



# engro polymer & chemicals

July 19, 2018

The General Manager,  
Pakistan Stock Exchange Ltd,  
Stock Exchange Building,  
Stock Exchange Road,  
Karachi.  
Fax: (021) 111-573-329

## MATERIAL INFORMATION

Dear Sirs,

In accordance with Section 96 and 131 of Securities Act, 2015, and Clause 5.6.1 of the Rule Book of the Pakistan Stock Exchange Limited, we hereby convey that:

- Pakistan Credit Rating Agency Limited (PACRA) has upgraded Long-Term / Short-Term entity rating of Engro Polymer and Chemicals Limited (the Company) to AA- / A1+ from A+ / A1+; and
- JCR-VIS Credit Rating Company Limited has assigned Long-Term / Short-Term entity rating of AA- / A1+ to the Company.

Copies of press release by PACRA and JCR-VIS are attached.

Very truly yours,

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Shazeb Siddiki  
Company Secretary

# JCR-VIS Credit Rating Company Limited

Founder Shareholder - Islamic International Rating Agency (IIRA), Bahrain  
Joint Venture Partner - Credit Rating & Information Services Ltd. (CRISL), Bangladesh  
Member - Association of Credit Rating Agencies in Asia (ACRAA)

## Press Release

### JCR-VIS Assigns Initial Entity Ratings to Engro Polymer and Chemicals Limited

**Karachi, July 19, 2018:** JCR-VIS Credit Rating Company Limited (JCR-VIS) has assigned initial entity ratings of 'AA-/A-1+' (Double A Minus/A-One Plus) to Engro Polymer and Chemicals Limited (EPCL). Outlook on the assigned ratings is 'Stable'.

The assigned ratings incorporate strong market position in PVC (Polyvinyl Chloride) business, improved international dynamics of vinyl chain, cost leadership in caustic soda segment, financial and operational turnaround across key performance metrics, and robust corporate governance infrastructure. Ratings also take into account business risk of the sector given the cyclicity in business due to volatility in raw material prices. Strong financial profile and demonstrated track record of support from renowned conglomerate sponsor-Engro Corporation Limited is also a key rating driver.

EPCL is the only integrated Chlor-Vinyl Chemical Complex in Pakistan; it operates in two major segments i.e. PVC and Chlor-Alkali. In PVC, the Company has a market share of ~67% while market share in Caustic Soda business hovers around 30%. Given the growing demand of PVC and opportunity in chlor-alkali segment, EPCL has announced expansion plan of Rs. 10.3b comprising capacity expansion in PVC/VCM, value addition in its Chlor Alkali business and overall efficiency enhancement projects.

Assessment of business and industry risk profile incorporates healthy demand growth of PVC, which has increased at a CAGR of 11% over the last 5 years, and rationalization of international vinyl chain due to improving demand-supply situation around the globe, particularly in Asia. Nevertheless, cyclicity in business has historically remained high due to volatility in raw material prices translating into moderate to high business risk. However, the company has enhanced operational efficiencies through several interventions to minimize vulnerability of unfavorable vinyl chain dynamics. Going forward, ratings are dependent on international vinyl chain dynamics where JCR-VIS has been given to understand that limited international capacities of PVC are projected to come online relative to ethylene capacities which are expected to bode well for the Company.

Financial profile draws support from strong liquidity indicators as evident from healthy cash flows in relation to outstanding obligations and favorable working capital cycle. Capitalization indicators are adequate with gearing levels having declined significantly over the last 3 years. Given growing cash flows and projected dividend payout, healthy cash accumulation is expected over the rating horizon. Despite planned expansion, leverage indicators are projected to improve given the funding mix for expansion projects and healthy internal capital generation. Going forward, ratings will continue to remain dependent on maintaining financial indicators within benchmarks for the assigned ratings.

For further information on this rating announcement, please contact the undersigned (Ext: 208) at 021-35311861-71 or fax to 021-35311872-3.



