

## RATING REPORT

## Engro Enfrashare (Private) Limited

**REPORT DATE:**October 21<sup>st</sup>, 2024**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/ Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	Oct 21, 2024		Sep 08, 2023	

## COMPANY INFORMATION

Incorporated in 2018	<b>External auditors:</b> A.F. Ferguson & Co. (a member firm of Pricewaterhouse Coopers)
Private Limited Company	<b>CEO:</b> Mr. Faisal Sattar
<b>Key Shareholders (with stake 5% or more):</b>	
Engro Connect (Private) Limited (100%)	
Engro Corporation Limited	

## APPLICABLE METHODOLOGY(IES)

**Applicable Rating Criteria: Corporates:**

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

## APPLICABLE RATING SCALE(S)

**VIS Issue/Issuer Rating Scale:**

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

## Engro Enfrashare (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>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.</p> <p><b>Profile of CEO</b> <i>Mr. Faisal Sattar has been the CEO of Engro Enfrashare (Pvt) Limited since July 2020. He previously served as Vice President at Jazz Business and held leadership roles at Link Dot Net and Jazz Cash. With 25 years of experience in the telecom industry across Pakistan and abroad, he specializes in strategic technology management and business development. Mr. Sattar holds a Bachelor's degree in Electrical Engineering from the University of Engineering and Technology, Lahore, and an MBA from Cornell University, U.S.A.</i></p>	<p>Engro Enfrashare (Private) Limited (“Enfrashare” or “the Company”) began its operations in November of 2018 and it is one of the leading Tower Companies (“TowerCo”) in Pakistan with its presence throughout the country. The core activities involve designing, constructing, and managing telecom infrastructure networks that enable connectivity throughout the country. The value of towers is unlocked through shared infrastructure, deployment of efficient power solutions to optimize costs, and close monitoring of operations, which creates higher efficiency and value for customers. This approach allows mobile network operators to reduce CAPEX, achieve operational efficiencies, increase profitability, and rapidly expand coverage. Tower-sharing optimizes the tower footprint across the country by preventing unnecessary proliferation, eliminating parallel capacities and network redundancies, and reducing the carbon footprint associated with operating a larger number of towers.</p> <p>The TowerCo industry operates under two business models:</p> <ol style="list-style-type: none"><li>i. Sales &amp; Leaseback Model: This model includes purchase, upgradation, and development of existing towers in accordance with requirements, and revenue is generated by renting out the towers. Average residual life of leases for towers is 10 years.</li><li>ii. Built-To-Suit (BTS) Model: The BTS business involves entering into agreements with telecommunications companies to construct, own, and operate their towers. Additionally, these towers can be given to other telecom providers, who then pay a leasing fee under tenancy agreements. The service includes providing space for radio equipment and necessary passive infrastructure, such as fences, shelters, air conditioning units, generators, and batteries. Telecommunications companies install their antennas and wireless equipment on the rented sites. While the Company maintains ownership of the passive infrastructure, the telecoms retain exclusive ownership of all active components, including antennas and wireless technology.</li></ol> <p>The Company's ratings are supported by the strong sponsor profile of Enfrashare, which is a wholly owned subsidiary of Engro Connect (Private) Limited. The ultimate parent company, Engro Corporation Limited (Engro), is one of the largest domestic conglomerates, engaged in diverse business such as fertilizers, LNG, energy, food, and chemicals.</p> <p><b>Sector Brief:</b> The TowerCo industry began with the launch of its first company in 2014. The market is currently dominated by four major players: Engro Enfrashare, Edocto Pakistan (Pvt) Ltd, Tawal, and Associated Technologies. As of the end of FY22, 17 companies nationwide have secured TTP licenses approved by the PTA. In 2023, Engro Enfrashare held approximately 53% of the market share.</p>

The demand outlook for the TowerCo industry is positive, driven by increased data usage, the localization of smartphone manufacturing, and various government policy initiatives. Pakistan's tenancy ratio stands at approximately 1.3x, which is notably lower than the global average of 2.2x. Additionally, with the decreasing interest rates, there is a projected growth in sites and towers.

