The Pakistan Credit Rating Agency Limited

Rating Report

PakGen Power Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Sep-2023	AA	A1	Stable	Maintain	-
30-Sep-2022	AA	A1	Stable	Maintain	-
30-Sep-2021	AA	A1	Stable	Maintain	-
01-Oct-2020	AA	A1	Stable	Maintain	-
02-Oct-2019	AA	A1	Stable	Maintain	-
18-Apr-2019	AA	A1+	Stable	Maintain	-
27-Dec-2018	AA	A1+	Stable	Maintain	-
30-Jun-2018	AA	A1+	Stable	Maintain	-
22-Dec-2017	AA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect the regulated structure of Pakgen Power Limited (Pakgen Power) business; whereby revenues and cash flows are guaranteed by the sovereign government given adherence to agreed operational parameters. A risk of any decrease in efficiency factor against the required benchmark would be borne by the Company itself given the fact, Pakgen Power is managing its operations and maintenance (O&M) in-house. During the period under review, Pakgen power continues to meet its availability and other performance benchmarks. During 6MCY 23 Pakgen power generated 141Gwh of electricity as compared to 821Gwh same period last year depicting a decline of 83%. This decrease in generation is mainly attributed to shift of electricity demand towards a less expensive source of generation i.e., Hydro, Solar, Wind and Biogas from the power purchase in wake of cost-effective energy basket. The same trend is expected to be followed in upcoming periods. During 6MCY23 the topline of the company reported to PKR 9,884mln (CY22: PKR: 45,833mln. 6MCY22: PKR: 29,472mln). Despite fall in revenue, margins benefitted from lower load factors, appreciation of USD against PKR and lessor utilization of short term working capital lines. Gross and Net margins for 6MFY23 clocked to 35% & 35% respectively. Currently there is no debt on the balance sheet of the Company, short term borrowings remain un-utilized owing to lessor generation. However, there is adequate cushion available to the company to meet its working capital requirement in its approved STB limits, if needed. The ratings stemmed from the fact that the long-term debt of the company was fully paid successfully in June 2010.

Sustained good financial discipline and upholding strong operational performance in line with agreed performance levels remain important. Delay in receiving the amounts from Power purchaser owing to accumulation of circular debt remains a cause of concern. The PPA of the Company expected to expire in CY28, the Company plans / strategy in upcoming years with reference to utilization of plant after expiry remains imperative for the ratings, going forward. Any change in regulatory requirements may affect the ratings.

Disclosure	
Name of Rated Entity	PakGen Power Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Independent Power Producer Rating(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Power(Jan-23)
Rating Analysts	Muhammad Mubashir Nazir | mubashir.nazir@pacra.com | +92-42-35869504

Profile

Plant Pakgen Power Limited (Pakgen Power) operates a thermal power plant on a build-own-operate (BOO) basis with a capacity of 365 MW based on residual fuel oil in Mehmood Kot, near Muzaffargarh in the province of Punjab.
Tariff Pakgen Power has a generation tariff (Levelized tariff for years 1-30) of US 5.7-cents/Kilowatt hour (KWh).
Return On Project There is no IRR of the Pakgen Power plant with reference to the Power Purchase Agreement.

Ownership

Ownership Structure The plant is majority-owned by Nishat Group (NG). NG collectively carries a majority shareholding of 57.93% - Dec 2022. The remaining holding is spread among Financial Institutions, Foreign Companies, and individuals.
Stability Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. However, sponsors associated with the Nishat Group will continue to provide comfort.
Business Acumen Nishat Group is a distinguished business group in Pakistan. The emergence of the Group, as a conglomerate, spans over fifty years with interests in textile, cement, insurance, power, and financial sectors.
Financial Strength The financial strength of the sponsors is considered strong as the sponsors have well-diversified profitable businesses.

Governance

Board Structure Pakgen Power has seven members on the board. The board is majority-controlled by Nishat Group, including the chairman – Mr. Muhammad Ali Zeb (appointed on September 04, 2023). The key management personnel report directly to the Chairman of the board signifying an executive role of the Chairman.
Members' Profile Board members are from different educational and professional backgrounds bringing diversified professional experience and knowledge on the board.
Board Effectiveness For effective oversight of the matters, the board has formed two board committees, the Audit Committee, and Human Resource & Remuneration Committee. The chairman of the Audit Committee is an independent director in accordance with the code of corporate governance.
Financial Transparency Riaz Ahmad & Company is the external auditors of the company. The auditors have expressed an unqualified opinion on the financial statements for the year ended Dec 31, 2022.

