



The Pakistan Credit Rating Agency Limited

# THE PAKISTAN WATER AND POWER DEVELOPMENT AUTHORITY | PRIVATELY PLACED TFC

	NEW [DEC-16]	PREVIOUS [JAN-16]
Long-Term	AAA	AAA
Outlook	Stable	Stable

REPORT CONTENTS
1. RATING ANALYSES
2. FINANCIAL INFORMATION
3. RATING SCALE
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**Issuer Profile**

- WAPDA has issued privately placed term finance certificates (TFC) of PKR 9,327mln to partially finance Neelum Jhelum Hydropwer Project (NJHP)
- WAPDA is a statutory body fully owned by Government of Pakistan and was established through WAPDA Act 1958.
- WAPDA has the primary responsibility to develop Hydel Power Projects
- The entity has a total generation capacity of 6,902MW. It is the largest hydel energy producer in the country.
- WAPDA is in the process of constructing different projects which are to add ~10,000MW by 2024.
- Neelum Jhelum Hydro Power Project is near completion and first unit is expected in Feb18. Land acquisition of Diamer Bhasha Dam and Dasu Stage I is under process.
- Accounts of WAPDA and WHE are under audit review. However this report has been prepared on the basis of financial review summary being provided by WAPDA.

**Instrument**

- Cashflows received via Hydroelectric wing from single customer - NTDC/CPPA - utilized to pay TFC markup and installments.
- WAPDA maintains Debt Payment Account (DPA) which is held under exclusive lien in favor of trustee. Wapda replenishes the DPA with 1/6th of the upcoming installment.
- The underlying agreements for the finalization of the TFC include GoP guarantee, Trust Deed, and TFC investor Agreement.

**Governance & Management**

- WAPDA is a statutory body under the administrative control of the Federal Government.
- The Authority comprises Chairman, member of each wing (Water, Power, and Finance), and secretary WAPDA.
- In August 2016 Lt. General Muzzamil Hussain replaced Mr. Zafar Mehmood as Chairman WAPDA.
- Mr. Hussain – a retired army professional and a diplomat brings experience of over 3 decades with him to the management of the WAPDA.
- The Ministry of Water & Power provides oversight to WAPDA.
- Highly experienced management team with long term association with WAPDA.

**Business and Operational Risk**

- Key sources of generation (19 hydel plants) governed by WAPDA HydroElectric (WHE) - the power wing.
- WHE's fleet largely improved only slightly since FY11.
- WHE generation largely remained stable (FY16: 33,151Gwh; FY15: 31,780GWh).
- Tariff determined by NEPRA is based on revenue requirement mainly capturing ROI, and O&M.
- Sound profitability (FY16: PKR 23,756mln; FY15: PKR 33,750mln).

**Financial Risk**

- WAPDA remains highly dependent on the payment behavior of the sole power purchaser NTDC/CPPA.
- WHE's receivables witnessed a significant decrease (42%) YoY, resultantly receivable days declined to 130 at end-Jun16 (Jun15: 187).
- WAPDA has ample cash at its disposal as at end June16 (PKR 43,946mln).

**PPTFC Repayments**

- Uptil WAPDA has made 6 interest payments and 4 principal repayments.
- Rebate availed on each of the 6 payments of PPTFC that have fallen due till end-Sep16.

**RATING RATIONALE**

The rating of PPTFCs reflects an unconditional and irrevocable guarantee by the Government of Pakistan (GoP). The guarantee covers the payment of total outstanding amount of the PPTFCs and related profit component. GoP would pay the entire called amount immediately upon receiving a demand notice from the trustee. The rating apart from a debt payment and guarantee mechanism recognizes WAPDA's strategic importance as the major hydroelectric power supplier to the country. WAPDA's revenues primarily emanate from WAPDA Hydro Electric (WHE) overlooked by the power wing. WHE receives tariff based revenue from NTDC/CPPA against supply of electricity.

WAPDA's annual accounts for FY16 are in finalisation stage. However, the key figures shared by the management signifies healthy liquidity and sound debt and interest coverages (calculated on the basis of EBITDA). Improved repayment behaviour of the power purchaser has resulted in significant reduction in receivables. This has provided breather in receivable days (FY16: 130days; FY15: 186days). WHE's financial profile draws comfort from strong cashflows. However, it remains dependent on repayment behaviour of power purchaser.

**KEY RATING DRIVER**

Continued compliance with the predefined covenants of PPTFC, including maintenance of DPA would remain critical.



