Value Management in a Growing Organization

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Agenda

- How CFOs can add value to an organization
- Global Trends and their impact on Pakistan
- Engro strategy to create value
- Steps Engro took to capitalize from the downturn
- How Engro went about raising the $1 billion for its Fertilizer Expansion

Value Based Management

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- Ultimate objective of management is to maximize shareholder wealth

- CFOs role:
  - Part of top management team which shapes strategy
  - Key performance parameters are met
  - Challenge SBU leaders for efficiency / improvement
  - Ensure return on capital
  - Risk management – financial and operational

Global Trends and their effects on Pakistan

International Trends

Fall in GDP

- World GDP -1% in 2009 vs. 3% in 2008
- Developed countries GDP -3.4% in 2009 vs. 0.6% in 2008

Deleveraging and risk averseness

- Credit Risk Premium up

Pakistan

Fall in GDP

- 2% in 2009 vs. 4% in 2008
- Slowdown in exports (-6.7% FY09 vs. 12% FY08)

Access to Capital reduced

- *Commercial loans not available*
- Many ECAs not providing cover to Pakistan

Higher cost of borrowing for GoP

Declining FDIs

Global Trends and their effects on Pakistan

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International Trends	Pakistan
Falling asset prices, especially in developed countries	Falling FDI and repatriation of Portfolio investment
Financial sector impacted due to deleveraging	Financial sector insulated though some foreign banks exited
Higher commodity prices	Higher fiscal and current account deficits leading to higher interest rates & devaluation
Higher Profile on War on Terror	Greater Focus on Pakistan • Bilateral & Multilateral flows increased

Our Strategy - Going Back to Basics

- Well thought out Investment Strategy even before the crisis (early 2000)
  - To be in businesses where Pakistan is either globally competitive or is shielded from international competition; and
  - To venture into opportunities that overlap with company's strengths

Major Investments

- Fertilizer
  - Expand fertilizer operations
- Food & Agriculture
  - Venture into Dairy and Rice
- Power Generation
  - First IPP on permeate gas (Qadirpur)
  - Feasibility of Thar Coal & Power
- Petrochemicals
  - PVC expansion, Caustic soda and Back Integration project
- Industrial Automation
  - Outsourcing business model

Capitalizing on the downturn

- **Believe in the long run viability of the country**

- Continuously investing & evaluating projects which we believe will pay off in the long run
  - Rice and Ice Cream Project in 2009
  - Feasibility of Thar Mining
  - Evaluation of Phosphate based project in North Africa

- Maintained our credit rating which helped in borrowing as there was flight to quality from banks

- Continued to expand market share in sectors such as Dairy with less fear of competitors reacting

Capitalizing on the downturn

- Cost Rationalization
  - Fixed costs rationalized to match lower Demand in sectors affected by recession (Avanceon US fixed cost reduced by 15% YoY)
- Talent Acquisition
  - Approved higher manning for high potential talent which subsequently got absorbed due to requirement arising from growth
- Making purchase calls on Input commodities
  - Polypropylene & polyethylene (used in packaging)
  - Milk Powder

Fertilizer Expansion Financing

- Scenario (2007)
  - Robust and conducive capital market
  - Simultaneously raising money in Petrochemicals and Energy
  - Pakistan credit rating BB

- Total Investment Requirement: USD 1 billion

- Aggressive Debt-Equity structure
  - Existing operations already churning out stable cash flows
  - Relatively low risk of Fertilizer Industry
  - Market conditions favorable

Fertilizer Expansion Financing

- Equity Financing
  - Rights of USD 50mn every year to enable shareholders to maintain shareholding %
  - Lowering of dividend to recycle equity back into the company

- Multiple options on the debt side
  - International Debt Markets (USD Bonds)
  - Export Credit Agencies (ECAs)
  - Multilaterals
  - Local Direct Bank Borrowing
  - Pakistan Bond Market (TFCs)
  - Dollar based Islamic financing from Middle East

Fertilizer Expansion Financing

- Created competition due to alternate sources with sweet spot amounts from each source
- Sold the deal as corporate finance transaction rather than project finance
- Negotiated key conditions including
  - Equity injection in tranches
  - Ability to pay dividends
  - No debt service reserve account
  - No charge on receivables
- Floated a new Subordinated instrument (both in security & repayment) to create quasi equity which satisfied senior lenders but at the same time allowed shareholders to put in less equity

Debt Breakup

Financing Type	Amount	Tenor	Rate	Repayment profile
Local TFC	PkR 4 billion	8 years	KIBOR + 155	7 years grace, 2 installment in 90th & 96th month
Subordinated TFCs	PkR 6 billion	Perpetual	KIBOR + 125-180	10 year put by investors
Local Islamic Sukuk	PkR 3 billion	8 years	KIBOR + 155	7 years grace, 2 installment in 90th & 96th month
Local Syndicate	PkR 18.3 billion	9 years	KIBOR + 180	3.5 years grace.
ME Islamic syndicate	USD 150 mn	7 years	LIBOR + 257	3.5 years and then staggered payments
DEG, FMO & Proparco (Int DFI's)	USD 85 mn	8.5 years	LIBOR + 260	3.5 years grace