A1	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

The ratings reflects strong business profile of Engro Elengy Terminal (Private) Limited (EETPL or the Company), being the pioneer in the industry. Further, GOP's commitment to managing energy needs of the country by way of imported LNG added to its strength. Another significant factor is the financial strength and experience in the energy chain of the sponsoring companies – Engro Corporation Limited and Vopak LNG Holding B.V. The ETPL has initially planned to increase its capacity to 1000mmcf/d however currently installed FSRU has usual capacity of 630mmcf/d (peak hours: 680mmcf/d). Thus, a sizable and recurring stream of income is ensured. Engro Elengy continues to meet its availability (~95%) - an outcome of technically sound operations and maintenance operator, Excelerate Energy (EE), is a key source of comfort in managing the plant's operations. The EETPL low business risk profile encompassing long-term energy supply contract inked with SSGC ensuring guaranteed off-take translating to stable revenues and cash flows stream, subject to adherence to agreed parameters. SSGC, the sole intermediary, has demonstrated timely payments against committed purchases despite challenges. Moreover, the company's repayment capacity in terms of debt service would remain at a comfortable level. Going forward improvement in leverage indicators over time on account of debt repayment and internal cash generation further strengthen the financial risk profile of the EETPL. The corporate guarantee from sponsor group added further strength to the financial profile of the Company.

The ratings remain dependent on smooth operations of the terminal, and conduct of sole buyer with reference to the timely payments to Engro Elengy Terminal.

#### Disclosure

<b>Name of Rated Entity</b>	Engro Elengy Terminal (Private) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Distribution   Gas(Jun-21)
<b>Rating Analysts</b>	Anam Waqas Ghayour   anam.waqas@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Engro Elengy Terminal (Pvt) Limited is a Private Company (EETL), wholly owned by Elengy Terminal Pakistan Limited, which is a subsidiary of the Corporate conglomerate Engro Corporation Limited and Vopak LNG Holding B.V.

**Background** Pakistan's domestic gas production of ~4,000 MMCFD is unable to meet the country's demand of more than ~6,000 MMCFD. To overcome this shortage, the Government of Pakistan has started importing Liquefied Natural Gas (LNG) since early 2015. The developments in LNG Industry took a boom after the establishment of first LNG Regasification terminal by Engro Elengy Terminal (Private) Limited.

**Operations** The terminal has been established as a special purpose vehicle to own and operate the LNG facilities and enter into all project related agreements including the LSA. It has leased a 600mmscfd baseload Floating Storage and Re-gasification Unit (FSRU) from Exceleerate Energy.

## Ownership

**Ownership Structure** Elengy Terminal Pakistan Limited holds 100% of the shares of Engro Elengy Terminal (Pvt) Ltd. Recently, Vopak LNG Holding B.V. extended its shareholding in Elengy Terminal Pakistan Limited. Consequently, Engro Corp and Vopak LNG Holding B.V. now own 56% and 44% respectively.

**Stability** Dawood Hercules Corporation - along with Dawood Family and its associated concerns holds a major stake in Engro Corporation Limited through corporate and individuals. The Corporation has a distinguished name in Pakistan with diversified business interests. Therefore, the stability factor is considered strong.

**Business Acumen** The Sponsor Acumen for EETL is extensive due to its association with Engro Corporation Limited. Moreover, firm support is provided by Engro Corp and Elengy Terminal Pakistan Ltd by entering into a Sponsor Support Agreement on November 23, 2015, with Engro Elengy Terminal's financing party, Asian Development Bank (ADB), where NIB Bank (now MCB Bank) has acted as an Inter-creditor Agent, in order to provide continuing Financial support to EETL.

**Financial Strength** Engro Corporation Limited (ECL) has expanded its footing in diversified business avenues with a sizable portfolio of strategic investments. The group's business portfolio spans various sectors including fertilizers, PVC resin, and food, energy, and chemical terminal and storage businesses.

## Governance

**Board Structure** The board of directors (BoD) comprises three members including the CEO. Two members represent Engro Group while Mr. Jarmo Stoopman represents Royal Vopak.

**Members' Profile** Mr. Yusuf Siddique joined Engro Elengy Terminal as CEO in April 2020 in place of Mr. Jahangir Piracha. Prior to this, he has headed the Shell businesses in Tunisia and Jordan. Mr. Yusuf worked as an energy industry executive for 24 years leading upstream, downstream & renewables energy ventures in Shell, Eni & BP. He has a global career profile including assignments in Tunisia, Jordan, Oman, Netherlands, Iran, Italy & Pakistan.

