The Pakistan Credit Rating Agency Limited

Rating Report

Engro Elengy Terminal (Private) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
04-Jul-2024	AA-	A1	Stable	Maintain	-
04-Jul-2023	AA-	A1	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

The ratings reflect 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 adds 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. Installed FSRU has guaranteed capacity of 630mmscfd (peak regassification capacity: 690mmscfd). Thus, a sizable and recurring stream of income is ensured which resulted in the company posting a top line of PKR 5.2bln in 3MCY24 (CY23: PKR 21.3bln). Engro Elengy maintained its availability at 97% for CY23 (Guaranteed Availability: 95%) - an outcome of technically sound operations. The maintenance operator, Excelerate Energy (EE), is a key source of comfort in managing the plant operations. The EETPL low business risk profile encompasses long-term energy supply contract inked with SSGC ensuring guaranteed off-take, which translates to stable revenues and cash flows stream, subject to adherence to agreed parameters. SSGC, the sole customer, has demonstrated timely payments against committed purchases despite challenges. The company’s repayment capacity in terms of debt service remains at a comfortable level. Implementation of IFRS-16, which requires company to book all leased assets and their corresponding lease liabilities, increased company’s leveraging but did not have any significant impact on company’s net financial position. Timely project debt repayment and internal cash generation strengthens the financial risk profile of EETPL.

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

Disclosure

Name of Rated Entity	Engro Elengy Terminal (Private) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-24)
Related Research	Sector Study | Distribution | Gas(Jul-23)
Rating Analysts	Shujat Ehsanullah Wasim | Shujat.Ehsan@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 has been unable to meet the country's demand. In order to overcome this shortage, the Government of Pakistan (GoP) started importing Liquefied Natural Gas (LNG) since early 2015. Developments in LNG Industry boomed 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 630mmscfd baseload Floating Storage and Re-gasification Unit (FSRU) from Excelerate Energy with a peak regassification capacity of 690mmscfd.

Ownership

Ownership Structure Elengy Terminal Pakistan Limited holds 100% of the shares of Engro Elengy Terminal (Pvt) Ltd. Few years back, 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.

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, 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. Christopher Robert Robblee represents Royal Vopak.

Members' Profile Mr. Mazhar Hasnani joined Engro Elengy Terminal as CEO in Feb, 2024 in place of Mr. Ismail Mehmood. Mr. Mazhar brings with him over two decades of international and local experience, including 14 years at Engro. Most recently, he spent over three years as the CFO and SVP Performance Management at Engro Corporation. Prior to that, he served as Vice President – Marketing at Engro Polymer & Chemicals Limited and Vice President – Corporate Strategy at Engro Corporation.

Board Effectiveness The number of board meetings held during CY23 was five; wherein attendance by the board members is considered strong. Board Committees are also in place 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, 2023.

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 Mr. Mazhar Hasnani joined Engro Elengy Terminal as CEO in Feb, 2024 in place of Mr. Ismail Mehmood. He is supported by a team of qualified individuals, primarily comprising technical staff.

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, COO, and 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 Production of natural gas from indigenous resources is decreasing in Pakistan. Thus, to bridge the supply demand gap, Pakistan's reliance on imported Re-gasified Liquified Natural Gas (RLNG) has been increasing in recent years. With depleting gas reserves and rising demand, the share of imported gas is expected to go up, in the absence of any major reserve discovery. At present, the capacity of two Floating Storage Regasification Units (FSRU) for RLNG is more than 1,200MMSCFD.

Relative Position This was the first Company in Pakistan to commission an LNG terminal in Mar, 2015. One of the most cost-efficient LNG terminals in the region, it has the capacity for regasification of up to a peak of 690 mmscfd (guaranteed capacity: 630 mmscfd & uncontracted capacity: 0 mmscfd) or 4.5 million tons of LNG per year and terminal capacity utilization ranges between 590 to 630 mmscfd based on customer's demand. With 50% of Pakistan's LNG import and regassification capacity, relative position of EETL remains strong.

Revenues During CY23, revenue witnessed growth primarily owing to USD appreciation against PKR. which rebounded to its previously recorded numbers and was recorded at PKR 21bln (CY22: PKR 16bln). There has been no reported shortfall in the capacity of the company as a service provider to SSGCL.

Margins During CY23, gross margins were reported at 33% , almost similar to the previous years trends (CY22: 34%) . Similarly, operating margins also almost remained on similar levels (Operating; CY23: 31%; CY22: 31%). However, net margins increased due to better other income generated through short term investments and bank deposits and stood at 16.5% (CY22: 14.8%).

Sustainability Depleting indigenous gas reserves and a transition towards cleaner and cheaper power generation have been the major factors driving the country towards adding LNG to its energy mix. Over the past few years, the government has established the basic LNG infrastructure, which has helped bridge the gas supply-demand shortfall, and lately, there has been some progress toward private sector participation in LNG import. In light of the increasing need for LNG in the Country EETL also has expansion plans and those will materialize after the necessary pending approval /arrangements from the relevant stakeholders have been finalized.

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. As at end-Dec23, net cash cycle stood at 23days (end-Dec22: 24days). The Company doesn't rely on short term borrowings and manages its working capital through internal cash generation.

