The Pakistan Credit Rating Agency Limited

Rating Report

Foundation Power Company Daharki Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
05-Jan-2024	AA-	A1+	Stable	Maintain	-
06-Jan-2023	AA-	A1+	Stable	Maintain	-
07-Jan-2022	AA-	A1+	Stable	Maintain	-
01-Feb-2021	AA-	A1+	Stable	Maintain	-
02-Apr-2020	AA-	A1+	Stable	Maintain	-
02-Oct-2019	AA-	A1+	Stable	Maintain	-
30-Apr-2019	AA-	A1+	Stable	Maintain	-
22-Nov-2018	AA-	A1+	Stable	Maintain	-
30-Apr-2018	AA-	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings take comfort from strong business profile of Foundation Power Company Daharki Limited (Foundation Power) emanating from the demand risk coverage under Power Purchase Agreement and company's association with Fauji Foundation (FF). Meanwhile, the Implementation Agreement provides sovereign guarantee for cashflows, given adherence to agreed performance benchmarks. The ratings incorporate low operational risk, a result of the performance of KEPCO - the O&M operator. However, the company has recently transitioned from outsourced O&M to self O&M and with experience technical/operational team, envisages to maintain the higher performance standards as demonstrated in the past. Fuel of the plant is 'low BTU' gas, which is supplied by an associate –Mari Petroleum Company Limited (40% owned by Fauji Foundation). Supplier being a sister concern reduces fuel supply risk. Payments received from Government against outstanding receivables under the signed MoU has slightly improved the liquidity profile. However, receivables have started to pile up again as a result of ongoing circular debt issue in the power sector. Working Capital Management risk is substantially mitigated through aligning payments to fuel supplier with energy billing related receipts. As end September 2023, the Company has no borrowings apart from the loan from Fauji Foundation which is classified under equity. Rating reflects the low financial risk of the company as all the project related long term loan has been repaid. The plants operational statistics including availability and efficiency were as per the required benchmarks throughout the period, therefore providing additional comfort over the assigned ratings.

Sustained good financial discipline and upholding strong operational performance in line with agreed performance levels remain important. Accumulation of circular debt would pose threat to the company's ability to continue with this practice. However, the management is ably supported by sponsor who remains committed towards commercial obligations. Further the Company is on priority list of NTDC's payment merit order because of low unit cost of electricity.

Disclosure

Name of Rated Entity	Foundation Power Company Daharki 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	Shujat Ehsanullah Wasim | Shujat.Ehsan@pacra.com | +92-42-35869504

Profile

Plant Foundation Power Company Daharki Limited (Foundation Power), a public limited company, is operating a combined cycle power plant on a build-own-operate (BOO) basis with a net initial capacity of 180MW (7.8MW auxiliary consumption). The plant achieved its COD in May 2011.

Tariff Foundation Power key source of earnings is the generation tariff from the power purchaser, CPPAG. The reference generation tariff comprises a capacity charge component and an energy charge component. Foundation Power's levelized tariff is US¢ 6.55/kWh.

Return On Project The dollar IRR of Foundation Power, as agreed with NEPRA is 15%.

Ownership

Ownership Structure Foundation power is majority owned by Daharki Power Holdings Limited (DPHL), which, in turn is a wholly owned subsidiary of Fauji Foundation (FF) (100%).

Stability Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. However, Company's association with Fauji Foundation group and Asian Development Bank will continue to provide comfort

Business Acumen Sponsor groups have significant experience in the generation and selling of energy, fertilizer, cement and chemicals.

Financial Strength Fauji Foundation (also known as Fauji Group), is amongst the largest business conglomerate in Pakistan. The financial strength of the sponsor is considered strong as the sponsor has well diversified profitable businesses.

Governance

Board Structure The Board constitutes of six members. All the representatives are from Fauji Foundation and provide adequate guidance to the company.

Members' Profile Fauji Foundation's strong professional profile assists the management in terms of strategic guidance and implementation of strong control framework

Board Effectiveness The experiences of board will help guiding the management in developing effective operational and financial policies. The board has formulated Audit, HR, and Technical Committees to ensure smooth and effective monitoring of operations. Participation of all board members during board meetings remained satisfactory.