**Board Effectiveness** The number of board meetings held during CY20 was five; wherein attendance by the board members is considered strong. Back in 2017, Board Audit Committee was established to assist the board in relevant matters.

**Financial Transparency** M/S A.F.Ferguson & Co. Chartered Accountants is the external auditor of the company. They expressed an unqualified opinion on the company's annual financial statements for the year ended December 31, 2021.

## Management

**Organizational Structure** Engro Elengy Terminal has a lean organizational structure. The overall operational responsibilities have been divided among four main departments: a) Commercial & Business Development, b) Terminal Management Team, c) Finance and d) HR & Admin. All functions, with the exception of Finance, are consolidated and shared with Engro Vopak Terminal Limited.

**Management Team** The CEO, Mr. Yusuf Siddique joined the Company in Apr-20 replacing Mr. Jahangir Piracha. He is supported by a team of qualified individuals, primarily comprising technical staff. Mr. M. Saqib has also joined the team in the place of Mr. Fahim - CFO of the Company and holds an experience of ~18 years.

**Effectiveness** Effectiveness A management committee comprising four members and chaired by the CEO; is in place to oversee the terminal operations. Other committee members include the CEO, CFO, Terminal Manager, and the HR&Admin Manager.

**MIS** Daily MIS/Summary Report encompassing terminal operations concerning i) number of MMBTUs re-gasified and pumped into SSGC's network ii) pressure of gas and iii) required amount of gas by SSGC on a daily basis is used to monitor the terminal performance.

**Control Environment** EETL's quality of the I.T. infrastructure and the breadth and depth of activities performed has remained well satisfactory.

## Business Risk

**Industry Dynamics** Natural Gas is a clean, safe, efficient and environment friendly fuel. Its indigenous supplies contribute about ~35% in the primary energy supply mix of the country. • Pakistan has an extensive gas network of over ~13,315km transmission ~149,715km Distribution and ~39,612km services gas pipelines to cater for the requirement of more than ~10.3mln connections across the country. The average natural gas consumption during 9MFY21 was about ~3,723MMCFD including ~950MMCFD volume of RLNG.

**Relative Position** This was the first Company in Pakistan to commission an LNG terminal in March-15 with a storage and re-gasification capacity of 630mmcf. During CY20, The terminal has a storage capacity of 150,900 cubic meters and peak regasification capacity of up to 680 million cubic feet per day (mmcf). The Terminal achieved another milestone through the send-out of more than 1000 billion cubic feet of natural gas, equivalent to the energy required to generate around 175mln MW. Hence, relative position of EETL remains strong.

**Revenues** During CY21, revenue witnessed a decline and the Company recorded revenue at CY21: PKR 13.0bln; (CY20: PKR 16.3bln, CY19: 15.3bln). Capacity of the company as a service provider to SSGC is 4.5 MPTA and there has been no shortfall during the year. The company PAT also declined and stood at PKR 1.5bln (CY20: PKR 2.3bln, CY19: 3.2bln).

**Margins** During CY21, gross margins reported to 33% showing growth with the figure reported in (CY20: 26%) attributable to fixed capacity. Similarly, operating margins and net margins also followed the inclining trend (Operating; CY21: 29.4%; CY20: 24.2%) & (Net; CY21: 11.9%; CY20: 14.3%).

**Sustainability** During CY21, EETL along with its partner Exceleerate has secured a larger and more technologically advanced FSRU, which is poised to arrive at Port Qasim in 2021 after all regulatory and SSGC approvals. Going forward; this will increase the terminal's capacity by more than 150 mmcf and storage capacity by more than 25,000 cubic meters to help in reducing the gas supply shortfall.

## Financial Risk

**Working Capital** The working capital cycle of the company is largely a function of receivables from SSGC and payment to suppliers; any delays in payment from SSGC may impede the company's working capital. Therefore, the networking capital cycle stood at -10days during CY21 (CY20: 2days, CY19: -2days), reflecting overall improvement primarily due to delay in trade payables.