Management

Organizational Structure The Company has largely a flat organizational structure. The CEO, Plant Manager, and CFO report directly to the Chairman of the board. Pakgen Power has a technical team with well-defined roles that ensure a smooth flow of operations.
Management Team Mian Hassan Mansha has been re-appointed as CEO of the company in Sep 2023 and is also Group Head Nishat – Energy Projects.
Effectiveness Pakgen Power management effectiveness plays a significant role in empowering the organization through positive results, which has made the decision making process systematic.
Control Environment Pakgen Power maintains an adequate MIS reporting system for the management to keep track of all operating activities and operational efficiencies. The system generates daily and monthly reports containing information on production, inventory, and efficiency maintained. The Company uses in-house built software to generate these reports.

Operational Risk

Power Purchase Agreement The Company has a Power Purchase Agreement (PPA) with its sole customer, Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) for 30 years which commenced from 1 Feb 1998. Pakgen Power's key source of earnings is the revenue generated through the sale of electricity to the power purchaser, CPPA-G. The Company will receive the capacity payments if it ensures availability and is ready to provide electricity, even if no energy demand is placed by Power Purchaser.
Operation And Maintenance Pakgen Power O&M activities are handled by an in-house team trained under the expertise of AES, a former O&M operator. This team is involved in O&M activities since the plant's COD and hence they carry significant experience.
Resource Risk Pakgen Power engaged Pakistan State Oil (PSO) - the largest local oil-marketing company - as the fuel supplier. PSO is responsible for supplying Residual Fuel Oil (RFO) under the Fuel Supply Agreement (FSA) for 30 years and ensure delivery as agreed upon by both parties. Further fuel is also purchased from other OMC's as required.
Insurance Cover Pakgen Power has significant insurance coverage for property damage and business interruption. The insured values for damages include a property damage cover (up to PKR 102.984bln) & business interruption cover (up to PKR 10.4bln).

Performance Risk

Industry Dynamics Pakistan total power generation is increasing on the back of new power projects under CPEC. Going forward, cheap renewable electricity will be a challenge to viability of thermal power plants. There has been an increase of~10% in the installed generation capacity as at end-Jun23. The total installed generation capacity was recorded at ~43,775MW as in FY22 (~39,772MW FY21). Owing to newly installed plants, Pakistan's energy mix is shifting towards Solar/Gas/and coal from Furnace Oil and other expensive sources. There was an increase of 4,003MW new power projects including CPEC from coal and renewable sources and this will increase further in coming years.
Generation The Company generated 141GWh of electricity during 6MCY23 as compared to 821GWh during the corresponding period of the previous financial year. Consequently, during 6MCY23, Pakgen Power turnover has decreased in line with power generation (6MCY23: 9,884mln; CY22: PKR 45,833mln; 6MCY22: 29,472mln) owing to shift of electricity demand to less expensive sources like Hydel and other renewable. Profitability has slightly increased owing to USD indexation and lower utilization of short-term banking lines.
Performance Benchmark The Company continues to meet its performance benchmark during the period.

Financial Risk

Financing Structure Analysis The total Pakgen Power project's cost was US$ 347million. The company's capital structure comprised 27% equity (US$ 94mln) and 73% debt (US$ 253mln), mainly financed by a consortium of IFC – USA and Bank of Tokyo – Mitsubishi Ltd, Japan. The project-related debt remained completely paid by the Company in 2010.
Liquidity Profile Pakgen's total receivables stood at PKR 16,069mln as of 6MCY23 (CY22: PKR 14,723mln). The Company has received PKR 2,500mln under the circular debt management plan as of June 2023. The Company's financial position reflected an adequate liquidity position as of June 2023.
Working Capital Financing During 6MCY23 receivable days increased to 284 as compared to 87 days as of the end of CY22 (CY21: 243 days; CY20: 683). The days substantially improved in CY22 owing to the receipt of the outstanding amount under the Master Agreement, however, a delayed trend is witnessed during CY23. In order to manage its working capital requirements, the Company has procured sufficient working capital lines which largely remains un-utilized during 6MCY23.
Cash Flow Analysis FCFO of the company as of 6MCY23 is reported at PKR 3,779mlm. On account of adequate cash flows and a reduction in gross interest obligations Coverage ratio also improved significantly due to lower finance cost as short-term borrowings remains unutilized.
Capitalization The Company currently has a low-leveraged capital structure. However, going forward if demand from the power purchaser is received, the leveraging indicator may go upward due to fuel cost management.

