



Rating Action

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PACRA Maintains Ratings of Engro Fertilizer Limited

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term entity ratings of Engro Fertilizer Limited (EFL) at "AA-" (Double A minus) and "A1" (A One), respectively. Meanwhile, the ratings of the two secured and listed TFCs of PKR 4,000mln and PKR 2,000mln, and that of the two privately placed TFCs of PKR 4,000mln and PKR 2,000mln are reaffirmed at "AA" (Double A). The ratings denote very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

The ratings reflect EFL's relatively low business risk emanating from a stable, indeed growing, urea demand with continuing domestic supply deficit. The ratings take into account the company's well-conceived strategy of fortifying its position through a sizeable urea expansion project (Enven 1.3), nearing commercial production now. The ratings recognize the company's ability to manage its financial profile, though stretched as a result of high borrowings, with ensuing cashflows of the new urea capacity to meet upcoming debt payments. Moreover, the ratings incorporate the support available from the parent company, if required, in the form of subordinated loans. The company is also planning to make public offering which will further strengthen its liquidity profile.

The Company: EFL is a wholly owned subsidiary of Engro Corporation Limited, which in turn is majority (~48%) owned by Dawood Group. The core business of EFL, the second largest producer of urea in the country, is manufacturing and marketing of fertilizers. EFL's current urea plant, with a capacity of 975,000MT p.a., is located at Daharki, whereas NPK plant is situated at Port Qasim. EFL's new urea plant (1,300,000MT p.a.), the country's largest ammonia-urea plant, has recently been completed and is progressing towards achieving commercial production (target: May11).

The ten member board of EFL comprises four executive directors including the CEO, two from Dawood Group and four independent directors. The CEO, Mr. Khalid Siraj Subhani, is a chemical engineer by qualification and has been associated with the company for long. The chairman, Mr. Asad Umar, an MBA with significant professional experience, is the CEO for the parent company and chairs the board of all Engro subsidiaries.

Secured TFCs: The company has 4 rated TFCs namely: (i) TFC(II) of PKR 4,000mln, issued in Nov-07, with a tenor of 8 years. The principal repayment would be in two equal installment commencing from May 2015. (ii) TFC(III) of PKR 2,000mln issued in Dec09, with a tenor of 7 years. The principal repayment will be in 10 semi-annual installments, starting from June 2012, (iii) PPTFC(I) of PKR 4,000mln, and (iii) PPTFC(II) of PKR 2,000mln. Both PPTFCs, issued in Mar08, are perpetual with a five-year call and ten year put option.

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