RATING REPORT

Engro Enfrashare (Private) Limited

REPORT DATE:
May 06, 2022

RATING ANALYSTS:

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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Date	May 06, 2022		December 27, 2020	

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 Connect (Private) Limited (100%)	
Engro Corporation Limited	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria Methodology – Industrial Corporates (August 2021) https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Engro Enfrashare (Private) Limited

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: Established in November 2018, Engro Enfrashare (Private) ('Enfrashare' or 'the Company') Limited has gradually emerged as industry leader in the Tower Company (TowerCo) industry in Pakistan. The Company has regional presence in Lahore, Karachi, and Multan and is principally involved in providing telecommunication infrastructure and related services to telecommunication providers (telcos) – mainly Mobile Network Operators (MNOs) and Internet Service Providers - in exchange for rental fee. TowerCo's facilitate in unlocking full potential of towers through infrastructure sharing, optimizing operational costs, rationalizing capital expenditure by investing in telecom towers, monitoring their operations, and providing efficient energy solutions. This allows the telcos to focus on their core business activities.

The TowerCo industry operates under two models, as follows:

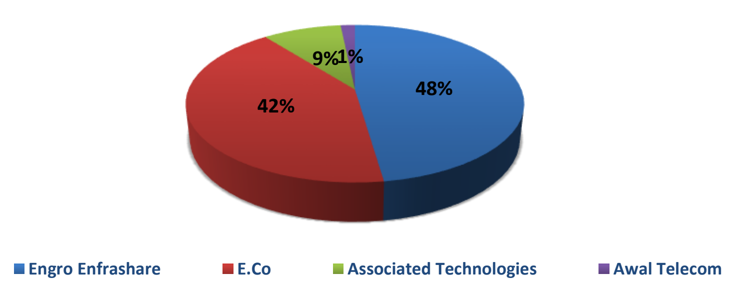
i. **Sale & Leaseback Model:** This model involves acquiring, developing, and updating the existing towers as per requirements and earning revenues through renting the towers.

ii. **Built-To-Suit (BTS) Model.** 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. Telcos install their antennas and wireless equipment on the rented space. The ownership of the passive infrastructure remains with the Company, while telcos own all the active elements including the antennas and the wireless equipment.

Sector Brief

- The TowerCo companies in Pakistan is relatively new with the first TowerCo having been established in 2014. The market share is distributed among 4 TowerCos, which include 2 large-sized companies, 1 medium-sized company and 1 small-sized company, as illustrated in the table below. Recently, the smallest Towerco, Awal Telecom, has been acquired by a leading Saudi-based TowerCo. Accordingly, with increasing investment flows, industry growth is likely to increase.

Figure 1: TowerCo Industry Market Share (in terms of number of towers being managed) (as of September 2021)



- As of December 2021, there were approximately ~40k towers installed in the country, of which ~5k are being managed by the TowerCo industry.
- With increasing number of cellular users and rising trend of internet data usage, the number of towers are also forecasted to double over the next decade. Accordingly demand outlook for TowerCo industry is positive.

- Tenancy ratio of Pakistan is calculated at around 1.3, which is much lower than the global average of 2.2. The number is indicative inefficiencies in tower portfolios, which can be reduced through increased tower sharing arrangements.

Operational Update – Engro Enfrashare

- The tower portfolio of the Company increased to 2,246 towers as at December 2021, increasing from 1,036 towers as at September 2020. The Company is planning to grow the same to 4,936 over the next 3-year period.
- The tower portfolio is geographically distributed into three regions: North (18%), Central (51%) and South (31%).
- Out of 2,246 existing towers as at December 2021, majority (90%) are on BTS model. Also, majority (>90%) of the towers are ground-based, being mainly located in rural areas.

Key Rating Drivers:

Rating incorporates Strong Sponsor Profile to support the high capital expenditure requirements.

