



The Pakistan Credit Rating Agency Limited

WAPDA | DASU | SUKUK 10BLN | PPTFC 15BLN | MAY17

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NOVEMBER 2017

Issuer Profile

- 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 expected to add ~8,298MW by 2024.

Instruments

- WAPDA has issued privately placed term finance certificates (TFC) of PKR 10bln and Sukuks of PKR 15bln to partially finance Dasu Hydropower Project (Dasu). Profit on the debt instruments will be payable semi-annually at 6MK + 1.45%.
- Total project cost of Dasu is USD ~4.247bln which is to be financed from local and external financing. ECC has given approval of upto PKR 144bln as local financing for the project.
- 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.
- Shortfall occurring for three consecutive months will constitute event of default. Government guarantee will be callable by trustee after serving cure period of 45 days.
- The underlying agreements of the instruments include GoP guarantee, Trust Deed, and Investor Agreement. Further, to follow Islamic structure of Sukuks, Musharaka Agreement, Purchase Undertaking Agreement and Payment Agreement are signed between the issuer and Sukuk holder.

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 (Retd.) 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 Resources 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 declined by 7% on the back of lower water availability (FY17: 30,797Gwh; FY16: 33,151GWh).
- Tariff determined by NEPRA is based on revenue requirement mainly capturing ROI, O&M and Hydel Levies.
- WHE reported revenue of PKR 34,882mln in 6MFY16. Profitability improved on the back of adjustment in tariff (6MFY17: 18,861; FY16: PKR 19,929mln; FY15: PKR 33,736mln).

Financial Risk

- WAPDA remains highly dependent on the payment behavior of the sole power purchaser NTDC/CPPA.
- WHE's receivables witnessed a significant increase (61%) in first six months of FY17, resultantly receivable days increased to 164 at end-Dec16 (Jun16, 130 days Jun15: 187days).
- Indicative of improved profitability, WHE's free cash flow from operation improved during 6MFY17 (6MFY17: PKR~34bln; FY16: PKR ~48bln; FY15: PKR ~55bln). Consequently, WAPDA's debt coverages improved strong (6MFY17: 5.x, FY16:1.8x, FY15,2.1x)
- WAPDA capital structure remained moderately leveraged (6MFY17: 44.8%, FY16:48.7%, FY15:42.8%).

RATING RATIONALE

The Water and Power Development Authority of Pakistan is in the process of the construction of DASU hydro power project (Dasu). Dasu, once completed would become second largest hydel project in Pakistan. Dasu is a run of the river project on Indus River located in Dasu Kohistan, Khyber Pakhtunkhwa about 345 KM from Islamabad. Project, planned to be started within 2017, will be completed in two stages. Stage 1 (2,160 MW) is expected to complete in five year time with cost of USD ~4.247bln. For partial financing of the project, WAPDA is issuing debt instruments worth PKR 88bln (TFCs: 35.2bln, Sukuks: 52.8bln) in multiple tranches. For this purpose in May 2017 first tranche of debt instruments has been issued. The ratings of PPTFCs (Tranche 1: PKR 10bln) and Sukuks (Tranche 1: PKR 15bln) reflects an unconditional and irrevocable guarantee by the Government of Pakistan (GoP). The guarantee covers the payment of total outstanding amount of the instruments and related profit component. GoP would pay the entire called amount immediately upon receiving a demand notice from the trustee. Additionally, WHE is maintaining a debt payment account (DPA) under the exclusive lien of the trustee. Within first fifteen days of each month, WHE deposits an amount equal to 1/6th of the upcoming instalment in the DPA. The rating apart from a debt payment and guarantee mechanism recognizes strong cashflows of WAPDA Hydro Electric; The core source of repayment. WAPDA also has strategic importance as the major hydroelectric power supplier to the country (30% in overall electricity generation in FY17). WAPDA's revenues primarily emanate from WAPDA Hydro Electric (WHE) overlooked by the power wing. WHE receives tariff based revenue from CPPA-G against supply of electricity. WAPDA generated 30,797Gwh electricity in FY17 and it expects to generate additional ~7,000Gwh by completion of new hydel projects in next five years. WAPDA continues to enjoy strong profitability on the back of healthy margins. For FY18 WAPDA's tariff petition inclusive of financial servicing of this facility is under approval of NEPRA after which cashflows will further improve.

KEY RATING DRIVER

WHE's financial profile draws comfort from strong cashflows. However, it remains dependent on repayment behavior of power purchaser. Timely tariff allowance by regulator going forward would remain important for cashflows of WHE. Continued compliance with the predefined covenants of Debt instruments, including maintenance of DPA would remain critical.

Financials (Summary)
The Pakistan Credit Rating Agency Limited
WAPDA Hydroelectric
BALANCE SHEET

	31-Dec-16	30-Jun-16	30-Jun-15	30-Jun-14
	<i>6M</i>	<i>Annual</i>	<i>Annual</i>	<i>PKR mln Annual</i>
<i>Non-Current Assets</i>	1,143,973	1,120,241	1,069,378	292,359
<i>Investments</i>	5,500	-	19	-
<i>Cash and Bank Balances</i>	30,668	46,940	55,777	27,149
<i>Inventories</i>	5,680	5,583	3,993	3,644
<i>Trade Receivables</i>	31,380	19,477	34,879	17,806
<i>Other Current Assets</i>	15,571	27,619	2,106	4,760
Total Assets	1,232,772	1,219,860	1,166,152	345,718
<i>Current Liabilities</i>	19,928	16,789	16,821	17,196
<i>Long Term Borrowings (Including Current Maturities)</i>	176,919	185,511	137,715	101,351
<i>Other Non Current Liabilities</i>	38,794	37,557	32,528	28,753
<i>Shareholders' Equity</i>	997,132	980,003	979,088	198,419
Total Liabilities & Equity	1,232,772	1,219,860	1,166,152	345,718

