RATING REPORT

Engro Enfrashare (Private) Limited

REPORT DATE:
January 14, 2021

RATING ANALYSTS:
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RATING DETAILS		
	Initial Rating	
Rating Category	**Long-term**	**Short-term**
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	*27-Dec-20*	

COMPANY INFORMATION	
Incorporated in 2018	**External auditors:** A.F. Ferguson & Co. (a member firm of Pricewaterhouse Coopers)
Private Limited Company	**Chairman of the Board:** Mr. Ghias Khan
Key Shareholders (with stake 5% or more):	**Country Managing Director:** Mr. Faisal Sattar (CEO)
Engro Infiniti (Private) Limited (100%)	
Engro Corporation Limited	
Dawood Hercules Corporation Limited (DH Corp)	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria Methodology – Industrial Corporates (May 2019) https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

OVERVIEW OF THE INSTITUTION

In 2018, Engro Enfrashare (Private) Limited was incorporated as a private limited company. Enfrashare is a tower company (TowerCo) engaged in buying, building, maintaining, and operating telecommunication infrastructure, and related products and services. The Company holds Telecommunication Tower Provider (TTP) license granted by Pakistan Telecommunication Authority (PTA). The registered office of the company is situated in Islamabad.

RATING RATIONALE

Corporate Profile: Engro Enfrashare (Private) (Enfrashare) Limited began operations in November 2018, and has emerged as one of the leading Tower Companies (TowerCo) in Pakistan in a very short span of time. It has regional presence in Lahore, Karachi, and Multan. The Company provides telecommunication infrastructure and related services to telecommunication providers (telcos) in exchange for rental fee. TowerCo's facilitate in unlocking full potential of towers through infrastructure sharing, optimizing operational costs, and save CAPEX by investing in telecom towers, monitoring their operations, and providing efficient energy solutions. This allows the Mobile Network Operators (MNOs) to focus on their core business activities.

Enfrashare operates under two models, acquisition of existing towers and Built-To-Suit (BTS) model. The former model involves acquiring, developing, and updating the existing towers as per requirements and earning revenues through renting the towers. The BTS model involves contracts with telcos to construct, own, and operate their towers. Towers constructed on this model are also marketed to other telcos who are required to pay a lease fee against tenancy contracts. The Company offers space to tenants for installation of radio equipment and the required passive infrastructure like shelters, fences, grid power supply, air-conditioning, generator, and batteries. MNOs install their antennas and wireless equipment on the rented space. The ownership of the passive infrastructure remains with the Company, while the MNO owns all the active elements including the antennas and the wireless equipment.

Enfrashare has a tower portfolio of 1,265 towers. The portfolio is geographically distributed into three regions: North (20%), Central (50%), and South (30%). Given this, 1,039 towers are constructed under the BTS model while the rest are acquired. Also, 90% of the tower portfolio comprises of Ground-Based Towers and 10% are Rooftop-Based Towers. With energy being one of the major cost components, Engro Enfrashare aims to construct 50% of the tower portfolio on renewable energy source (Solar). The towers are provided to MNOs for long-term tenancy contracts. The Company aims to own/manage a tower portfolio of 5,000 towers by 2025.

The customer base of Enfrashare comprises of all the major MNOs in Pakistan, including Ufone, Jazz, Telenor, Zong, as well as Wireless Local Loop (WLL) operators including Wi-tribe, Wateen, and PTCL.

Tenancy ratios remain one of the key drivers of the TowerCo industry which is dependent on coverage and customer base. It is calculated by dividing the tenancies by the number of sites. Engro Enfrashare has achieved an average tenancy ratio of 1.08x in FY20. Given the growth phase that the Company is in, tenancy ratio is on the lower side vis-à-vis regional standards. However, with increase in tenancies on old towers tenancy ratio will increase over the rating horizon; increase will be gradual given that new towers will continue to be added till 2025. By 2025, the Company targets to achieve a tenancy ratio of 1.33x.

Business Risk: The assigned ratings incorporate Enfrashare's low business risk and its position as a growing independent TowerCo. The competitive landscape comprises of four industry players. Enfrashare is among the top two players, and they collectively own majority of the market share amongst TowerCos. The overall business risk profile of the company is considered low given the rising demand of towers due growing 3G/4G usage and sizeable potential for coverage and capacity expansion. Moreover, introduction of 5G in Pakistan will significantly increase the demand for towers in the country over the long-term given that towers are required over shorter distances for 5G roll out. Furthermore, Enfrashare benefits from high customer loyalty given extensive lock-in periods, limited scope for termination, and an escalation clause which is part of the Service Agreement. The mentioned factors are expected to improve the tenancy ratio through increase in tenants on existing and new towers which remains a key rating driver.

Sponsor Profile: Ratings also take into account strong sponsor profile of Enfrashare which is a wholly owned subsidiary of Engro Infiniti (Private) Limited. The ultimate parent company is Engro Corporation Limited which is a subsidiary of Dawood Hercules Corporation Limited (DH Corp). Engro Corporation manages investments in subsidiary companies, associated companies, and joint ventures, and is engaged in diverse businesses including fertilizers, LNG, energy, food and chemical businesses. DH Corp is an investment holding platform which arranges and manages investments in its companies, subsidiaries, and associated companies. Ratings draw comfort from strong financial profile of Engro Corporation.

Financial Risk Profile

- Assessment of financial risk profile incorporates secured revenue streams from major telecom service operators in Pakistan.
- Sizeable equity injection plan by the sponsor. Existing Rs. 9.05b short-term loan will be converted to equity while accrued markup on the same will be reversed. Sponsor will inject an additional Rs. 10.5b as equity over a period of five years to support growth plans.
- Given sizeable capital expenditure, leverage indicators are expected to range in between 1x and 1.25x over the rating horizon.
- Cash flows are expected to remain stretched with sizeable capital expenditure plans and limited cushion in debt servicing. Continued sponsor support is required to achieve the planned growth.

RATING SCALE & DEFINITION — Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES	Appendix III
Name of Rated Entity	Engro Enfrashare (Private) Limited
Sector	Telecommunication
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	
Instrument Structure	N/A
Statement by the Rating Team	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 herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Due Diligence Meetings Conducted	

Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
27-12-2020	A-	A-2	Stable	Initial

Due Diligence Meetings Conducted:

Name	Designation	Date
Aamir Khan	CFO	30th November 2020
Asim Syed	CCO	
Asad Khan	Director-Finance	