



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
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	-
17-May-2017	AA	A1+	Stable	Maintain	-
22-Dec-2016	AA	A1+	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect Engro Corporation Limited's ('Engro Corp' or "the Company") very strong risk profile and exceptional liquidity. The ratings incorporate established position of the Company as a conglomerate with a diverse pool of investments under four verticals: i) food and agriculture, ii) petrochemicals, iii) energy and related infrastructure, and iv) telecommunication infrastructure. Engro Corp's various investments in diversified sectors have witnessed phenomenal growth in financial performances, lately.

Respective businesses under the umbrella of the HoldCo continued growth trajectory despite challenging economic environment exhibiting resiliency and strength of HoldCo's investment philosophy. Engro Fertilizer, being a prominent player in country's fertilizer sector, increased its market share on the back of higher urea sales. Engro Eximp is consistently improving its market presence. Engro Polymer and Chemical has a fortified position in the local PVC industry with capacity enhancements, Hydrogen Per Oxide project on the cards, and opening up of export avenues. The subsidiary benefitted from high international PVC prices leading to significant improvement in margins. Engro Corp's sizeable investments in the energy chain, through Engro Energy, have progressed in a timely manner. Moreover, Engro PowerGen Thar is performing better than envisioned availability and efficiency benchmarks. 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. Lately, Engro Corp plans to enhance its footings in the petrochemical vertical by setting up a polypropylene facility. Furthermore, the Company also plans to expand its exposure in the renewable energy and LNG sectors.

The Company continues to enjoy consistent dividend income from its subsidiaries. Engro Fertilizer and Engro Polymer announced substantially higher dividends during CY21 compensating for no dividend income from Engro Energy and FrieslandCampina. Engro Vopak remained cash producer, as well. The Company has a low leveraged capital structure with very strong coverages and liquidity signifying its robust financial risk profile. Its ability to limit debt levels to fifty percent of its equity at group level provides comfort to ratings. The ratings factor in HoldCo'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

<b>Name of Rated Entity</b>	Engro Corporation Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Holding Company 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   Holding Company(Aug-21)
<b>Rating Analysts</b>	Ahmad Faraz Arif   ahmad.faraz@pacra.com   +92-42-35869504



## Profile

**Background** Engro Corporation Limited ('Engro Corp' or 'the Company') is a Holding company. Engro Corp's scrip is listed on Pakistan stock exchange and is included in the KSE- 100 index. Esso Pakistan Fertilizer Company Limited was established in 1965 following the discovery of Mari gas field. It was the nations' first fertilizer brand. Post exit of its foreign partners, it was renamed as 'Engro Chemicals'. Engro over the years 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 ~46% stake in Engro Corp, through Dawood Hercules Corporation Limited (~37%), related corporate entities (~6%), and individuals of Dawood family (~3%). Around 20% is held by general public and remaining shares are held by corporate entities, financial institution and others.

**Stability** Ownership of the business 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 637bln supported by an equity base of ~PKR 251bln as at 1QCY22.

## Governance

**Board Structure** The control of the Company vests with the ten-member Board of Directors. There are five Non- Executive Directors, one Executive Director and four 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. The Board and its sub-committees meet on quarterly basis to maintain effective oversight and the attendance, mostly, remains full.

**Transparency** The Company's external Auditors are A.F. Ferguson & Co. They have issued an unqualified opinion on annual financial statements of CY21.

## 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 report to the CEO.

**Management Team** Mr. Ghias Khan has been CEO of the Company since Dec- 16. He holds a long association with the group. Prior to joining as CEO of Engro Corp, he was CEO of Inbox Business Technologies - a subsidiary of DH Corp. Mr. Ghias has been associated with the group for over 15 years. Mr Mazhar Abbas Hasnani joined as the CFO of Engro Corp in CY20.

**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) has been established at all Engro Group companies which reports to the Board Audit Committee of the respective company. The outcome of Internal Audit in form of Audit Reports is ranked as either good, satisfactory, MAR (management attention required) or unsatisfactory.

## 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. Merger & Acquisition team evaluates opportunities in the market for mergers and acquisitions. Treasury team is responsible for handling short-term investment book. Head of both teams are reportable to CFO.

**Investment Policy** The Company has conservative investment portfolio as ~46% of total investments consists of Government Securities, Debt Instruments, and Fixed Income Placements. Moreover, the equity portfolio spans across various sectors including chemical, fertilizers, PVC, food, power generation, coal mining and LNG storage. The Company's conservative investment policy limits exposure to investments risks associated with competitive sectors.

**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% of total long-term investments), Fertilizers (~15%), Chemicals (~13%), Power (~7%), Terminal Services (~3%) and Telecommunication Infrastructure (~42%).

**Portfolio Assessment** The Company's major long-term investments (54% of total investments) include mix of listed subsidiaries, unlisted subsidiaries and joint venture. The Company's short-term investments (46% of total investments) include investments in government securities, mutual funds, and fixed income placements. The Company continues to enjoy consistent dividend income from its subsidiaries.

