Early Warning System

IFC-38150

Anagram Equity

Quick Facts

Countries	Pakistan
Financial Institutions	International Finance Corporation (IFC)
Status	Active
Bank Risk Rating	B
Voting Date	2017-06-28
Borrower	Koninklijke FrieslandCampina N.V.
Sectors	Agriculture and Forestry
Investment Type(s)	Loan
Investment Amount (USD)	$ 156.13 million

Project Description

PROJECT DESCRIPTION

The proposed IFC project comprises: i) an up to EUR50 million in structured equity investment into a special purpose vehicle, incorporated in the Netherlands by FrieslandCampina N.V. (FC) to acquire 51% of the shares of Engro Foods (Engro) alongside FC and FMO; and ii) a 10-year A-Loan of up to EUR100 million to FC to be used to finance part of the acquisition by FC. Under the proposed shareholding structure, FC, IFC and FMO will respectively have approximately 39.6%, 5.7% and 5.7% indirect shareholding of Engro, respectively. The remainder of Engro shares would be owned by Engro Corp. (EC), while 7-13% remains publicly traded. Engro Corp currently owns 87% of Engro and is a leading Pakistani industrial conglomerate and well-known strategic IFC client in good standing (with a satisfactory Environmental and Social Risk Rating).Established in 1879 as a Dutch farmer cooperative in the Netherlands and wholly-owned by Dutch dairy farmers (now over 19,000), FC is now the 6th largest dairy cooperative in the world with operations in 32 countries, selling consumer products (dairy-based beverages, infant nutrition, cheese and desserts) throughout Europe, Asia and Africa, supplying industrial customers (cream and butter products to bakeries and caterers), and also producing ingredients and half-finished products for infant nutrition producers, the food industry and pharmaceutical sectors worldwide. FC has a strong track record of entering emerging markets with recent acquisitions in Alaska Milk Corporation (Philippines, 2012) and Olam Ivory Coast (2014).One of FC's key goals in the project is to share its knowledge, best practices and improve yields, quality, living conditions and income of the estimated 220,000 milk farmers who are expected to constitute Engro's supply chain by 2020. AC will remain as a long term JV partner to FC while FC takes control over Engro.EC is one of the largest industrial conglomerates in Pakistan, with a varied business portfolio, including operations in fertilizers, foods, PVC resin, chemical storage & handling, trading, energy and petrochemicals. EC has been an IFC client since 1991, and there are currently 6 active projects with EC and its subsidiaries, with a total exposure of US$92 million as of February 2016.Engro, a leading dairy processor in Pakistan listed on the Pakistan Stock Market and established as a greenfield milk processing plant in 2005 by AC, has become the market leader in UHT milk. Engro has heavily invested in milk collection infrastructure including milk collection points reaching 150,000 dairy farmers and a nationwide distribution network serving over eight regions and over 300 cities in Pakistan. In 2015, Engro sourced 1.9 billion liters of milk and had a distribution network reaching 80% of all processed milk outlets in Pakistan. The core business of Engro is to process and sell dairy products under its own brand labels. The company's business units include dairy UHT (UHT milk, tea whitener, and Lassi/yoghurt beverage) representing 93% of revenues; ice cream representing 7% of revenues; powder is also produced but currently not sold under a stand-alone branded product. Engro produces annually 552 million liters of product from 261 million liters of milk sourced from company-owned milk collection centers in addition to 14,000 tons of imported powder.Company headquarters are located in Karachi, Pakistan with two processing plants located in Sukkur (built in 2006 on 29 acres with annual UHT milk production of 182 million liters and 1,300 tons of powder) and Sahiwal (built in 2007 on 101 acres with annual UHT milk production of 372 million liters, 4,400 tons of powder production, and 39 million liters of ice cream). Production processes generally entail reception of raw milk, treatment (pasteurization and UHT), mixing (depending on product requirements), filling/packaging, and on-site laboratory for quality testing; a dairy farm and ancillary structures including milking parlor and clinic (built in 2008 on 220 acres--with an additional 347 acres of rented land for fodder production--with over 5,000 cows representing an annual milk production volume of 12 million liters (20 liters per cow per day) with all milk production used internally, accounting for 5% of Engro's total raw milk requirements. Engro's raw milk supply chain is organized into 4 zones, which are further divided into 22 Area Offices that oversee 1535 company-owned Milk Collection Centers, where raw milk is collected (morning and evening only), tested, and stored/chilled prior to transportation to the processing facilities.

OVERVIEW OF IFC'S SCOPE OF REVIEW

IFC's environmental & social (E&S) appraisal took place on March 21st-24th, 2016, in Sahiwal, Sukkur and surroundings, and

Investment Description

- International Finance Corporation (IFC)

Based in the Netherlands, FC is a dairy cooperative 100% owned by its cooperative members. FC intends to invest in the Company through a special purpose vehicle, in which IFC intends to co-invest.The Company, which is listed on Pakistan stock exchange, is controlled by Engro Corporation, which in turn is controlled by Dawood Hercules Corporation Limited, a prominent and well respected business group in Pakistan.

The proposed IFC investment includes an A-loan up to €100 million, and an equity investment up to €40 million. IFC's Investment as Approved by the Board: USD 156.13 (Loan: USD 111.52; Equity: USD 44.61)

Contact Information

ACCOUNTABILITY MECHANISM OF IFC

The Compliance Advisor Ombudsman (CAO) is the independent complaint mechanism and fact-finding body for people who believe they are likely to be, or have been, adversely affected by an IFC or MIGA- financed project. If you submit a complaint to the CAO, they may assist you in resolving a dispute with the company and/or investigate to assess whether the IFC is following its own policies and procedures for preventing harm to people or the environment. If you want to submit a complaint electronically, you can email the CAO at CAO@worldbankgroup.org. You can learn more about the CAO and how to file a complaint at http://www.cao-ombudsman.org/

CONTACTS

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Other Related Projects

- IFC-47498 RSE FC Engro