



Rating Action

Lahore : 06-Jan-2012

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PACRA AFFIRMS RATING OF STRUCTURED PPTFCs ISSUED BY CITY SCHOOLS (PVT.) LIMITED

The Pakistan Credit Rating Agency (PACRA) has affirmed the rating of 'A+' (Single A Plus) of structured privately placed TFCs of PKR 1,150mln 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 operational independent power producers - IPPs (~700MW) and assignment of the same in favor of the Agent Bank, and first equitable mortgage over land and building of City Schools 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 challenges ensuing from continuing tough socio-economic environment beset particularly with circular debt in energy chain, adding uncertainty to timeliness of cashflows to IPPs.

The rating is dependent on the continued compliance with the predefined security structure of the instrument. Moreover, any significant deterioration in the performance of the IPPs, impacting the projected dividend stream, would have negative implications for the rating.

About the Company: Established in 1978 in Karachi, City Schools is among the leading academic chains in the country. It is owned by Dr. Farzana Firoz, the Chairperson and a highly acclaimed educationalist, and her two sons. The sponsors of City Schools, through a Special Purpose Vehicle - Engen (Pvt.) Limited - fully owned by the sponsors of City Schools and created for this purpose, acquired 20% stake in Pakgen Power Limited (formerly AES Pak Gen (Pvt.) Company) and Lalpir Power Limited (formerly AES Lal Pir (Pvt.) Limited) for a consideration of PKR 2,000mln. Subsequently, 10% stake in Pakgen has been offloaded through an offer for sale.

About the PPTFC: To finance this acquisition, City Schools acquired a loan of PKR 1,150mln in May-10 from Faysal Bank Limited at the rate of 6 month Kibor plus 225bps payable semi-annually. The loan was subsequently converted into PPTFCs during 4Q2011 without any change in terms and conditions except for a 15bps cut in the spread. The amount was on-lent with the same cost and repayment schedule to Engen (Pvt.) Limited. The financing is for a tenor of five years. The principal is to be repaid in 9 un-equal, consecutive semi-annual installments, beginning May-11. City Schools has repaid two installments and currently the outstanding amount is PKR 635mln.

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