**The Pakistan Credit Rating Agency Limited**

**WAPDA Hydroelectric  
BALANCE SHEET**

	30-Jun-16	30-Jun-15	30-Jun-14	30-Jun-13
	<i>Financial Review Summary</i>	<i>Annual</i>	<i>Annual</i>	<i>PKR mln Annual</i>
<i>Non-Current Assets</i>	-	309,696	292,359	268,836
<i>Investments</i>	-	19	-	261
<i>Cash and Bank Balances</i>	43,946	55,777	27,149	3,755
<i>Inventories</i>	-	3,993	3,644	2,896
<i>Trade Receivables</i>	19,477	34,879	17,806	6,338
<i>Other Current Assets</i>	-	3,351	4,760	29,549
<b>Total Assets</b>	-	407,715	345,718	311,635
<i>Short Term Borrowings</i>	-	-	-	-
<i>Long Term Borrowings (Including Current Maturities)</i>	151,481	137,715	101,351	69,964
<i>Shareholders' Equity</i>	-	220,673	198,419	194,112
<b>Total Liabilities &amp; Equity</b>	-	407,715	345,718	311,635

**PROFIT & LOSS ACCOUNT**

	30-Jun-16	30-Jun-15	30-Jun-14	30-Jun-13
<i>Turnover</i>	54,776	68,111	52,091	42,893
<i>Gross Profit</i>	30,466	47,191	32,913	24,869
<i>Other Income</i>	2,236	2,446	521	501
<i>Financial Charges</i>	(4,474)	(8,354)	(3,930)	(4,115)
<b>Net Income</b>	23,756	33,750	21,451	14,223

**CASHFLOW STATEMENT**

	30-Jun-16	30-Jun-15	30-Jun-14	30-Jun-13
<i>EBITDA</i>	39,230	56,172	39,382	30,953
<i>Free Cashflow from Operations (FCFO)</i>	-	56,172	39,382	30,953
<i>Net Cash provided by operating activities</i>	-	28,308	42,643	38,263
<i>Net Cash available from investing activities</i>	-	(25,066)	(31,331)	(18,803)
<i>Cashflow from financing activities</i>	-	25,386	12,082	(20,729)

**RATIO ANALYSIS**

	30-Jun-16	30-Jun-15	30-Jun-14	30-Jun-13
<i>Gross Margin</i>	56%	69.3%	63.2%	58.0%
<i>Pre-Tax Profit Margin</i>	-	49.6%	41.2%	33.2%
<i>Net Profit Margin</i>	-	49.6%	41.2%	33.2%
<i>Net Cash Cycle (Days)</i>	-	158.0	95.3	30.5
<i>Interest Coverage (X)</i>	8.8 *	6.7	10.0	7.5
<i>Debt Service Coverage</i>	2.9 *	2.2	3.9	3.1
<i>Debt Payback (X)</i>	3.9 *	2.5	2.6	2.3
<i>Capital Structure</i>	-	38.4%	33.8%	26.5%

\*Calculated on the basis of EBITDA



## STANDARD RATING SCALES & DEFINITIONS

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.

<b>LONG TERM RATINGS</b>		<b>SHORT TERM RATINGS</b>
<b>AAA</b>	<p><b>Highest credit quality.</b> Lowest expectation of credit risk.</p> <p>Indicate exceptionally strong capacity for timely payment of financial commitments.</p>	<p><b>A1+:</b> The highest capacity for timely repayment.</p> <p><b>A1:</b> A strong capacity for timely repayment.</p> <p><b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>C:</b> An inadequate capacity to ensure timely repayment.</p>
<b>AA+</b> <b>AA</b> <b>AA-</b>	<p><b>Very high credit quality.</b> Very low expectation of credit risk.</p> <p>Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p>	
<b>A+</b> <b>A</b> <b>A-</b>	<p><b>High credit quality.</b> Low expectation of credit risk.</p> <p>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.</p>	
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<p><b>Good credit quality.</b> Currently a low expectation of credit risk.</p> <p>The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.</p>	
<b>BB+</b> <b>BB</b> <b>BB-</b>	<p><b>Moderate risk.</b> Possibility of credit risk developing.</p> <p>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.</p>	
<b>B+</b> <b>B</b> <b>B-</b>	<p><b>High credit risk.</b></p> <p>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.</p>	
<b>CCC</b> <b>CC</b> <b>C</b>	<p><b>Very high credit risk.</b></p> <p>“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.</p>	
<b>D</b>	<p>Obligations are currently in default.</p>	

