



## The Pakistan Credit Rating Agency Limited

### Rating Report

**Lucky Electric Power Company Limited | PPSTS-15 | PKR 6bln | TBI**

#### Report Contents

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
20-Dec-2023	AA	A1+	Stable	Preliminary	-

#### Rating Rationale and Key Rating Drivers

Lucky Electric Power Company Limited ("LEPCL" or "the Company") has set up a 1x660MW (gross) coal-fired power plant. The project achieved COD in March-22 and is successfully connected to and providing electricity to the grid. The primary fuel is Coal; a coal supply agreement is signed with Sindh Engro Coal Mining Company (SECMC), SECMC will provide the coal from its developing Block-II (Phase III), which will be started in May 24. The previous tentative month was May-23. The Company has also signed imported coal supply agreement with reputable coal suppliers. Currently, plant is generating electricity through imported coal. The Company has generated a topline of ~PKR 28.6bln during 1QFY24. Lucky Electric Power Company Limited generated a bottom line of ~PKR 4.2bln during the same period. Comfort is drawn from the experience of O&M contractor, M/s Harbin Electric International Co., Ltd. -P.R. China (HEI), which has taken over the plant from previous operator from Mar-23. Going forward, the Company's main focus would be to keep the plant operational. The Company has currently procured short-term financing facilities aggregating to ~PKR 18,249mln which are ~80% utilized as of Sep-2023. The cumulative short-term borrowings stand at ~PKR 43,648mln as of Sep-2023. Additionally, as at Dec-23, the Company has outstanding debt instruments amounting to PKR 19bln for operational needs. PPSTS-15 will be issued to meet the working capital requirements of the Company.

The financial strength and experience in the energy chain of the sponsoring company Lucky Cement – are considered positive for the ratings. However, considering the unusual increase in working capital requirement due to the significant devaluation of PKR, supply chain issues and tariff adjustments, LEPCL is striving to manage its need. The offtake agreement is with CPPA-G, which will, upon the plant's availability as per the contract, provide capacity payments even if no purchase order is placed. The Government of Pakistan has given a payment guarantee against dues from CPPA-G.

#### Disclosure

<b>Name of Rated Entity</b>	Lucky Electric Power Company Limited   PPSTS-15   PKR 6bln   TBI
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Debt Instrument Rating
<b>Applicable Criteria</b>	Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Independent Power Producer Rating(Jul-23),Methodology   Rating Modifiers(Apr-23),Methodology   Debt Instrument Rating(Aug-23)
<b>Related Research</b>	Sector Study   Power(Jan-23)
<b>Rating Analysts</b>	Shujat Ehsanullah Wasim   Shujat.Ehsan@pacra.com   +92-42-35869504

## Issuer Profile

**Profile** Lucky Electric Power Company Limited (Lucky Electric) Limited has set up a 1x660MW (gross) local coal fired super critical power plant at Port Qasim, Karachi, Sindh. Plant is developed on a Build-Own-Operate (“BOO”) basis with an initial estimated cost of USD 895 Million in a debt to equity ratio of 75:25. The tariff is divided into two components; Capacity Payments (PKR 10.23/ KWh) and Energy Payments. Energy payments further have two components; variable costs (PKR 0.32/ KWh) and fixed fuel costs (PKR 13.17/KWh). If the Plant is operational at contract availability, capacity payments and the fixed fuel costs will be provided even if no purchase order is placed by CPPA-G. The tariff control period is 30 years. The PKR/KWh Return on Equity (ROE) of Lucky Electric, as agreed with NEPRA, is 29.5%.

**Ownership** Lucky Cement Limited owns 100% shareholding of Lucky Electric, incorporated in Pakistan on June 13, 2014 as public unlisted company. The registered office of the company is situated at 6-A, Muhammad Ali Housing Society, Karachi, Sindh. Lucky Electric is a subsidiary of Yunus Brothers Group (YBG), YBG is one of the biggest conglomerates in Pakistan with diversified interests in textiles, real estate, power generation, chemicals, food and automotive. Lucky Cement Limited stands as the flagship company of YBG. Lucky Cement is one of the largest producers and leading exporters of quality cement in Pakistan. Company’s sponsors have the ability to support the entity both on a continuing basis, and support in times of crisis. Additionally, financial strength of sponsors is considered strong as the sponsors have well diversified profitable businesses.

