



The Pakistan Credit Rating Agency Limited

ENGRO POWERGEN THAR (PRIVATE) LIMITED RATING REPORT

	NEW [DEC-17]	PREVIOUS [JUN-17]
Long-Term	A	A
Short-Term	A1	A1
Outlook	Stable	Stable
Action	Maintain	Maintain

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

DECEMBER 2017

	RATING RATIONALE
<p>Profile & Ownership</p> <ul style="list-style-type: none"> A first (2 X 330 MW) Thar coal based power plant under the Power Policy 2015. Engro Powergen Thar Limited (EPTL) is planned to be commissioned in Jun-2019. Total estimated project cost is \$1,108mln with a Debt to Equity ratio of 75:25. EPTL's majority ordinary shares are owned by Engro Powergen Limited (EPL) (50.1%) and China Machinery Engineering Company (CMEC) (35%), while the remaining stake is owned by Habib Bank Limited (HBL) (9.5%) and Liberty Mills Limited (LML) (5.4%). In addition to ordinary shares, \$85mln preference shares are all subscribed by CMEC. The Power Purchase Agreement is with National Transmission & Dispatch Company, and has a tenure of 30 years. <p>Governance</p> <ul style="list-style-type: none"> BoD comprises nine members including the CEO; five represent EPL, three CMEC and one HBL. Mr. Shamsudin, Ex CEO is now the Chairman of the Board. Diverse experience of the Board Members over different industries is a comforting factor. <p>Management</p> <ul style="list-style-type: none"> Mr. Ahsan Zafar Syed, CEO of EPTL, He has ample experience in engineering, procurement & construction management, and project management. He was previously engaged with EPTL as Chief Operating Officer. Mr. Ahsan is accompanied by a lean but efficient management team. <p>Completion Risk</p> <ul style="list-style-type: none"> EPTL has signed an Onshore EPC agreement with China East Resource Import & Export Co. (CERIECO) and an offshore agreement with CMEC. CERIECO, established in 1993 is a Chinese state-owned company. It specializes in EPC contracts and engineering consulting services CMEC, since 1978, provides engineering consulting, project design, financing solutions, and plant logistic services locally and internationally. The RCOD of the Complex is June-2019 while contracted COD is Oct-2019. In case of any delays, LDs will be paid through shareholders' ROE. Coal Supply Agreement has been signed with Sindh Engro Coal Mining Company (SECMC) and the mine's contracted COD is Oct-2019. The successful commissioning and operations of the Complex, in addition to its own completion, is dependent on mine's COD and other affiliated infrastructure projects. Other affiliated infrastructure projects are; Water Supply System, Effluent Disposal Scheme, Transmission Line, Road Network, & Airport. These projects are to be completed by Government of Sindh & Government of Pakistan. Expected completion of these projects is end-2018. As of Nov-17, the actual progress is 58.88% versus planned progress of 55.19%, based on the shorter 38-month schedule. EPTL has attained reasonable insurance cover for material damage, third party liability, and delay in startup affecting the profits. Additionally, Marine, Terrorism, and Excess Third Party Liability Insurances are also held. 	<p>Engro Powergen Limited (EPL) along with China Machinery & Engineering Corporation (CMEC) is setting up first Thar coal based (2 x 330 MW) power plant (Complex) - Engro Powergen Thar (Pvt.) Limited (EPTL). The project achieved financial close (FC) in Apr-16 and the project's contracted COD is in Oct-19. However, management is aiming for COD in Jun-19 on best efforts basis. RCOD is Jun-19 as per PPA and delay LDs will apply if this date is exceeded. Nevertheless, in case of any delays, LDs will be paid through shareholders' ROE. The primary fuel is Thar Coal; however, the plant can accommodate imported coal. A 30 year coal supply agreement is signed with Sindh Engro Coal Mining Company (SECMC), which is constructing a coal mine in Thar Block-II. The mine's contracted COD is Oct-19, though the management is targeting COD by June-19. As of Nov-17, the actual progress is 58.88% versus planned progress of 55.19%, based on the shorter 38-month schedule. The financial strength and experience in energy chain of the sponsoring companies – EPL and CMEC – is positive to the ratings. The onshore EPC contract is with CERIECO and offshore EPC contract is with CMEC. Comfort is drawn from the experience of these contractors and the involvement of Pakistan and Chinese governments, as this project comes under CPEC. The ratings incorporate the project's exposure to the completion risks of multiple affiliated infrastructure projects needed for the successful commissioning of the Complex. Once completed, the Company's main challenge would be to keep the plant operational. Off take agreement is with NTDC, which will, upon plant's availability as per contract, provide capacity payments even if no purchase order is placed. The Government of Pakistan has given payment guarantee against dues from NTDC. The business risk of the company is exposed to the specifications of Thar Coal, which is being used for the first time. However, use of CFB Boiler by the Company largely covers the risk of varying lignite quality.</p>
<p>Performance Risk</p> <ul style="list-style-type: none"> The O&M contractor for EPTL is a JV between EPL & CMEC. The contract is over a 10 year term. Contracted availability and efficiency is 85% and 37% respectively. The ROE provided to EPTL on use of Thar coal is 30.65% & 24.5% on imported coal. <p>Financial Risk</p> <ul style="list-style-type: none"> Debt financing constitutes 75% of the project cost; \$831mln. To-date, EPTL has drawn 46% of its debt financing facilities. USD facility of \$621mln and local facility of \$210mln have a 14 year door to door tenure, and are to be paid in 20 semi-annual payments over a period of 10 years after COD. The USD facility is at LIBOR + 4.2% and local at KIBOR + 3.5%. The yearly debt and mine capacity payments can be made at 67% availability (8 months of availability). 	<p>KEY RATING DRIVERS</p> <p>The management's ability to effectively manage EPC risks provides comfort. Ensuring timely commissioning of the project would remain critical, which, once achieved, would be ratings positive. Moreover, timely completion of the affiliated infrastructure projects needed to make the plant operational and the viability of Thar Coal is critical. External factors such as any adverse changes in the regulatory framework or material delay in achieving CoD may impact the ratings.</p>

