

**RATINGS (MARCH 2011)****ATLAS POWER LIMITED  
(APL)**

INITIAL	
ENTITY	
Long Term	AA-
Short Term	A1+

**FINANCIAL DATA**

(PKR mln)

	Jun2010
Debt - LT	13,885.20
-ST	4,128.92
Equity	5,277.87
Debt-Equity	76:24
Capacity Utilization	88%

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**RATING RATIONALE AND KEY RATING DRIVERS**

- The ratings reflect low operational risk emanating from established operating track record of the O&M operator – MAN Diesel SE. Meanwhile, the ratings draw comfort from stable future cash flows, guaranteed by the Government of Pakistan (GoP) under the Power Purchase Agreement (PPA) subject to adherence to performance parameters. Nonetheless, weak financial discipline of the sole customer, National Transmission and Despatch Company (NTDC), would remain a key concern. Although Atlas Power's tariff structure, being based on Furnace Oil, is relatively higher, the plant's location near a major consumption centre places it in a relatively better position to remain on priority for cashflow from NTDC.
- The ratings are dependent upon the company's ability to adhere to agreed performance parameters as set by the power purchaser. Furthermore, external factors such as any adverse changes in the regulatory framework and inability to adequately manage working capital requirements may impact the ratings.

**ASSESSMENT**

- APL is an IPP operating under the power policy 2002. The plant, located at Lahore-Shaikhupura road, consists of eleven Residual Fuel Oil (RFO) fired diesel generators along with a combined cycle heat recovery system through a steam turbine. The company commenced its commercial operation on 17<sup>th</sup> December 2009.
- MAN Diesel, the world's leading provider of large-bore diesel engines for marine and power plant applications, serves as the plant's Operations & Maintenance (O&M) contractor. The company has a 34% stake in APL. Although MAN Diesel has a significant presence globally and possesses requisite experience to carry out O&M activities effectively, this is one of their very few instances of working in Pakistan.
- Pakistan State Oil (PSO), the largest oil-marketing company in Pakistan, is the fuel supplier for APL. Under the agreement, PSO transports RFO to the complex site, where the fuel is transferred to the storage tanks through a decanting facility, for onward usage in power generation. PSO is responsible for providing RFO, additives and lubricants as ordered by APL till 2034. The plant will store RFO to provide up to 30 days worth of plant consumption at 100% load factor. However, currently the company is holding less than the required amount of fuel inventory due to cash flow constraints caused by the circular debt.
- APL's key source of revenue is the generation tariff from the power purchaser. It comprises a capacity charge component and an energy charge component. With the exception of agreed return to project shareholders with adjustment for performance achievements, all other elements of cost are pass-through having no bearing on the APL's core profitability.
- The plant is working on 45% efficiency and has a finalized generation tariff (levelized tariff for years 1-25) of 11.6097 PKR/Kilowatt hour (Kwh) on RFO. The average tariff approved for years 1-10 (the debt repayment period) is 12.0857 PKR/ Kilowatt hour (Kwh). Meanwhile, the company has been operating at a load factor of 88% since December 2009. Moreover, the plant's connection with two NTDC lines, instead of Distribution Company (DISCO) lines, places it in a better position, with respect to the stability of output.
- The stability and sustainability of cash flows is ensured through the minimum guaranteed capacity charge component of the tariff that APL would receive even if it produces no electricity (in case of zero demand from the power purchaser). However, if APL is unable to supply electricity as per demand due to its own inefficiencies or fails to notify NTDC of the available capacity 12 hours prior to the dispatch, it would be liable to pay liquidated damages as per provisions of the PPA.
- The availability of adequate working capital during the operational stage of the project is an essential. APL might be required to inject liquidity in case the payments from NTDC are delayed and payments to PSO fall due, as the company buys fuel on cash basis from the supplier. In order to avoid default on its fuel payments, APL would require working capital lines equivalent to 55 days at least to cover credit period allowed to NTDC according to the terms of the PPA. APL has arranged working capital lines of PKR 4.6bln to cover its working capital requirements. The company has already utilized credit lines worth PKR 4.1bln. Underutilized working capital lines provide cover in case the need arises.
- The project has a debt:equity structure of 75:25. Till COD, the company has obtained project financing to the tune of PKR 14,970mln. The tenor of the facility is 11 years and 6 months and carries a profit rate of 3-months KIBOR plus 3%. Principal is to be repaid in 40 consecutive quarterly installments that have started from June 2009.
- The tariff structure of the plant is relatively higher as it runs on RFO. Meanwhile its prime location near major consumption center places it in a relatively better position to receive priority payments from the power purchaser.

**PROFILE**

- APL has a nine member BoD, excluding the CEO. Five represent Shirazi Investments, the major shareholder, while two represent MAN Diesel and NBP and ABL have one member representing each of these entities on the board
- APL, a public limited unlisted company, was established in March 2004. The principal sponsors of the company include Shirazi Investments (Pvt) Limited (51%) and MAN Diesel SE (34%) followed by Allied Bank Limited (ABL) and National Bank of Pakistan (NBP) at 7.5% each. Atlas Group (AG) was founded in 1962. Shirazi Investments Limited functions as a holding company and has played a key role in the promotion and acquisition of companies for the group.