PROFIT & LOSS ACCOUNT

	31-Dec-16	30-Jun-16	30-Jun-15	30-Jun-14
<i>Turnover</i>	34,882	54,776	61,002	52,091
<i>Gross Profit</i>	20,470	25,313	40,079	32,913
<i>Other Income</i>	1,987	2,232	3,441	521
<i>Financial Charges</i>	(3,188)	(6,306)	(8,354)	(3,930)
Net Income	18,861	19,929	33,736	21,451

CASHFLOW STATEMENT

	31-Dec-16	30-Jun-16	30-Jun-15	30-Jun-14
<i>EBITDA</i>	33,058	49,808	56,157 *	39,382
<i>Free Cashflow from Operations (FCFO)</i>	32,175	47,790	54,746 *	39,382
<i>Net Cash provided by operating activities</i>	30,492	51,069	27,616 *	42,643
<i>Net Cash available from investing activities</i>	(36,745)	(66,304)	(25,785) *	(31,331)
<i>Cashflow from financing activities</i>	(10,019)	6,398	26,796	12,082

RATIO ANALYSIS

	31-Dec-16	30-Jun-16	30-Jun-15	30-Jun-14
<i>Gross Margin</i>	58.7%	46.2%	65.7%	63.2%
<i>Pre-Tax Profit Margin</i>	54.1%	36.4%	55.3%	41.2%
<i>Net Profit Margin</i>	54.1%	36.4%	55.3%	41.2%
<i>Net Cash Cycle (Days)</i>	125.7	94.0	176.4	95.3
<i>Interest Coverage (X)</i>	10.1	7.6	6.6	10.0
<i>Debt Service Coverage</i>	5.0	1.8	2.1	3.9
<i>Debt Payback (X)</i>	5.5	3.9	2.5	2.6
<i>Capital Structure</i>	44.8%	48.7%	42.8%	38.9%

* WAPDA Hydroelectric's assets were revalued on 30th June 2015. Their revaluation effect is excluded from cashflows for comparability across the periods

CREDIT RATING SCALE & 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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<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+	Very high credit quality. Very low expectation of credit risk.	
AA	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	
AA-		
A+	High credit quality. Low expectation of credit risk.	
A	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+	Good credit quality. Currently a low expectation of credit risk.	
BBB	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-		
BB+	Moderate risk. Possibility of credit risk developing.	
BB	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-		
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	Very high credit risk. Substantial credit risk	
CC	“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.	
C		
D	Obligations are currently in default.	

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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/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.



Regulatory and Supplementary Disclosure

Name of Issuer
Name of Issue
Sector
Type of Relationship

The Pakistan Water and Power Development Authority
 The Pakistan Water and Power Development Authority | Privately Placed TFC & Sukuku
 Power
 Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
4-Apr-17	AAA	-	Stable	Preliminary

Instrument Details

Nature of Instrument	Size of Issue (PKR mln)	Tenor (yrs)	Security	Trustee
PPTFC (10bln) Sukuk (15bln)	25,000	15	Government of Pakistan Guarantee Backed	Pak Brunei Investment Bank

Related Criteria and Research

Rating Methodology
 Sector Research

IPPs Rating Methodology
 Power Generation - Viewpoint | Mar-17

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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

Disclaimer

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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

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Confidentiality

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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

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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



DASU Debt Instruments Repayment Schedule

Period	Debt Instrument				Remaining Balance
	Sukuk	TFC	Total	Interest Payment	
May-17	15,000	10,000	25,000		25,000
Nov-17	-	-	-	946	25,000
May-18	6,353	4,235	10,588	946	35,588
Nov-18	-	-	-	1,347	35,588
May-19	6,353	4,235	10,588	1,347	46,176
Nov-19	-	-	-	1,748	46,176
May-20	7,941	5,294	13,235	1,748	59,412
Nov-20	-	-	-	2,249	59,412
May-21	9,529	6,353	15,882	2,249	75,294
Nov-21	-	-	-	2,850	75,294
May-22	7,624	5,082	12,706	2,850	88,000
Nov-22	-	-	-	3,331	88,000
May-23	(2,640)	(1,760)	(4,400)	3,331	83,600
Nov-23	(2,640)	(1,760)	(4,400)	3,164	79,200
May-24	(2,640)	(1,760)	(4,400)	2,998	74,800
Nov-24	(2,640)	(1,760)	(4,400)	2,831	70,400
May-25	(2,640)	(1,760)	(4,400)	2,665	66,000
Nov-25	(2,640)	(1,760)	(4,400)	2,498	61,600
May-26	(2,640)	(1,760)	(4,400)	2,332	57,200
Nov-26	(2,640)	(1,760)	(4,400)	2,165	52,800
May-27	(2,640)	(1,760)	(4,400)	1,998	48,400
Nov-27	(2,640)	(1,760)	(4,400)	1,832	44,000
May-28	(2,640)	(1,760)	(4,400)	1,665	39,600
Nov-28	(2,640)	(1,760)	(4,400)	1,499	35,200
May-29	(2,640)	(1,760)	(4,400)	1,332	30,800
Nov-29	(2,640)	(1,760)	(4,400)	1,166	26,400
May-30	(2,640)	(1,760)	(4,400)	999	22,000
Nov-30	(2,640)	(1,760)	(4,400)	833	17,600
May-31	(2,640)	(1,760)	(4,400)	666	13,200
Nov-31	(2,640)	(1,760)	(4,400)	500	8,800
May-32	(2,640)	(1,760)	(4,400)	333	4,400
Nov-32	(2,640)	(1,760)	(4,400)	167	0