**Operational Update:**

Enfrashare's annual growth in tower portfolio was recorded at 18.7% during FY23. According to the management, the Company surpassed its projected target tower portfolio for the outgoing year owing to its market leadership backed by strong sponsor support. The tower count stood at 4,063 (FY23: 3,952; FY22: 3,329) at HY'CY24; the same is projected to reach 4,210 by the end-CY24. In addition, the management is projecting the total count to reach ~5,000 by end-FY25. The Company has set a new goal moving forward, aiming to reach 10,000 towers by the year 2032.

Energy is a major cost component, thus over 50% of the existing tower portfolio is on renewable energy source (solar); the same mitigates the risks associated with increase in fuel prices and fuel supply chain hurdles.

**Key Ratings Drivers**

**Strong Sponsor and Low-business risk profile**

The rating reflects the strong support provided by Enfrashare's ultimate sponsor, Engro Corporation Limited, which underpins the high capital expenditure needs of the company. Enfrashare, a wholly owned subsidiary of Engro Connect (Private) Limited, benefits from the backing of Engro Corporation, one of the largest domestic conglomerates with diverse interests in sectors such as fertilizers, LNG, energy, food, and chemicals. Historically, the parent Company has extended financial support for continuing capex of the Company and plans to continue doing the same going forward.

The rating also accounts for the low business risk profile of the TowerCo industry and Enfrashare's strong market position. With a ~53% market share, Enfrashare is a dominant player in a sector characterized by long-term lock-in periods, limited termination scope, and service agreements with escalation clauses. The industry's positive demand outlook is driven by increasing mobile data usage and significant opportunities for coverage and capacity expansion. Additionally, the tenancy ratio, a critical growth driver for the TowerCo business model, remains relatively low at 1.2x in Pakistan compared to international market of above 2.0x, indicating further growth potential.

**Revenue & Profitability**

Net revenue of the Company has grown by 45.5% during CY23 totaling to Rs. 13.2b, compared to Rs. 9.1b during CY22. This growth is attributed to increase in number of towers installed along with increase in tenancy ratio to 1.21x (CY22: 1.17) during CY23.

The gross margin inched down to 40.6% during CY23 compared to 42.1% during CY22 owing to sizable depreciation and amortization expense booked in line with

significant capital expenditure incurred during the rating review period. However, despite the decline, the gross margins remain strong and are expected to rangebound around 50% in the medium term. The general and administrative grew in line with the general inflation trend in the economy. Nevertheless, despite significant uptick in revenues, Enfrashare reported negative bottom line primarily owing to significant increase in financial expense to Rs. 7.2b (CY22: Rs. 3.9b) during CY23; the same was a combined outcome of increase in borrowings and policy rate hikes.

For the HY'CY24, the Company's net revenue reached Rs. 7.8 billion, with a gross margin of 41.5%, demonstrating recovery. This resulted in a gross profit of Rs. 3.2 billion. However, financial costs continue to drain profitability, leading to Company reporting a loss of Rs. 2.2 billion for HY'CY24. While this remains an upfront capital-intensive business with revenues locked in over a long-term extending over 15 years, the unprecedented interest rate hike has pushed the profitability break even to CY27 and beyond, although operational profitability has been achieved. The recent decline in interest rates will bode well for future profitability of the Company.

**Liquidity & Coverage:**

During the rating review period, the Company's liquidity position remained under strain, with Funds from Operations (FFO) continuing to report negative figures. As a result, FFO coverage ratios were also negative. Additionally, the Debt Service Coverage Ratio (DSCR) remained below 1.0x throughout the review period, signaling inadequate cash generation from operations to cover long-term obligations. To cover this shortfall, the Company raised share capital of Rs. 5.7 billion over the past year. Enfrashare's current ratio showed a modest improvement to 0.93x as of December 2023, up from 0.89x in December 2022. By the end of June 2024, cash flow coverage metrics, including FFO to total debt and FFO to long-term debt depicted an improving trend. Going forward, equity support will be expected to continue in order to meet any debt service shortfall.

**Capitalization:**

The Company's issued share capital increased to Rs. 21.5 billion as at end-Dec'23 up from Rs. 15.8b as at end-Dec'22. This increase is due to equity injection of Rs. 5.7 billion by parent, Engro Connect (Private) Limited, into Enfrashare. However, total equity of the Company clocked in lower at Rs. 17.5 billion due to accumulated losses amounting to Rs. 4.7 billion. Debt levels of the Company increased to Rs.32.69 billion, up from Rs. 26.56 billion; on account of increased long-term borrowings amounting to Rs. 5.6 billion and higher short-term borrowings by Rs. 0.5 billion during CY23. Despite the higher debt, gearing position of Enfrashare clocked at 1.91x in CY23 from 1.97x in CY22 due to increase in equity. Over the last three years, the Company made investments worth Rs. 33.4 billion, funded through 60% equity.