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Summary
PKR mln

Pakgen Power Ltd	Jun-23	Dec-22	Dec-21	Dec-20
Power	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	4,126	4,521	5,292	5,958
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	26,278	21,986	20,339	23,527
a Inventories	*2,282*	*2,856*	*3,057*	*1,262*
b Trade Receivables	*16,069*	*14,723*	*7,202*	*19,263*
5 Total Assets	30,404	26,506	25,631	29,485
6 Current Liabilities	2,511	655	3,007	881
a Trade Payables	*2,492*	*157*	*2,649*	*142*
7 Borrowings	-	697	57	5,969
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	3	5	2	1
10 Net Assets	27,890	25,149	22,564	22,634
11 Shareholders' Equity	27,890	25,149	22,564	22,634
B INCOME STATEMENT				
1 Sales	9,884	45,833	19,901	10,646
a Cost of Good Sold	*(6,431)*	*(42,359)*	*(18,237)*	*(5,078)*
2 Gross Profit	3,454	3,474	1,664	5,567
a Operating Expenses	(155)	(266)	(365)	(216)
3 Operating Profit	3,298	3,208	1,299	5,351
a Non Operating Income or (Expense)	*233*	*202*	*75*	*67*
4 Profit or (Loss) before Interest and Tax	3,531	3,410	1,374	5,418
a Total Finance Cost	*(10)*	*(274)*	*(325)*	*(1,007)*
b Taxation	*(36)*	-	-	-
6 Net Income Or (Loss)	3,485	3,136	1,049	4,411
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*3,779*	*3,339*	*1,414*	*4,974*
b Net Cash from Operating Activities before Working Capital Chc	*3,751*	*3,351*	*1,304*	*4,791*
c Changes in Working Capital	*5,136*	*(10,931)*	*12,663*	*765*
1 Net Cash provided by Operating Activities	8,887	(7,580)	13,967	5,556
2 Net Cash (Used in) or Available From Investing Activities	(3,717)	537	3	723
3 Net Cash (Used in) or Available From Financing Activities	(733)	(607)	(1,170)	(732)
4 Net Cash generated or (Used) during the period	4,437	(7,650)	12,800	5,548
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-56.9%	130.3%	86.9%	-12.6%
b Gross Profit Margin	34.9%	7.6%	8.4%	52.3%
c Net Profit Margin	35.3%	6.8%	5.3%	41.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capit	90.2%	-16.6%	70.7%	53.9%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total*	26.7%	12.7%	4.3%	18.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	332	111	282	712
b Net Working Capital (Average Days)	307	100	257	700
c Current Ratio (Current Assets / Current Liabilities)	10.5	33.6	6.8	26.7
3 Coverages				
a EBITDA / Finance Cost	379.6	14.1	6.2	5.2
b FCFO / Finance Cost+CMLTB+Excess STB	381.2	12.2	3.8	4.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Financ	0.0	0.0	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	0.0%	2.7%	0.3%	20.9%
b Interest or Markup Payable (Days)	3.5	45.4	22.5	46.5

Credit Rating

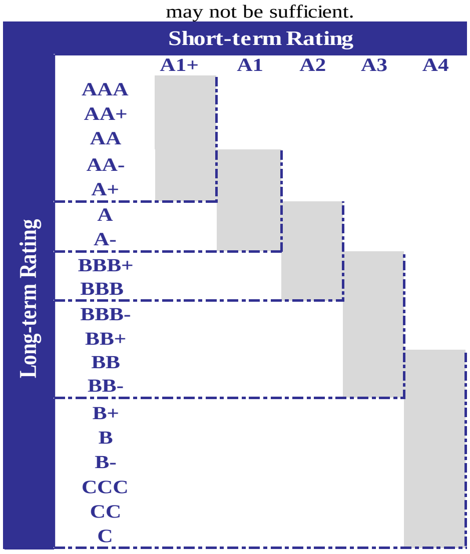
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** 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.
A+ A A-	**High credit quality.** 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.
BBB+ BBB BBB-	**Good credit quality.** 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.
BB+ BB BB-	**Moderate risk.** 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.
B+ B B-	**High credit risk.** 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.
CCC CC C	**Very high credit risk.** 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.
D	Obligations are currently in default.

Short-term Rating

Scale	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
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 surveill 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

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

Rating Team Statements
(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

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(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).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(f-VII)
Proprietary Information