Ratings takes into account strong sponsor profile of Enfrashare, which is a wholly owned subsidiary of Engro Connect (Private) Limited. The ultimate parent company is Engro Corporation Limited (Engro), which is one of the largest domestic conglomerates engaged in diverse businesses including fertilizers, LNG, energy, food and chemical sectors. Given high capital expenditure requirements of TowerCo business model, Engro has invested Rs. 11b in Enfrashare, and committed to invest another Rs. 10b over the next 4-year period.

Ratings incorporates low business risk profile of TowerCo industry, market positioning of Enfrashare and positive demand outlook

The assigned ratings incorporates TowerCo industry's low business risk and Enfrashare's dominant market positioning, given a market share of 49%. The overall business risk profile of the industry is considered low given extensive lock-in periods, limited scope for termination, and an escalation clause which is part of the Service Agreement. Furthermore, the industry's demand outlook is positive, given rising demand of towers being driven by growing mobile data usage and sizeable potential for coverage and capacity expansion. Tenancy ratio is a key growth driver in TowerCo business, which remains on the lower side in Pakistan, indicative of room for growth.

Ratings is constrained by elevated financial risk profile of Enfrashare

The financial risk profile has improved in the outgoing year, given sizable equity injection. Nevertheless, gearing and leverage remain on the higher side at 2.47x and 3.07x respectively, as at December 2021. Given sizeable capital expenditure – which is higher going forward than previously envisaged - gearing is forecasted to remain elevated at ~3x over the rating horizon. Cash flows coverages are expected to improve from historical level, albeit will remain stressed.

Financial Statement *(Amount in Million)*

BALANCE SHEET	Dec'18	Dec'19	Dec'20	Dec'21
Property, Plant & Equipment	6	4,488	10,253	18,318
Right of use assets	-	1,184	4,171	7,519
Finance Lease Receivables (Inc. current portion)	-	-	858	710
Trade Debts	-	288	628	1,219
Cash & Bank Balances	195	121	187	4,630
Other Assets	239	587	1,513	3,173
Total Assets	**440**	**6,668**	**17,611**	**35,569**
Long-Term Borrowings *(Inc. current maturity)*	-	-	1,011	13,763
Finance from parent company - subordinated	-	-	9,489	-
Lease Liabilities	-	1,226	4,279	7,794
Trade & Other Payables	37	967	3,023	4,047
Short term finance from Parent Company	-	3,732	-	-
Other Liabilities	3	1,485	1,522	1,231
Total Liabilities	**39**	**7,409**	**19,325**	**26,835**
Issued, Subs, and Paid Up Capital	0	450	450	11,475
Advances & Sponsors Contribution	450	-	326	326
Accumulated Profit/(Loss)	(49)	(1,191)	(2,490)	(3,066)
Equity	**401**	**(741)**	**(1,714)**	**8,734**
INCOME STATEMENT	FY18	FY19	FY20	FY21
Net Revenue	0	235	1,409	4,489
Gross Profit	0	-163	315	2,088
Operating Profit	-49	-621	-236	1,584
Profit/ (Loss) Before Tax	-49	-1,114	-1,245	-520
Profit/ (Loss) After Tax	-49	-1,142	-1,299	-669
FFO	NA	-761	-435	-1,103
RATIO ANALYSIS				
Gross Margin (%)	NA	-69.4%	22.4%	46.5%
Net Margin (%)	NA	-484.9%	-92.2%	-14.9%
FFO to Long-Term Debt	NA	-	-	-
FFO to Total Debt	NA	-	-	-
Debt Servicing Coverage Ratio (x)	NA	(0.55)	0.50	0.56
ROAA (%)	NA	-32.1%	-10.7%	-2.5%
ROAE (%)	NA	671.2%	105.8%	-19.1%
Gearing (x)	NA	(6.69)	(8.62)	2.47
Debt Leverage (x)	0.10	(10.00)	(11.28)	3.07
Current Ratio	11.70	0.19	0.63	1.70

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
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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
06-05-2022	A-	A-2	Stable	Reaffirm
27-12-2020	A-	A-2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Ali Imran Chaudhry	CFO	17th February 2022
Asad Khan	GM Finance	