



The Pakistan Credit Rating Agency Limited

PAKGEN POWER LIMITED

	NEW [JUN-17]	PREVIOUS [OCT-16]
Long-Term	AA	AA
Short-Term	A1+	A1+
Outlook	Stable	Stable

REPORT CONTENTS
1. RATING ANALYSES
2. FINANCIAL INFORMATION
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

JUNE 2017

Profile & Ownership

- An independent power producer (IPP) under the power policy 1994. The company completed 19 years out of 30 year tenor under the PPA.
- Pakgen Power Limited started commercial operations in Feb-98. It operates a thermal power plant with a gross capacity of 365MW.
- Nishat Group (40%) and City School (17%) are the major sponsors of the company.
- Major Sponsor – Nishat Group – is the biggest conglomerate of the country with interests in textile, cement, power, real estate, banking and insurance.
- Listed on Pakistan Stock Exchange.

Governance & Management

- BoD comprises seven members including the CEO.
- The board has formed two committees namely Audit Committee and Human Resource & Remuneration Committee.
- Mr. Hassan Mansha - chairman of the board holds position of Group Head-Energy and directorship of six other companies.
- Key management directly reporting to chairman compromising efficacy of the board.
- Mr. Ghazanfar Hussain Mirza is CEO since Aug-14 and has over three decades of experience in business development and corporate management.
- Pakgen has a lean organizational structure with a professional management team.

Business and Operational Risk

- In house O&M activities.
- The Company has entered into a contract for a period of thirty years for purchase of fuel from PSO.
- Thermal efficiency below par (Required: 38%; Actual: 33%), resultantly efficiency losses absorbed by Pakgen Power, leading to increased delta losses, hence reduced net profit ~ PKR 517 mln at Dec-16 (Dec-15:PKR 1,598 mln).
- Company is also considering to enter in to a solar power energy projects. However, tariff determined by NEPRA for solar energy projects remains a main obstacle.
- Progress on plant's conversion from oil fired to coal have been delayed due to government policy to restrict use of imported coal on certain projects.

Performance

- Plant resumed its operations in Jan-16 after remaining shut down for nearly 11 months.
- Company have disputed the liquidity damages claimed by power purchaser due to forced outages.
- Company's insurance policy covers business interruption loss after 45 days.
- Insurance claims of PKR 2,019 mln upon the tripped complex in 2015, have been settled completely during the year at December 2016.

Financial Risk

- Receivable days shown an improving trend owing to the resumption of plant operations from Jan-16, leading to an improved net cash cycle at 1QCY17:248 days. (1QCY16:393 days, CY16:255 days, CY15:610 days).
- The company has availed working capital lines of PKR 10,026 mln (SPLY:8,096 mln) at end Mar-17.
- Debt mainly comprises short-term borrowings to finance working capital requirements as at Mar-17 (STB:89%; LTL:11%) and Mar-16 (STB:80%, LTL:20%).
- Declining cashflows leading to considerable decline in coverages (Post Working Capital coverage as at 1QCY17:-5x (1QCY16:-3.7X; CY16:0.4x; CY15:0.8x).

RATING RATIONALE

The ratings reflect the regulated structure of Pakgen's business; whereby revenues and cashflows are guaranteed by the sovereign government given adherence to agreed operational parameters. Pakgen's plant, after closure of almost eleven months, resumed normal operations in January 2016. The company's loss of profit and cost of replacement of transformer was covered under insurance policy thus protecting the company from loss. Insurance claims have been settled completely by Dec 2016. Trade receivables are on a decreasing trend after surging significantly in 2016. The company's financial profile, though adequate, is highly dependent on the behavior of the power purchaser. Pakgen Power repaid its long term project debt in 2010. However, current borrowings reflects the need to bridge the working capital requirements. Moreover, Company's profitability has reduced because of increased delta.

KEY RATING DRIVERS

Upholding operational performance in line with agreed performance levels would remain a key rating driver. Accumulation of debt to finance CAPEX of the coal conversion project and/or fresh investment in new power project may impact financial risk profile of the company. Meanwhile, any significant increase in overdue receivables, as a result of rising circular debt, may negatively impact the ratings.