**Coverages** For the year end-Dec21, core coverage improved and stood at 7.2x (end-Dec20: 9.7x). Debt servicing ability remains strong, due to i) sustainable margins ii) sizable stream of cash flows and iii) association with sponsors of robust financial strength. Going forward, repayment of principal portion of the loans is expected to remain comfortable, given fixed capacity payments from SSGC.

**Capitalization** The capital structure of the Company is leveraged with borrowings comprising solely of long-term funding from IFC (USD 6.2mln), ADB (USD 9mln) and the consortium of local Banks (PKR 1.2bln). Funding is procured for a period of 8 years with 16 half-yearly installments. During CY21, leveraging stands at ~30.6% (CY20: ~38.2%).



Engro Elengy Terminal Pvt Ltd Distribution   Gas	Dec-21 12M	Dec-20 12M	Dec-19 12M	Dec-18 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	11,212	11,115	10,438	10,723
2 Investments	1,512	1,539	-	-
3 Related Party Exposure	27	7	20	-
4 Current Assets	4,505	3,614	6,087	4,658
a Inventories	-	-	-	-
b Trade Receivables	1,784	1,570	1,424	1,258
5 Total Assets	17,256	16,275	16,544	15,381
6 Current Liabilities	3,249	2,893	1,859	1,985
a Trade Payables	953	743	877	1,961
7 Borrowings	3,303	4,133	5,169	6,210
8 Related Party Exposure	138	34	119	-
9 Non-Current Liabilities	3,086	2,533	1,099	802
10 Net Assets	7,480	6,682	8,298	6,385
11 Shareholders' Equity	7,480	6,682	8,298	6,385
<b>B INCOME STATEMENT</b>				
1 Sales	12,960	13,151	15,323	12,601
a Cost of Good Sold	(8,678)	(8,944)	(10,668)	(9,256)
2 Gross Profit	4,282	4,207	4,655	3,346
a Operating Expenses	(469)	(379)	(306)	(218)
3 Operating Profit	3,813	3,828	4,350	3,127
a Non Operating Income or (Expense)	218	454	(69)	199
4 Profit or (Loss) before Interest and Tax	4,031	4,282	4,281	3,327
a Total Finance Cost	(811)	(727)	(813)	(1,710)
b Taxation	(1,671)	(1,269)	(305)	49
6 Net Income Or (Loss)	1,549	2,286	3,163	1,666
<b>C CASH FLOW STATEMENT</b>				
a Free Cash Flows from Operations (FCFO)	3,772	5,017	5,304	3,871
b Net Cash from Operating Activities before Working Capital Changes	3,416	4,463	4,554	3,210
c Changes in Working Capital	(339)	(208)	(159)	966
1 Net Cash provided by Operating Activities	3,077	4,255	4,395	4,176
2 Net Cash (Used in) or Available From Investing Activities	(103)	(225)	(271)	(493)
3 Net Cash (Used in) or Available From Financing Activities	(2,399)	(4,867)	(2,849)	(2,178)
4 Net Cash generated or (Used) during the period	576	(837)	1,275	1,505
<b>D RATIO ANALYSIS</b>				
1 Performance				
a Sales Growth (for the period)	-1.5%	-14.2%	21.6%	20.4%
b Gross Profit Margin	33.0%	32.0%	30.4%	26.5%
c Net Profit Margin	11.9%	17.4%	20.6%	13.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	26.5%	36.6%	33.6%	38.4%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity )]	21.3%	33.9%	39.5%	26.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	47	42	32	46
b Net Working Capital (Average Days)	23	19	-2	3
c Current Ratio (Current Assets / Current Liabilities)	1.4	1.2	3.3	2.3
3 Coverages				
a EBITDA / Finance Cost	7.2	8.7	7.8	2.4
b FCFO / Finance Cost+CMLTB+Excess STB	2.1	3.0	3.0	1.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.1	0.9	1.1	2.8
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	31.5%	38.4%	38.4%	49.3%
b Interest or Markup Payable (Days)	4.2	8.8	12.4	0.0
c Entity Average Borrowing Rate	13.9%	11.3%	10.8%	25.2%

**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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<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.
AA-	
A+	
A	<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.
A-	
BBB+	
BBB	<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 and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	<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.
BB	
BB-	
B+	
B	<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.
B-	
CCC	<b>Very high credit risk.</b> 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.
CC	
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):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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(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)

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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

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(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).

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(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

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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

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(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)

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(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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