The Pakistan Credit Rating Agency Limited

RATING REPORT

ATLAS POWER LIMITED

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

REPORT CONTENTS

DECEMBER 2017

Profile &Ownership

- Atlas Power Limited (APL), a public limited unlisted company formed in 2007, was established as an independent power producer (IPP), under the 2002 Power Policy. APL initiated commercial operations in December 2009.
- A Residual Furnace Oil based thermal plant of ~225MW nameplate capacity with eleven engines and a steam turbine.
- Project cost - US$272.5mln - comprising 25% equity and 75% Debt.
- Key source of earning is generation tariff from NTDC through Energy and Capacity Payments .
- The company's major shareholder (85% Shareholding) is Shirazi Investments - Holding Comapany of Atlas Group, whereas other shareholding lies with Allied Bank (7.5%) and National Bank of Pakistan (7.5%).

Governance

- Board of the company comprises nine members excluding CEO.
- Atlas group dominated the board with five members from Shirazi Investments, however, others include two independent directors and one member from NBP and ABL, each..
- Highly qualified and experienced board, providing startegic guidance to the company and ensuring quality internal control framework.
- Mr. Yusuf H. Shirazi - Chairman of the board is associated with the atlas group since 1962

Management

- Mr. Maqsood A. Basra is the Chief Eexecutive Officer of the company. He has been associated with atlas group since 1989.
- Mr. Maqsood is supported by a lean but able management team.
- The company has two management committees in place, namely (i) Executive Committee and (ii) Management Committee.

Business and Operational Risk

- Operations and maintainence of the plant is outsourced to Man Diesel and Turbo; the world's leading provider of large-bore diesel engines for marine and power plants.
- The company has long term contract with MAN diesel expiring in June-2021.
- Man Diesel Pakistan has been efficiently maintaining the plant availibility, output, and efficiency level.
- APL has fuel supply arrangements with two suppliers namely Total Parco, and Attock Petroleum.

Performance

- During FY17 electricity of 1,337Gwh was produced (FY16:1,320 MWH) at 45% thermal efficiency. APL's availability remained well above its requirement benchmark (88%).
- Profitablity of the company remained strong (FY17: 3,308mln, FY16: 3,144mln, FY15: 2,290 mln).

Financial Risk

- Debtors days increased despite improved payment behavior of power purchaser (FY17: 219days, FY16: 192days) which resulted in higher cash cycle (FY17 192days, FY16: 155days).
- Company's coverages remained strong though declined (FCFO/Gross Interest+CMLTD : FY17: 1.4x, FY16: 1.8x) on the back of healthy FCFO.
- Company's leveraging increased despite gradual repayment of project loan mainly due to significant increase in short term borrowing (FY17: 60.5%, FY16: 58.4%)

RATING RATIONALE

The ratings of APL reflect its strong financial profile. APL's good credit terms with fuel supplier and efficient inventory management has enabled it better management of debt repayments. Nevertheless, delayed payments from the power purchaser remained a challenge. Despite higher receivable days the entity managed to sustain its financial strength. Business risk is considered low exhibited by demand risk coverage under Power Purchase Agreement signed between NTDC and the company. The implementation agreement further provides sovereign guarantee for cash flows, given adherence to agreed performance benchmarks. The ratings incorporate low operational risk, a result of the performance of MAN Diesel Pakistan - the O&M operator. APL continues to meet its availability (88%) and efficiency (45%) benchmarks. APL has total long term debt of PKR 6,151mln as at end-Jun17 payable till October 2019. Sound financial profile of Atlas Group; the major sponsor, provides comfort to the ratings.

KEY RATING DRIVERS

Adherence to good financial discipline towards both financial and commercial obligations would remain important. Meanwhile, upholding strong operational performance in line with agreed performance levels remain important. Any significant increase in overdue receivables, in turn weakening in financial risk profile would be a concern.

Atlas Power Limited

PKR mln

BALANCE SHEET	30-Jun-17	30-Jun-16	30-Jun-15
	FY17	FY16	FY15
Non-Current Assets	**13,909**	**14,686**	**15,472**
Current Assets	**14,152**	**10,687**	**9,959**
Inventory	1,888	1,481	447
Trade Receivables	10,420	7,745	8,406
Other Current Assets	1,623	1,437	984
Cash & Bank Balances	222	24	122
Total Assets	**28,060**	**25,373**	**25,431**
Debt	**15,589**	**12,967**	**13,163**
Short-term	9,438	5,060	4,251
Long-term (Inlc. Current Maturity of long-term debt)	**6,151**	**7,907**	**8,912**
Other Short term liabilities (inclusive of trade payables)	2,277	3,149	4,378
Other Long term Liabilities	15	12	10
Shareholder's Equity	**10,181**	**9,245**	**7,880**
Total Liabilities & Equity	**28,061**	**25,374**	**25,431**
INCOME STATEMENT			
Turnover	**17,336**	**14,730**	**22,774**
Gross Profit	4,814	4,480	4,358
Other Income	1	(10)	(6)
Financial Charges	(1,209)	(1,125)	(1,899)
Net Income	**3,308**	**3,144**	**2,290**
Cashflow Statement			
Free Cashflow from Operations (FCFO)	5,306	5,068	4,984
Net Cash changes in Working Capital	(4,611)	(1,541)	397
Net Cash from Operating Activities	(477)	2,317	3,404
Net Cash from InvestingActivities	(14)	(5)	(10)
Net Cash from Financing Activities	689	(2,410)	(3,762)
Net Cash generated during the period	198	(98)	(368)
Ratio Analysis			
Performance			
Turnover Growth	17.7%	-35.3%	-19.5%
Gross Margin	27.8%	30.4%	19.1%
Net Margin	19.1%	21.3%	10.1%
ROE	34.1%	34.0%	27.0%
Coverages			
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.4	1.8	1.5
Interest Coverage (X) (FCFO/Gross Interest)	4.4	4.5	2.6
FCFO Pre-WC/Gross interest+CMLTD	1.3	1.8	1.5
FCFO POST-WC/Gross interest+CMLTD	0.2	1.2	1.6
Liquidity			
Net Cash Cycle	192.3	155.4	110.1
Capital Structure (Total Debt/Total Debt+Equity)	60.5%	58.4%	62.6%

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

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 Ratings

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 conditions.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

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 surveill 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 Rated Entity Atlas Power Limited
Sector IPP
Type of Relationship Solicited

Purpose of the Rating Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
22-Dec-17	AA-	A1	Stable	Maintain
23-Jun-17	AA-	A1	Stable	Maintain
27-Oct-16	AA-	A1	Stable	Maintain
30-Oct-15	AA-	A1+	Stable	Upgrade
05-Mar-15	A+	A1	Positive	Maintain
24-Jan-14	A+	A1	Stable	Maintain
26-Nov-12	A+	A1	Stable	Downgrade

Related Criteria and Research

Rating Methodology IPP's Rating Methodology
Sector Research Power Generation - Viwepoint | Mar17

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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.

Disclaimer

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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

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