**Income Assessment** During CY21, total investment income experienced increase of ~14% and stood ~PKR 24bln (CY20: ~PKR 21bln). The increase is attributable to significantly higher dividend income of ~PKR18bln from Engro Fertilizers. The Company's net income followed similar trend and witnessed ~13% growth during CY21 clocking in at ~PKR 18.5bln (CY20: ~PKR 16.3bln). During 1QCY22, the Company's total investment income stood at ~PKR 9.0bln (1QCY21: ~PKR 4.6bln) aided by the profitability of its subsidiaries and higher dividend inflows. Similarly, net income witnessed almost two-folds increase and stood at ~PKR 6.9bln (1QCY21: ~PKR 3.6bln).

## Financial Risk

**Coverages** During CY21, the Company's total operating cashflows stood at ~PKR 22.7bln (CY20: ~PKR 10.9bln) and the Company's finance cost stood at PKR 26mln (CY20: PKR 49mln) resulting in further improvement in the coverage ratios with interest coverage ratio standing at 873.7x (CY20: 221.8x) and debt coverage ratio standing at 62.2x (CY20: 33.9x).

**Capital Structure** Engro Corp has largely an equity-based capital structure and the leveraging ratio stood at ~0.4% as at CY21 (CY20: ~0.7%, CY19: ~1.2%). The Company's debt mainly includes lease-liabilities only and the capital structure is expected to remain very strong, going forward.

**Consolidated Position** The Company derives its financial strength from Dawood Group and subsidiary companies. Engro Corp's consolidated borrowings stood at ~PKR 245bln as at CY21 (CY20: ~PKR 226bln) against consolidated equity base of ~PKR 243bln (CY20: PKR ~220bln) translating into consolidated leveraging of ~50.1% (CY20: ~50.3%).



The Pakistan Credit Rating Agency Limited

Engro Corporation Limited  
Holding Company

	Mar-22	Dec-21	Mar-21	Dec-20
	3M	12M	3M	12M
	Unaudited	Audited	Unaudited	Audited
<b>A BALANCE SHEET</b>				
1 Investments	43,338	40,247	50,020	47,840
2 Related Party Investments	54,203	58,020	44,308	42,572
3 Non-Current Assets	1,235	1,303	1,284	1,251
4 Current Assets	10,116	2,184	4,702	5,322
<b>5 Total Assets</b>	<b>108,891</b>	<b>101,755</b>	<b>100,314</b>	<b>96,986</b>
6 Current Liabilities	10,407	9,431	8,345	8,360
7 Borrowings	276	357	572	630
8 Related Party Exposure	1,329	1,373	800	964
9 Non-Current Liabilities	42	59	10	31
<b>10 Net Assets</b>	<b>96,836</b>	<b>90,535</b>	<b>90,587</b>	<b>87,001</b>
<b>11 Shareholders' Equity</b>	<b>96,836</b>	<b>90,535</b>	<b>90,587</b>	<b>87,001</b>
<b>B INCOME STATEMENT</b>				
1 Total Investment Income	9,033	24,144	4,573	20,959
a Cost of Investments	(17)	(51)	(21)	(62)
<b>2 Net Investment Income</b>	<b>9,015</b>	<b>24,093</b>	<b>4,552</b>	<b>20,897</b>
a Other Income	336	1,288	328	1,091
b Operating Expenses	(1,232)	(5,139)	(539)	(4,879)
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>8,120</b>	<b>20,241</b>	<b>4,341</b>	<b>17,109</b>
a Taxation	(1,243)	(1,725)	(754)	(807)
<b>6 Net Income Or (Loss)</b>	<b>6,877</b>	<b>18,516</b>	<b>3,586</b>	<b>16,301</b>
<b>C CASH FLOW STATEMENT</b>				
a Total Cash Flow	394	22,699	4,487	10,908
b Net Cash from Operating Activities before Working Capital Changes	393	22,672	4,482	10,892
c Changes in Working Capital	(301)	352	(1,291)	2,364
<b>1 Net Cash (Used in) or Available From Investing Activities</b>	<b>91</b>	<b>23,024</b>	<b>3,191</b>	<b>13,256</b>
<b>2 Net increase (decrease) in long term borrowings</b>	<b>4,490</b>	<b>13,420</b>	<b>3,180</b>	<b>15,389</b>
<b>3 Net Cash (Used in) or Available From Financing Activities</b>	<b>(657)</b>	<b>(15,313)</b>	<b>(77)</b>	<b>(14,725)</b>
<b>4 Net Cash generated or (Used) during the period</b>	<b>3,925</b>	<b>21,131</b>	<b>6,294</b>	<b>13,920</b>
<b>D RATIO ANALYSIS</b>				
<b>1 Performance</b>				
a Asset Concentration (Market Value of Largest Investment / Market Value of	34.2%	31.7%	32.3%	31.1%
b Core Investments / Market Value of Equity Investments	65.4%	63.1%	53.8%	52.2%
c Marketable Investments / Total Investments at Market Value	17.2%	17.3%	22.4%	22.0%
<b>2 Coverages</b>				
a TCF / Finance Cost	393552.0	873.7	271.6	221.8
b TCF / Finance Cost + CMLTB	5.7	62.2	65.5	33.9
c Loan to Value (Funding / Market Value of Equity Investments )	0.0	0.0	0.0	0.0
<b>3 Capital Structure (Total Debt/Total Debt+Equity)</b>				
a Leveraging [Funding / (Funding + Shareholders' Equity)]	0.3%	0.4%	0.6%	0.7%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	0.3%	0.4%	0.6%	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	<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	
CC	<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.
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)

### **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)

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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).

(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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