The Pakistan Credit Rating Agency Limited

Pakgen Power Limited

BALANCE SHEET

	31-Mar-17	31-Dec-16	30-Jun-15	31-Dec-14
	3M	Annual	Annual	Annual
Non-Current Assets	9,241	9,370	10,019	8,463
Investments (Others)	1	1	1	2
Current Assets	17,444	15,748	15,529	12,492
Inventory	1,137	1,157	1,023	1,267
Trade Receivables	13,675	11,635	10,834	8,009
Other Current Assets	2,360	2,366	3,672	1,721
Cash & Bank Balances	273	591	1	1,495
Total Assets	26,687	25,119	25,549	20,957
Debt				
Short-term	8,585	7,249	5,081	5,270
Long-term (Incl. Current Maturity of long-term debt)	1,115	1,226	1,672	-
Other Short term liabilities (inclusive of trade payables)	1,598	1,609	3,535	1,279
Other Long term Liabilities				-
Shareholder's Equity	15,390	15,034	15,262	14,408
Total Liabilities & Equity	26,687	25,119	25,549	20,957

INCOME STATEMENT

Turnover	4,854	16,044	6,523	34,923
Gross Profit	553	1,316	1,979	1,315
Other Income	4	4	5	15
Financial Charges	(151)	(604)	(321)	(578)
Net Income	355	517	1,598	612

Cashflow Statement

Free Cashflow from Operations (FCFO)	701	1,953	2,300	1,660
Net Cash changes in Working Capital	(2,024)	(1,569)	(1,654)	2,745
Net Cash from Operating Activities	(1,469)	(190)	158	3,798
Net Cash from Investing Activities	(73)	(200)	(2,391)	(746)
Net Cash from Financing Activities	1,224	980	739	(1,818)
Net Cash generated during the period	(318)	590	(1,494)	1,234

Ratio Analysis

Performance

Turnover Growth	65.0%	146.0%	-81.3%	-7.5%
Gross Margin	11.4%	8.2%	30.3%	3.8%
Net Margin	7.3%	3.2%	24.5%	1.8%
ROE	9.5%	3.2%	11.2%	16.9%

Coverages

Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	2.7	1.9	3.0	2.9
Interest Coverage (X) (FCFO/Gross Interest)	4.7	3.2	7.2	2.9
FCFO Pre-WC/Gross interest+CMLTD	2.7	1.9	3.0	2.9

Liquidity

Short Term Borrowings Coverage (Adjusted Quick Assets/Short Term Borrowings)	1.6	1.6	2.2	1.6
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	248.1	254.7	609.8	19.2

Capital Structure (Total Debt/Total Debt+Equity)

	35.5%	36.1%	30.7%	26.8%
--	-------	-------	-------	-------

Pakgen Power Limited

Jun-17



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.

LONG TERM RATINGS		SHORT TERM RATINGS
AAA	<p>Highest credit quality. Lowest expectation of credit risk.</p> <p>Indicate exceptionally strong capacity for timely payment of financial commitments.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+ AA AA-	<p>Very high credit quality. 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>	
A+ A A-	<p>High credit quality. 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>	
BBB+ BBB BBB-	<p>Good credit quality. 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>	
BB+ BB BB-	<p>Moderate risk. 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-	<p>High credit risk.</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>	
CCC CC C	<p>Very high credit risk.</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>	
D	<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.



Name of Rated Entity
Sector
Type of Relationship
Purpose of the Rating

Pakgen Power Limited
 IPP
 Solicited
 Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
02-Jun-17	AA	A1+	Stable	Maintain
31-Oct-16	AA	A1+	Stable	Maintain
20-Nov-15	AA	A1+	Negative	Maintain
20-Nov-14	AA	A1+	Stable	Maintain
05-Nov-13	AA	A1+	Stable	Maintain
28-Nov-12	AA	A1+	Stable	Maintain
13-Jan-12	AA	A1+	Stable	Maintain

Related Criteria and Research

Rating Methodology
 Sector Research

IPP's Rating Methodology
 Power Sector - Viewpoint | Mar-17

Rating Analysts

Faizan Sufi Rai Umar Zafar
faizan.sufi@pacra.com rai.umar@pacra.com
 (92-42-35869504) (92-42-35869504)

[Rating Team Statement](#)

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

[Disclaimer](#)

Rating Shopping

PACRA maintains principle of integrity in seeking rating business. PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information.

Conflict of Interest

PACRA, the analysts involved in the rating process, and members of its rating committee do not have any conflict of interest relating to the credit rating done by them. The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest. The analysts and members of the rating committees including the external member members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA. The analysts or any of its family members do not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This is, however, not applicable on investment in securities through collective investment schemes. PACRA has established appropriate policies governing investments and trading in securities by its employees. PACRA may provide consultancy/advisory services or other services to any of its clients or to any of its clients' associated companies and associated undertakings that is being rated or has been rated by it. In such cases, PACRA has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities. 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 ii) fee mandate - signed with the payer, which can be different from the entity.

PACRA ensures that the credit rating assigned to an entity or instrument should 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.

Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer. PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so.

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating.

Reporting of Misconduct

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP.

Confidentiality

PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties. Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter.

Prohibition

None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's written consent. PACRA reports and ratings constitute opinions, not recommendations to buy or to sell.

[Probability of Default \(PD\)](#)

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.