



Rating Action

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PACRA Maintains Ratings of Pakgen Power Limited

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term entity ratings of Pakgen Power Limited (PGPL) at "AA" (Double A) and "A1+" (A One plus) respectively. The ratings denote a very low expectation of credit risk emanating from very strong capacity for timely payment of financial commitments

The ratings reflect the strong financial profile of the company as indicated by its sound capital structure and guaranteed cash flows by GoP under the Power Purchase Agreement (PPA), subject to adherence to agreed upon performance benchmarks. PGPL's Operations and Maintenance (O&M) activities are performed in house, exposing the company to sizeable operational risk. However, the O & M team, carrying extensive experience of managing the plant, has been part of the company since long. The team is making efforts to improve the efficiency of the plant, which is currently less than the required level. Meanwhile, the accumulation of circular debt arising from the weak financial discipline of the sole customer, Water and Power Development Authority (WAPDA), is the key challenge faced by the company. Nonetheless, the ratings draw comfort from PGPL's association with the Nishat Group - a renowned and financially sound group - which has an explicit commitment to support, in case the need arises.

The ratings are dependent upon the management's ability to manage and control its operations as per PPA agreed performance parameters. Meanwhile, reaching optimum efficiency, while upholding strong governance and control environment, managing liquidity requirements in the midst of circular debt crisis, and external factors such as any changes in the regulatory framework of IPPs remain critical to the ratings.

About The Company Pakgen Power Limited (PGPL) started its commercial operations in Feb98. It is a special purpose company established for electricity generation under the power policy 1994 as an Independent Power Producer (IPP). PGPL has installed capacity of 365MW. In CY10, the company was acquired by a consortium led by a consortium led by Nishat Group, from AES Corporation, USA. Subsequently, the company was listed on the Karachi and Lahore Stock Exchanges. PGPL redeemed its entire project debt in CY10. Meanwhile, the company's available working capital lines provide sufficient cover to meet liquidity requirements.

The principal sponsors of the company are Nishat Group (41%), followed by Abu Dhabi Investment Council (26%) and City Schools (Private) Limited (17%). Majority of board members are nominated by Nishat Group. Mr. Shahid Zulfiqar Khan, the CEO of the company has considerable experience in the power sector. He is also heading the O & M team of the plant.

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The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity.

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