**Atiq Anwar Mahmudi**  
Advisor

**Applicable Rating Criteria: Industrial Corporates (May 2016)**  
<http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf>

*Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS Credit Rating Company Limited (JCR-VIS) does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned in this report. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. JCR-VIS is paid a fee for most rating assignments. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities. Copyright 2018 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.*

**Head Office : VIS House, 128/C, 25th Lane Off. Khayaban-e-Ittehad Phase VII, D.H.A. Karachi. Ph: (92-21) 35311861-66 Fax: (92-21) 35311872-73**  
**Lahore : VIS House, 431 - Block-Q, Commercial Area, Phase II, DHA, Lahore. Ph: 042-35723411-13 Fax: 042-35708410 Website: www.jcrvis.com.pk**



**Date**

19-Jul-2018

**Analyst**

Hamza Ghalib  
hamza.ghalib@pacra.com

+92-42-35869504  
www.pacra.com

**Applicable Criteria**

- Methodology | Corporate Ratings (Jun 18)
- Methodology | Criteria | Rating Modifier (Jun 18)
- Methodology | Criteria | LT ST Relationship (Jun 18)

**Related Research**

- Sector Study | Polyvinyl Chloride (Jun 17)

**PACRA Upgrades Entity Ratings of Engro Polymer & Chemicals Limited**

Rating Type	Entity	
	Current (19-Jul-2018)	Previous (25-Jan-2018)
<b>Action</b>	Upgrade	Upgrade
<b>Long Term</b>	AA-	A+
<b>Short Term</b>	A1+	A1+
<b>Outlook</b>	Stable	Stable
<b>Rating Watch</b>	-	-

The ratings recognize Engro Polymer’s established foothold in the local PVC and caustic soda market. EPCL has efficient production process, sound technological infrastructure, and effective control environment. EPCL is the only manufacturer of Poly Vinyl Chloride (PVC), having a market share of ~67% in domestic market. The Company has successfully created a liking for its products. Lately, it is yielding strong margins attributing to improved international dynamics along with strong domestic demand; boding well with the overall profitability. Although EPCL has limited influence on both price ends (i) Ethylene - key raw material, and (ii) PVC – key product. However, over the years company has made vigorous efforts on operational efficiencies which has minimized vulnerability to unfavorable vinyl chain dynamics. On demand side, expanding economy – particularly construction – has led to double-digit growth; a trend that is expected to persist. On the Caustic Soda front (the other major product), the Company enjoys healthy margins and market share in the southern region. The uptick in profits, in turn, free cash flows, has yielded favorably for EPCL’s financial profile. This is reflected in the efficient working capital cycle and healthy coverages; hence, financial risk stays well managed. Moreover, EPCL's debt reprofiling has further eased pressure on its financial risk profile. The ratings also reflect EPCL's association with one of the country's leading conglomerate – Engro Corp. This association has benefited the company historically.

EPCL announced a CAPEX of PKR 10.3bln, an addition of 100K tons capacity on PVC and 50K tons of VCM, on a tune of PKR 7.6bln of which PKR 5.4bln is being raised through the Issuance of right shares. Remaining CAPEX will be funded through internally generated cash and debt. During expansion, the strength of the balance sheet will likely to remain intact.

The ratings are dependent upon holding sustained operations and continuity of improved margins. Successful execution of planned expansion, while, with the new debt to be acquired, maintenance of coverages would remain important to uphold ratings. Sustenance of import and anti-dumping duty is important for the sustainability of the risk profile of the company.

**About the Entity**

EPCL, established in 1 997, started commercial production in 1999. The Company is listed on Pakistan Stock Exchange. EPCL is primarily involved in the manufacturing, marketing and distribution of PVC and its allied products with design annual capacity of 195,000 tons per annum (tpa). Caustic Soda – another product, adds meaningful diversification to the company’s business. EPCL markets the PVC products with the brand name of ‘SABZ’.

EPCL is a subsidiary of Engro Corporation Limited (ECL) having majority stake of 56%. The other major shareholders of EPCL are Mitsubishi Corporation (10%), and others (~34%). The Board of Directors (BoD) comprises 7 members including CEO. Four members from the parent while one member represents Mitsubishi Corporation. The remaining two members are the CEO and independent non-executive director. Mr. Ghiasuddin Khan – the CEO of Engro Corp, is Non-Executive Chairman of EPCL. Mr. Imran Anwer, the CEO of the EPCL, is associated with Engro since 2005. He is a seasoned professional with over two decades of experience. The Company has an experienced team.

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The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.