**Rating Watch**

Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

**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’.

**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, a suspended rating should be considered withdrawn.

**Withdrawn**

A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

**Disclaimer:** PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.



<b>Name of Issuer</b>	The Pakistan Water and Power Development Authority																				
<b>Name of Issue</b>	The Pakistan Water and Power Development Authority   Privately Placed TFC																				
<b>Sector</b>	Power																				
<b>Type of Relationship</b>	Solicited																				
<b>Purpose of the Rating</b>	Independent Risk Assessment																				
<b>Rating History</b>	<table border="1"> <thead> <tr> <th>Dissemination Date</th> <th>Long Term</th> <th>Short Term</th> <th>Outlook</th> <th>Action</th> </tr> </thead> <tbody> <tr> <td>9-Jan-16</td> <td>AAA</td> <td>-</td> <td>Stable</td> <td>Maintain</td> </tr> <tr> <td>09-Jan-15</td> <td>AAA</td> <td>-</td> <td>Stable</td> <td>Maintain</td> </tr> <tr> <td>26-Sep-13</td> <td>AAA</td> <td>-</td> <td>Stable</td> <td>Initial</td> </tr> </tbody> </table>	Dissemination Date	Long Term	Short Term	Outlook	Action	9-Jan-16	AAA	-	Stable	Maintain	09-Jan-15	AAA	-	Stable	Maintain	26-Sep-13	AAA	-	Stable	Initial
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<b>Related Criteria and Research</b>																					
Rating Methodology	IPPs Rating Methodology																				
Sector Research	Independent Power Producer - Viewpoint   Feb-16																				
<b>Rating Analysts</b>	<table> <tr> <td>Aisha Khalid <a href="mailto:aisha@pacra.com">aisha@pacra.com</a> (92-42-35869504)</td> <td>Rana Nadeem <a href="mailto:nadeem@pacra.com">nadeem@pacra.com</a> (92-42-35869504)</td> </tr> </table>	Aisha Khalid <a href="mailto:aisha@pacra.com">aisha@pacra.com</a> (92-42-35869504)	Rana Nadeem <a href="mailto:nadeem@pacra.com">nadeem@pacra.com</a> (92-42-35869504)																		
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<a href="#">Probability of Default (PD)</a>	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. ( <a href="http://www.pacra.com">www.pacra.com</a> ). However, actual transition of rating may not follow the pattern observed in the past.																				



## Regulatory and Supplementary Disclosure

### Repayment Schedule PPTFC

SUKUK Amount (PKR '000)	9,327,000
Period (years)	8
Repayment	Semi-annually
Pricing	6 K + 1.75%

#	Date		Principal Repaid	Profit Payments		Cumulative amount to be paid	Balance as at end of period
				Interest	Rebate (75bps)		
0	27-Sep-13		-				9,327,000
1	27-Mar-14	181	-	519,407	(34,689)	484,718	9,327,000
2	27-Sep-14	184	-	559,048	(35,264)	523,784	9,327,000
3	27-Mar-15	181	666,214	551,783	(34,689)	1,183,308	8,660,786
4	27-Sep-15	184	666,214	390,319	(32,745)	1,023,788	7,994,571
5	27-Mar-16	182	666,214	331,949	(29,816)	968,348	7,328,357
6	27-Sep-16	184	666,214	298,789	(27,632)	937,372	6,662,143
7	27-Mar-17	181	666,214	257,688	(24,778)	899,125	5,995,929
8	27-Sep-17	184	666,214	235,763	(22,670)	879,308	5,329,714
9	27-Mar-18	181	666,214	206,150	(19,822)	852,543	4,663,500
10	27-Sep-18	184	666,214	183,371	(17,632)	831,954	3,997,286
11	27-Mar-19	181	666,214	154,613	(14,867)	805,960	3,331,071
12	27-Sep-19	184	666,214	130,980	(12,594)	784,600	2,664,857
13	27-Mar-20	182	666,214	103,645	(10,222)	759,637	1,998,643
14	27-Sep-20	184	666,214	78,588	(7,751)	737,051	1,332,429
15	27-Mar-21	181	666,214	51,538	(4,956)	712,796	666,214
16	27-Sep-21	184	666,214	26,196	(2,519)	689,891	-
<b>Total</b>			<b>9,327,000</b>	<b>4,079,826</b>	<b>(332,642)</b>	<b>13,074,183</b>	<b>-</b>