Financial Transparency KPMG Taseer Hadi & Co. has been engaged as Foundation Power's external auditors for FY23. The auditors expressed an unqualified opinion on financial statements of the company for the year ended June 30, 2023.

Management

Organizational Structure Foundation Power has a lean management structure, mainly comprises finance, administration and technical staff. The management control of the company vests with Daharki Power Holdings Limited (DPHL), which, in turn is owned by Fauji Foundation (FF), being largest shareholder.

Management Team Maj Gen Muhammad Junaid, HI(M) (Retd) is the Managing Director and CEO of Foundation Power Company. He had a distinguished career in the Pakistan Army. The management team is experienced and is ably handling the affairs of the company.

Effectiveness The management of Foundation Power is engaged in Finance as well as Operational activities. The operation and maintenance of the Plant were outsourced to KEPCO Plant Service and Engineering Company Limited (KPS), however, the company has recently transitioned from outsourced O&M to self O&M and with experience technical/operational team, envisages to maintain the higher performance standards as demonstrated in the past.

Control Environment The company maintains an adequate MIS which helps management to keep track of all operations.

Operational Risk

Power Purchase Agreement Foundation Power's key source of earnings is the revenue generated through sale of electricity to the power purchaser, CPPA-G. The Company will receive the capacity payments if it is at the benchmark availability and is ready to provide electricity, even if no purchase order is placed by Power Purchaser, further there is also a consequence of take or pay, in case of energy billing. The term of the agreement is 25 years from COD.

Operation And Maintenance Foundation Power Company had negotiated an O&M contract with KEPCO for a period of 18 years, signed in 2008, however the Company has recently transitioned to self O&M and ensures adherence of the plant to meet minimum performance benchmarks (Availability: Actual after considering Scheduled and Forced outages: 91%; Benchmark: 88%, Efficiency: Actual: 48.8%; Benchmark: 48.8%) during FY23.

Resource Risk Foundation Power Company has negotiated the GSA with Mari Petroleum, for supply of 65mmcfd of Low BTU Gas to the plant. The contract is for a period of 25 years. The construction and commissioning of the gas pipeline was completed in February 2009.

Insurance Cover Insurance Cover Foundation Power has adequate insurance coverage for property damage and business interruption.

Performance Risk

Industry Dynamics The total installed generation capacity of the country stood at 43,775MW as on June 2022. Total generation during the 1QFY23 was recorded at 41,081GWh (FY22: 153,874GWh, FY21: 143,588GWh). Total generation during FY22 was through Hydel (23%), Thermal (61%), Nuclear (12%) and Renewables (4%).

Generation During FY23, electricity generation by the FPCDL was 1,184 GWh (FY22: 1,270 GWh). Output of the plant during the period was due to the electricity demanded by CPPAG and plant availability.

Performance Benchmark The required availability for Foundation Power under the PPA is 88% whereas actual availability during the period after considering Scheduled and Forced outages was 91%. During FY23, Foundation Power Daharki's efficiency has been maintained according to agreed parameters of 48.8%.

Financial Risk

Financing Structure Analysis Foundation Power's project cost (75%) was financed through a syndicated term finance loan. The loan size, PKR 11,565mln, was priced at 6-month KIBOR + 2.93% p.a. which was fully paid in Mar 2020.

Liquidity Profile At Jun 23, trade receivables of the company stood at PKR 13,870mln (FY22: PKR 10,595mln, FY21: PKR 17,013mln). As circular debt continues to be an issue for companies operating in power sector. Consequently, IPPs have to manage their liquidity requirements from internal cash generation and short-term borrowings.

Working Capital Financing The Company has no borrowings as of June 2023. The Company has short term credit lines of PKR 476mln which stand unutilized as end June 2023. Previously availed borrowings were successfully repaid by 1QFY23. Trade receivable days declined on account of received payments from the government. Similarly, Net working capital days declined to 55 days as at FY23 (FY22: 73 days, FY21: 99 days) owing to the decrease in outstanding receivables days.

Cash Flow Analysis FPCDL's improved profits have resulted from high demand of electricity and in turn have also resulted in stable free cashflows from operations (FCFO) at FY23: 4,372mln (FY22: PKR 3,632mln, FY21: 4,658mln). Consequently, owing to increase in finance cost, the Interest Coverage (EBITDA/Finance Cost) has decreased to 11.5x (FY22: 15.6x).