**Governance** The board is dominated by the sponsor’s representatives. The company’s board of directors comprises of seven directors including CEO. All the board members represents Lucky Cement Limited. Mr. Muhammad Ali Tabbā, the Chairman has been associated with the Group in different capacities for nearly three decades and is currently chairing the Board with his visionary leadership and vast experience. All board members are highly qualified and competent enough for effective leadership. Board members meets quarterly or conduct regular board discussions on need basis. Chairman of the board exercises close oversight over the affairs of the company. However, there are no sub-committees. Board has been actively involved in providing strategic guidance to the company. There is no independent director on the board. A.F. Ferguson & CO., Chartered Accountants, is the external auditor of the company. They have expressed an unqualified opinion on the company’s financial statements at end-Jun-23.

**Management** Lucky Electric’s management team comprises qualified professionals in areas like technical, commercial and legal specialists with the capability to construct, develop, operate, finance and maintain the project. The company has a well-defined organizational structure with the CEO reporting to the board. Mr. Ruhail Muhammad, the CEO, is MBA and CFA Charter holder. Mr. Ruhail carries vast experience in leading various corporate organizations and is also on the board of various renowned corporate entities. He is supported by an experienced team of professionals. Over the years since incorporation, management played a significant role in empowering the organization through its progressive results and achieved project milestones in a timely and accurate manner. The company takes advantage of advanced I.T. solutions to deliver comparatively better on many fronts. Moreover, Lucky Electric’s quality of the I.T. infrastructure and the breadth and depth of activities performed has remained well satisfactory.

**Business Risk** The electricity generated will be sold to Central Power Purchasing Agency (CPPA-G) under 30 years Power Purchase Agreement (PPA). RCOG as per the PPA was March 01 2021. However, the company achieved COD on March 21, 2022 owing to global pandemic of Novel Corona Virus. The Company has replaced existing O&M Contractor, KEPCO Plant Services & Engineering Co. Ltd - Republic of Korea (KPS) with M/s Harbin Electric International Co., Ltd. - P.R. China (HEI) for the period of 5 years. The project revenues and cash flows are primarily dependent upon maintaining plant’s availability and capacity factors at the adequate levels. The Coal Supply Agreement (CSA) of Lucky Electric is with SECMC. SECMC is expanding up to 13.1 MTPA coal mine in Thar Block – II in three phases. Company has also negotiated imported coal supply agreement from Indonesia. Plant would run on imported coal in case of non-availability of Thar coal. Lucky Electric has obtained four types of different insurances to cover its various types of risks. As on June 2022, total installed capacity of Pakistan (CPPAG and KE) stood at 43,775MW. During 11MFY23, total power generation of Pakistan stood at 115,877GWh (FY22: 143,175 GWh) with major contribution from Thermal (48.2%) followed by Hydel (27.7%), Nuclear (19.2%) and Renewables (4.5%). Electricity generation by coal IPPs stood at 18,315GWh during the eleven months. With other Thar coal based IPPs becoming operational during FY23, generation from local coal has increased due to its low cost. LEPCL reported revenues of PKR 28,626mln during 1QFY24 (FY23: PKR 98,280mln). However, due to the increase in policy rate company incurred the finance cost of PKR 8,223mln. Thus, reporting a profit of PKR 4,192mln (FY23: PKR 9,390mln). The contract availability for the plant over 30 years is agreed to be at 85%. If these aren’t met, Lucky Electric would be charged LDs by the Power Purchaser.

**Financial Risk** Lucky Electric’s capital structure comprises 25% equity and debt financing constitutes 75% of the initial estimated project cost; ~USD 895mln, financed from local and foreign financial institutions. Local Facility obtained from multiple consortium of banks aggregating to PKR 65.9 billion has a 10 year tenure starting June 2022 and to be paid in 40 quarterly installments. The foreign facility is USD 210mln. Out of which USD 20mln will be paid quarterly and USD 190mln will be paid semiannually. Company manages its working capital needs through internal cash flows as well as through Short term borrowings due to delayed payments from power purchaser. Receivables of the company stands at PKR 37,926mln at end Sep-23. Similarly, short term borrowings stand at PKR 43,648mln at end Sep-23. The stability and sustainability of future cash flows of Lucky Electric depends completely on continuous performance of its power plant. During 1QFY24, company generated FCFOs of PKR 13,706mln (FY23: PKR 40,446mln). Interest coverage stands at 1.7x and Debt Coverage stands at 1.4x. The project has incurred a project cost of USD 895mln with 75:25 debt to equity ratio. Currently debt to equity ratio stood at 79.4% as of end Sep-2023 with a total debt of the company at PKR 163,233mln and equity of PKR 42,471mln.

## Instrument Rating Considerations

**About The Instrument** LEPCL is in the process to issue a rated, unsecured, unlisted, privately placed short-term sukuk Lucky Electric Power Company Limited | PPSTS15 | PKR 6bln | TBI (“PPSTS-15”) of PKR 6,000mln (inclusive of green option of PKR 2,000mln) in Dec-23. The tenor of the instrument will be 6 months. The purpose of the instrument is to be utilized by the Company to meet its working capital requirements. PPSTS-15 will carry a profit rate of 6MK+30bps. Profit and principal will be realized at the time of maturity.

