



Rating Action

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PACRA ASSIGNS ENTITY RATINGS TO AES PAK GEN (PRIVATE) LIMITED

The Pakistan Credit Rating Agency (PACRA) has assigned the long-term and short-term entity ratings to AES Pak Gen (Private) Limited (AESPG) 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 AESPG 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 Pak Gen Private Limited (AESPG) – a subsidiary of the AES Corporation, USA – started commercial operations in Feb98. AESPG is a special purpose company established for carrying out the power project in Pakistan under the power policy 1994 as an Independent Power Producer (IPP) with primary objective of electricity generation. AESPG has installed power capacity of 365MW.

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

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