Capitalization Foundation Power has a robust capital structure with no borrowings as at end Jun 2023. The company has outstanding debt from parent company Fauji Foundation Pakistan which has been classified as equity. Since it was used to finance the initial cost overruns.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Foundation Power Company Dharaki Limited	Jun-23	Jun-22	Jun-21	Jun-20
Power	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	9,488	9,982	10,630	11,374
2 Investments	-	-	-	-
3 Related Party Exposure	128	-	-	-
4 Current Assets	18,328	17,795	17,958	14,528
a Inventories	*212*	*72*	*68*	*58*
b Trade Receivables	*13,870*	*10,595*	*17,013*	*13,464*
5 Total Assets	27,944	27,778	28,588	25,902
6 Current Liabilities	10,255	10,590	12,097	11,905
a Trade Payables	*9,544*	*10,365*	*11,820*	*11,288*
7 Borrowings	33	12	274	254
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	61	57	63	73
10 Net Assets	17,595	17,118	16,154	13,670
11 Shareholders' Equity	17,595	17,118	16,154	13,670
B INCOME STATEMENT				
1 Sales	16,043	13,958	13,863	13,055
a Cost of Good Sold	*(12,005)*	*(10,759)*	*(9,746)*	*(9,113)*
2 Gross Profit	4,038	3,198	4,116	3,942
a Operating Expenses	(357)	(261)	(202)	(198)
3 Operating Profit	3,681	2,937	3,915	3,744
a Non Operating Income or (Expense)	*353*	*(109)*	*33*	*84*
4 Profit or (Loss) before Interest and Tax	4,035	2,828	3,948	3,828
a Total Finance Cost	*(387)*	*(237)*	*(193)*	*(524)*
b Taxation	*(73)*	*(19)*	*(9)*	*(22)*
6 Net Income Or (Loss)	3,574	2,572	3,746	3,283
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*4,372*	*3,632*	*4,658*	*4,495*
b Net Cash from Operating Activities before Working Capital Changes	*3,274*	*3,332*	*4,658*	*3,969*
c Changes in Working Capital	*(3,666)*	*4,983*	*(3,409)*	*(454)*
1 Net Cash provided by Operating Activities	(392)	8,315	1,250	3,515
2 Net Cash (Used in) or Available From Investing Activities	4,214	(4,343)	34	54
3 Net Cash (Used in) or Available From Financing Activities	(2,397)	(1,776)	(1,444)	(3,791)
4 Net Cash generated or (Used) during the period	1,426	2,196	(161)	(222)
D RATIO ANALYSIS				
1 Performance				
b Gross Profit Margin	25.2%	22.9%	29.7%	30.2%
c Net Profit Margin	22.3%	18.4%	27.0%	25.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	4.4%	61.7%	9.0%	31.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	20.4%	14.8%	24.3%	25.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	282	363	403	333
b Net Working Capital (Average Days)	55	73	99	57
c Current Ratio (Current Assets / Current Liabilities)	1.8	1.7	1.5	1.2
3 Coverages				
a EBITDA / Finance Cost	11.5	15.6	24.3	8.7
b FCFO / Finance Cost+CMLTB+Excess STB	10.9	15.0	22.1	8.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	0.2%	0.1%	1.7%	1.8%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0

Credit Rating

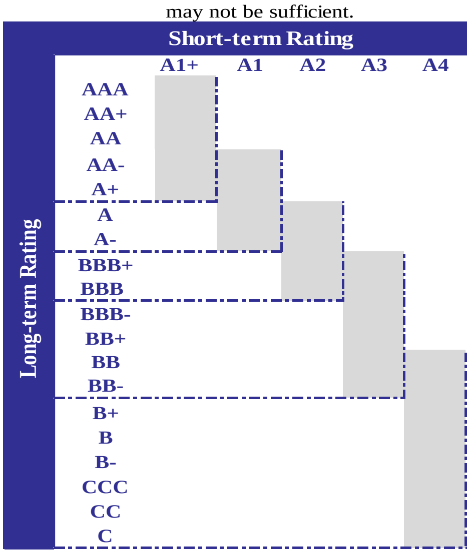
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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 | 17-(a)
(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)

Proprietary Information