During HY'CY24 period, the Company has made further additions in PPE and right-of-use assets amounting to Rs. 2.8 billion funded through equity injection of Rs. 3 billion. Gearing position further improved to 2.46x as of Jun'24 Improvement in capitalization metrics will remain important for ratings.

<b>Financial Summary</b>				<b>Annexure I</b>
<b><u>BALANCE SHEET</u></b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>HY2024</b>
Property, Plant & Equipment	18,318	34,242	39,877	41,086
Right of use assets	7,519	10,675	10,968	11,036
Finance Lease Receivables (inc. current portion)	710	538	339	227
Trade Debts	1,219	2,389	3,408	4,210
Cash & Bank Balances	4,630	2,596	3,594	4,120
<b>Total Assets</b>	<b>35,569</b>	<b>58,926</b>	<b>68,402</b>	<b>69,678</b>
Long-Term Borrowings (inc. current matur.)	13,763	24,063	29,680	31,564
Finance from parent company - subordinated	-	-	-	-
Lease Liabilities	7,794	11,627	12,631	12,931
Trade & Other Payables	4,047	6,282	4,730	4,370
Short term finance from Parent Company	-	2,500	2,710	866
Total Long-Term Debt	13,763	24,063	29,680	31,564
Total Short-Term Debt	-	2,500	3,013	1,173
Total Debt	13,763	26,563	32,693	32,738
<b>Total Liabilities</b>	<b>26,835</b>	<b>45,459</b>	<b>51,245</b>	<b>51,094</b>
Issued, Subs, and Paid-Up Capital	11,475	15,815	21,490	24,490
Advances & Sponsors Contribution	326	326	326	326
Accumulated Profit/(Loss)	(3,066)	(2,675)	(4,659)	(6,965)
<b>Total Equity</b>	<b>8,734</b>	<b>13,466</b>	<b>17,157</b>	<b>18,584</b>
<b><u>INCOME STATEMENT</u></b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>HY2024</b>
Net Revenue	4,489	9,095	13,230	7,771
Gross Profit	2,088	3,831	5,370	3,224
Operating Profit	1,584	3,184	4,532	2,898
Profit/ (Loss) Before Tax	(520)	(788)	(2,742)	(907)
Profit/ (Loss) After Tax	(669)	(253)	(2,209)	(1,344)
FFO	(1,103)	(185)	(1,040)	(53)
<b><u>RATIO ANALYSIS</u></b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>HY2024</b>
Gross Margin	46.52%	42.12%	40.59%	41.49%
Net Margin	-14.91%	-2.78%	-16.70%	-17.29%
Current Ratio	1.70	0.89	0.93	1.08
FFO to Long-Term Debt	(0.08)	(0.01)	(0.04)	(0.00)
FFO to Total Debt	(0.08)	(0.01)	(0.03)	(0.00)
Debt Servicing Coverage Ratio (x)	0.32	0.50	0.43	0.43
ROAA*	-2.52%	-0.54%	-3.47%	-3.89%
ROAE*	-19.07%	-2.28%	-14.43%	-15.04%
Gearing (x)	1.58	1.97	1.91	1.76
Leverage (x)	3.07	3.38	2.99	2.75

\*Annualized

REGULATORY DISCLOSURES				Annexure II	
<b>Name of Rated Entity</b>	Engro Enfrashare (Private) Limited				
<b>Sector</b>	Telecommunication				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: ENTITY</u></b>				
	21-10-2024	A-	A-2	Stable	Reaffirm
	08-09-2023	A-	A-2	Stable	Reaffirm
	27-02-2022	A-	A-2	Stable	Reaffirm
27-12-2020	A-	A-2	Stable	Initial	
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>		<b>Date</b>	
	Mr. Asad Khan	GM Finance		11 Sept, 2024	
	Mr. Kashif Mahmood	Head of Corporate Finance			