Coverages For the year ended-Dec23, interest coverage declined to 4.4x (end-Dec22: 6.6x) due to considerable increase in finance income on lease liability and exchange gain on borrowings. Debt servicing ability, however, 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 For the year ended-Dec23, leveraging stood at ~87% on account of elevated lease liabilities recorded in books post-implementation of IFRS-16 which stood at ~PKR 61 billion. The borrowings comprise solely of long-term funding. During 2021 , the company entered into a new financing arrangement with ABL and prepaid lenders of the company under CTA through single payment. The principal amounts for repayment at Dec31,2023 for foreign currency denominated loan is USD 4.3mln (2022: USD 8.6mln). The remaining loan falls under the current portion which will be paid in CY24 and resulting in debt free BS of the Company.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Engro Elengy Terminal (Pvt) Ltd Distribution | Gas	Mar-24 3M	Dec-23 12M	Dec-22 12M	Dec-21 12M
A BALANCE SHEET				
1 Non-Current Assets	63,514	66,409	61,349	54,309
2 Investments	2,585	1,632	2,118	1,512
3 Related Party Exposure	19	18	13	17
4 Current Assets	14,968	13,972	10,876	8,348
a Inventories	-	-	-	-
b Trade Receivables	*2,892*	*2,720*	*2,638*	*1,784*
5 Total Assets	81,086	82,032	74,355	64,185
6 Current Liabilities	5,267	4,902	5,376	3,249
a Trade Payables	*1,430*	*1,373*	*1,290*	*953*
7 Borrowings	59,478	62,222	57,294	50,232
8 Related Party Exposure	215	272	73	138
9 Non-Current Liabilities	5,434	5,453	4,154	3,086
10 Net Assets	10,692	9,184	7,458	7,480
11 Shareholders' Equity	10,692	9,184	7,458	7,480
B INCOME STATEMENT				
1 Sales	5,206	21,310	16,409	12,960
a Cost of Good Sold	*(3,122)*	*(14,271)*	*(10,797)*	*(8,678)*
2 Gross Profit	2,084	7,039	5,612	4,282
a Operating Expenses	(158)	(549)	(538)	(469)
3 Operating Profit	1,925	6,490	5,074	3,813
a Non Operating Income or (Expense)	*393*	*1,272*	*638*	*218*
4 Profit or (Loss) before Interest and Tax	2,318	7,762	5,712	4,031
a Total Finance Cost	*(43)*	*(891)*	*(965)*	*(811)*
b Taxation	*(766)*	*(3,345)*	*(2,318)*	*(1,671)*
6 Net Income Or (Loss)	1,509	3,526	2,428	1,549
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,743*	*3,373*	*5,569*	*3,772*
b Net Cash from Operating Activities before Working Capital Change	*1,711*	*3,729*	*5,224*	*3,416*
c Changes in Working Capital	*(123)*	*584*	*(407)*	*(339)*
1 Net Cash provided by Operating Activities	1,588	4,312	4,817	3,077
2 Net Cash (Used in) or Available From Investing Activities	(42)	(1,301)	(1,252)	(103)
3 Net Cash (Used in) or Available From Financing Activities	-	(3,570)	(3,902)	(3,868)
4 Net Cash generated or (Used) during the period	1,546	(558)	(337)	(893)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-2.3%	29.9%	26.6%	-20.7%
b Gross Profit Margin	40.0%	33.0%	34.2%	33.0%
c Net Profit Margin	29.0%	16.5%	14.8%	11.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/S	31.1%	18.6%	31.5%	26.5%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Ass*	60.7%	42.4%	32.5%	21.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	49	46	49	47
b Net Working Capital (Average Days)	25	23	24	23
c Current Ratio (Current Assets / Current Liabilities)	2.8	2.9	2.0	2.6
3 Coverages				
a EBITDA / Finance Cost	42.1	6.2	7.2	7.2
b FCFO / Finance Cost+CMLTB+Excess STB	0.8	0.3	0.7	0.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance C	8.7	23.9	12.1	15.5
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	84.8%	87.2%	88.5%	87.1%
b Interest or Markup Payable (Days)	101.7	7.6	7.6	4.2
c Entity Average Borrowing Rate	0.2%	1.2%	1.5%	2.4%

Credit Rating

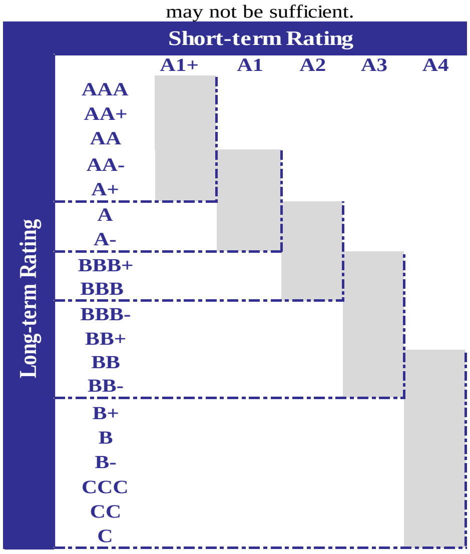
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

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

Short-term Rating

Scale	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
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 surveill 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

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
Proprietary Information