**Relative Seniority/Subordination Of Instrument** The claims of the Sukuk holders will rank superior to the claims of ordinary shareholders.

**Credit Enhancement** The instrument is unsecured.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Lucky Electric Power Company Limited Power	Sep-23 3M	Jun-23 12M	Jun-22 12M	Jun-21 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	146,336	146,974	134,264	105,489
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	614
4 Current Assets	76,824	76,150	51,780	6,013
a Inventories	8,929	9,227	14,439	-
b Trade Receivables	37,926	30,859	16,372	-
5 Total Assets	223,160	223,123	186,043	112,116
6 Current Liabilities	17,342	23,069	14,360	4,686
a Trade Payables	8,622	8,221	-	-
7 Borrowings	163,233	161,659	142,717	83,666
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	113	116	89	62
10 Net Assets	42,471	38,279	28,877	23,702
11 Shareholders' Equity	42,471	38,279	28,877	23,702
<b>B INCOME STATEMENT</b>				
1 Sales	28,626	98,280	25,953	-
a Cost of Good Sold	(16,091)	(62,126)	(19,647)	-
2 Gross Profit	12,535	36,154	6,306	-
a Operating Expenses	(152)	(545)	(156)	(2,116)
3 Operating Profit	12,382	35,609	6,150	(2,116)
a Non Operating Income or (Expense)	38	74	(139)	0
4 Profit or (Loss) before Interest and Tax	12,420	35,683	6,011	(2,116)
a Total Finance Cost	(8,223)	(26,231)	(5,236)	(1)
b Taxation	(5)	(62)	-	616
6 Net Income Or (Loss)	4,192	9,390	775	(1,500)
<b>C CASH FLOW STATEMENT</b>				
a Free Cash Flows from Operations (FCFO)	13,706	40,446	7,337	(2,031)
b Net Cash from Operating Activities before Working Capital Changes	4,713	16,387	(3,130)	(8,520)
c Changes in Working Capital	(12,161)	(11,708)	(36,033)	(2,982)
1 Net Cash provided by Operating Activities	(7,448)	4,679	(39,163)	(11,502)
2 Net Cash (Used in) or Available From Investing Activities	(282)	(1,082)	(14,206)	(11,634)
3 Net Cash (Used in) or Available From Financing Activities	1,820	1,774	53,659	23,517
4 Net Cash generated or (Used) during the period	(5,910)	5,371	289	380
<b>D RATIO ANALYSIS</b>				
1 Performance				
a Sales Growth (for the period)	16.5%	278.7%	N/A	N/A
b Gross Profit Margin	43.8%	36.8%	24.3%	N/A
c Net Profit Margin	14.6%	9.6%	3.0%	N/A
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	5.4%	29.2%	-110.6%	N/A
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sl	39.5%	26.8%	3.3%	N/A
2 Working Capital Management				
a Gross Working Capital (Average Days)	139	132	433	N/A
b Net Working Capital (Average Days)	112	101	N/A	N/A
c Current Ratio (Current Assets / Current Liabilities)	4.4	3.3	3.6	1.3
3 Coverages				
a EBITDA / Finance Cost	1.7	1.6	1.5	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	1.4	1.2	1.0	-1.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	6.5	10.0	42.8	-41.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	79.4%	80.9%	83.2%	77.9%
b Interest or Markup Payable (Days)	32.0	51.9	0.0	N/A
c Entity Average Borrowing Rate	20.2%	16.5%	4.6%	0.0%

### Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB	
BBB-	
BB+	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	<b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



\*The correlation shown is indicative and, in certain cases, may not hold.

**Outlook (Stable, Positive, Negative, Developing)** Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

**Suspension** It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
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- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 17-(d)

### **Probability of Default**

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

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## Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets (PKR mln)
Privately Placed Short Term Sukuk (PPSTS-15)	6,000 mln	6 months	Unsecured	N/A	N/A	Habib Bank Limited	N/A

Name of Issuer	Lucky Electric Power Company Limited						
Issue Date	28-Dec-23						
Maturity	28-Jun-24						
Option	N/A						

Due Date Principal*	Opening Principal	Principal Repayment*	Due Date Markup/ Profit*	Markup/Profit rate	6M Kibor Plus 30bps	Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln				PKR in mln			
Issuance								6,000
28-Dec-23	6,000			6M KIBOR + .30%	21.56%		-	6,000
28-Jun-24	6,000	6,000	28-Jun-24	21.26%	21.56%	647	6,647	-
		6,000				647	6,647	