Engro Powergen Thar (Pvt.) Limited

BALANCE SHEET	30-Jun-17	31-Dec-16	31-Dec-15	31-Dec-14
	6M	Annual	Annual	Annual
Non-Current Assets	37,525	31,497	1,576	91
Investments (Others)	-	-	-	-
Current Assets	1,510	1,336	294	124
Trade Receivables	-	-	-	-
Other Current Assets	50	55	6	7
Cash & Bank Balances	1,461	1,282	288	117
TOTAL ASSETS	39,035	32,833	1,870	214
Debt	19,944	14,440	-	-
Short-term	-	-	-	-
Long-term (Incl. Current Maturity of long-term debt)	19,944	14,440	-	-
Other Short term liabilities (inclusive of trade payables)	1,246	2,165	91	19
Other Long term Liabilities	-	-	-	-
Shareholder's Equity	17,845	16,228	1,778	196
TOTAL LIABILITIES & EQUITY	39,035	32,833	1,870	214

INCOME STATEMENT

Admin Expenses	(10)	(36)	(14)	(4)
Other Income	-	21	10	-
Financial Charges	(0)	(0)	-	-
Taxation	(0)	(1)	(0)	0
Net Income	(10)	(16)	(4)	(4)

Cashflow Statement

Free Cashflow from Operations (FCFO)	(14)	(19)	(13)	(4)
Net Cash changes in Working Capital	(1,005)	1,810	77	12
Net Cash from Operating Activities	(1,019)	1,792	64	7
Net Cash from Investing Activities	(6,066)	(22,950)	(462)	(91)
Net Cash from Financing Activities	7,267	22,145	565	200
Net Cash generated during the period	179	994	171	117

Ratio Analysis

Capital Structure (Total Debt/Total Debt+Equity)	52.7%	47.0%	0.0%	0.0%
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Engro PowerGen Thar (Private) limited

Dec-17

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

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Rated Entity

Name of Rated Entity

Sector

Type of Relationship

Purpose of the Rating

Rating History

Engro Powergen Thar (Private) Limited
IPPs
Solicited

Independent Risk Assessment

Dissemination Date	Long Term	Short Term	Outlook	Action
23-Jun-17	A	A1	Stable	Maintain
30-Dec-16	A	A1	Stable	Initial

Methodology:

Sector Research:

IPP Rating Methodology
Power Generation - Mar2017

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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 entity/instrument.

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Probability of Default (PD)

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.