



Rating Action

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PACRA ASSIGNS PRELIMINARY RATING TO PROPOSED STRUCTURED TFCs BY CITY SCHOOLS (PVT.) LIMITED

The Pakistan Credit Rating Agency (PACRA) has assigned a preliminary rating of 'A+' (Single A Plus) to structured TFCs of PKR 1,600mln to be issued by City Schools (Pvt.) Limited (CSPL). This rating indicates a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments.

The rating primarily draws its strength from the security structure of the instrument. This includes, *inter alia*, first exclusive charge over dividend receivables from two IPPs and assignment of the same in favor of the Agent Bank, and first equitable mortgage over land and building of CSPL with 20% margin. Although the instrument remains exposed to timing mismatch, it would be cushioned through, among other things, considerable dividend retention after debt repayment. Nevertheless, the rating incorporates change in ownership of IPPs and continuing tough socio-economic environment beset particularly with circular debt.

The company: Established in 1978 in Karachi, CSPL is among the leading academic chains in the country. CSPL is owned by Dr. Farzana Feroze, the Chairperson and a highly acclaimed educationist, and her two sons. Sponsors of CSPL intend to acquire 20% ownership stake in AES Lal Pir (Pvt.) Limited and AES Pak Gen (Pvt.) Limited through Engen (Pvt.) Limited, a SPV set up for this purpose. The cost of acquisition would be approximately PKR 2,000mln. For this, the school is issuing secured PPTFCs of PKR 1,600mln, which will be lent onwards to Engen with the same terms and conditions. The remaining amount, PKR 400mln, will be financed through equity. Both IPPs, operative for about 13 years now, have ~700MW capacity.

Secured PPTFCs: The secured PPTFCs would be for five years tenor including a grace period of six months. These would be repaid in nine unequal semi-annual installments with first repayment falling due within six months of the drawdown. The profit is payable at 6 month KIBOR plus 225bps semi-annually in arrears. The instrument has a call option after 12 months of the Facility Effective Date by providing a 60 days notice to investors.

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