



Rating Action

Lahore: (09-Feb-2010)

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PACRA ASSIGNS ENTITY RATINGS TO AES LAL PIR (PRIVATE) LIMITED

The Pakistan Credit Rating Agency (PACRA) has assigned the long-term and short-term entity ratings to AES Lal Pir (Private) Limited at “AA” (Double A) and “A1+” (A One plus), respectively. These ratings denote a very low expectation of credit risk emanating from a strong capacity for timely payments of financial commitments.

These ratings reflect the low payment risk, emanating from a cashflow stream guaranteed by the GoP under the Power Purchase Agreement (PPA), subject to adherence to agreed performance parameters. The ratings recognize the company’s established operating track, mainly attributed to extensive expertise of major sponsor - AES Corporation, USA. However, the weak financial discipline of the sole customer, Water and Development Authority (WAPDA), is a key consideration.

Ratings depend upon the management’s ability to effectively manage the operating risks, especially those emanating from the Operations & Maintenance (O&M) performance and ability to maintain agreed benchmarks. Meanwhile, upholding strong governance and control environment would be important. Moreover, external factors such as any changes in the regulatory framework of IPPs and inability to adequately manage liquidity requirements, currently in focus due to the prevailing circular debt issue, remain critical to the ratings.

AES has recently agreed to divest its shareholding (55%) in AESLP to Nishat Group. The group is a diversified and financially strong conglomerate. However, its decision regarding O&M operations – in house or outsourced – would be critical for ratings. Meanwhile, the ratings would remain on Rating Watch till the conclusion of the said transaction.

The Company: AES Lal Pir Private Limited (AESLP) – a subsidiary of the AES Corporation, USA – is an Independent Power Producer (IPP) governed under the power policy 1994. It started commercial operations in Nov97 with an installed capacity of 362MW.

The principal sponsors of the company are AES (55%), followed by Islamic Development Bank (35%) and International Finance Corporation (10%).

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