



The Pakistan Credit Rating Agency Limited

Rating Report

WAPDA | PPTFC | Sep-13

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Jun-2018	AAA	-	Stable	Maintain	-
20-Nov-2017	AAA	-	Stable	Maintain	-
30-Dec-2016	AAA	-	Stable	Maintain	-
09-Jan-2016	AAA	-	Stable	Maintain	-
09-Jan-2015	AAA	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

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 (30% in overall electricity generation in FY17). 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'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. On standalone basis, tariff increase during FY17 resulted in improved business margins. Thus overall performance of WHE strengthened further. However, consistent delays by the sole power purchaser have led to constrained cashflow management.

WHE's financial profile draws comfort from strong cashflows. However, it remains dependent on repayment behavior of power purchaser. Continued compliance with the predefined covenants of PPTFC, including maintenance of DPA would remain critical.

Disclosure

Name of Rated Entity	WAPDA PPTFC Sep-13
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Debt Instruments Rating Methodology(Jun-17),Methodology Criteria Modifiers(Jun-17),Methodology Independent Power Producers (IPP)(May-17)
Related Research	Sector Study Power(Apr-18)
Rating Analysts	Muhammad Hassan muhammad.hassan@pacra.com +92-42-35869504

WAPDA - PROFILE	
Incorporated	1958 – Through a statutory act
Major business lines	Power Generation Water Development
Legal status	PSE
Head office	Lahore
Chairman	LT. General (Retd.) Muzzamil Hussain
Installed Capacity	6,902 MW

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> ▪ Pakistan total power generation is increasing on the back of new power projects under CPEC ▪ Pakistan's energy mix is shifting towards Gas/RLNG and coal from Furnace Oil and other expensive sources ▪ Pakistan plans to add over 10,000MW hydel electricity in next decade. ▪ Going forward, cheap renewable electricity will be a challenge to viability of thermal power plants.

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 to add ~8,298MW by 2024.

ABOUT THE PPTFC

- WAPDA has issued privately placed term finance certificates (TFC) of PKR 9,327mln in 2013.
- Cashflows received via WAPDA Hydroelectric wing from single customer – CPPA-G utilized to pay TFC markup and installments.
- Profit on the PPTFC is paid semi-annually at 6MK + 1.75% and at 6MK + 1% if paid within 15 days of due date.
- 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.
- Lt. General (Retd.) Muzzamil Hussain is the Chairman WAPDA since 2016.
- 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.
- WAPDA has a highly experienced management team with most of them having long term association.

BUSINESS RISK

- WAPDA has total generation capacity of 6,902 MW while many projects are in pipeline including Neelum Jehlum (through a 100% owned subsidiary), Dasu Hydro Power Project and Tarela Extensions. Although WHE has not added any significant capacity in last few years.
- 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 revenue increased (FY17: PKR 65,235mln; FY16: PKR 54,776mln) as WAPDA's tariff was revised on account of adjustment of revenue gap for previous year.
- Due to change in its accounting policy, finance cost increased significantly (FY17: 21,349mln, FY16: 18,667mln, FY15: 8,354mln). However, despite increase in finance cost profitability improved (FY17: 17,015mln, FY16: 7,654mln) on the back of higher tariff.

FINANCIAL RISK

- WAPDA as part of its arrangements with provinces pays Net Hydel Profit @ 1.1Kwh to provinces. This amount is recoverable from CPPA-G via its tariff. CPPA-G approved WAPDA's tariff including Net Hydel Profit payable to provinces was approved in FY17. Consequently, WHE's receivables increased significantly (FY17: PKR 53,472mln; FY16: PKR 19,477mln).
- Receivables include Net Hydel Profits amounting to 42,224mln. Thus, receivable days have also increased to 300days at end-Jun17 (Jun16: 130days; Jun15: 209days).
- WHE's free cash flow from operation remained strong increasing by 21% YoY (FY17: PKR ~58bln; FY16: PKR ~48bln). Despite increase in finance cost, increase in cashflows lead to improvement in WHE's debt service coverages (FCFO/ Gross Interest + CMLTD: FY17: 2.1x; FY16: 1.2x).
- WAPDA capital structure remained moderately leveraged (FY17: 54.2%, FY16: 52.6%).

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

	30-Jun-17	30-Jun-16	<i>PKR mln</i> 30-Jun-15
	<i>Annual</i>	<i>Annual</i>	<i>Annual</i>
<i>Non-Current Assets</i>	1,145,131	1,091,683	1,053,101
<i>Investments</i>	2,000	-	19
<i>Cash and Bank Balances</i>	58,086	46,940	55,777
<i>Inventories</i>	4,694	5,583	3,993
<i>Trade Receivables</i>	53,472	19,477	34,879
<i>Other Current Assets</i>	8,472	27,670	2,152
Total Assets	1,271,855	1,191,353	1,149,920
<i>Current Liabilities</i>	35,496	16,789	16,821
<i>Long Term Borrowings (Including Current Maturities)</i>	229,745	185,511	137,715
<i>Other Non Current Liabilities</i>	38,103	37,557	32,528
<i>Shareholders' Equity</i>	968,512	951,497	962,856
Total Liabilities & Equity	1,271,855	1,191,353	1,149,920

PROFIT & LOSS ACCOUNT

	30-Jun-17	30-Jun-16	30-Jun-15
<i>Turnover</i>	65,235	54,776	61,002
<i>Gross Profit</i>	36,250	25,399	40,079
<i>Other Income</i>	2,654	1,933	3,441
<i>Financial Charges</i>	(21,349)	(18,667)	(8,354)
<i>Net Income</i>	17,015	7,654	33,736

CASHFLOW STATEMENT

	30-Jun-17	30-Jun-16	30-Jun-15
<i>EBITDA</i>	60,450	49,808	56,157 *
<i>Free Cashflow from Operations (FCFO)</i>	57,857	47,790	54,746 *
<i>Net Cash provided by operating activities</i>	39,255	38,708	27,616 *
<i>Net Cash available from investing activities</i>	(71,393)	(53,943)	(25,785) *
<i>Cashflow from financing activities</i>	43,284	6,398	26,796

RATIO ANALYSIS

	30-Jun-17	30-Jun-16	30-Jun-15
<i>Gross Margin</i>	55.6%	46.4%	65.7%
<i>Pre-Tax Profit Margin</i>	26.1%	14.0%	55.3%
<i>Net Profit Margin</i>	26.1%	14.0%	55.3%
<i>Net Cash Cycle (Days)</i>	239.8	94.0	176.4
<i>Interest Coverage (X)</i>	2.7	2.6	6.6
<i>Debt Service Coverage</i>	2.1	1.2	2.1
<i>Debt Payback (X)</i>	4.0	3.9	2.5
<i>Capital Structure</i>	54.2%	52.6%	45.0%

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



DEBT INSTRUMENT RATING SCALE & DEFINITIONS

The instrument rating reflects forward-looking opinion on credit worthiness of underlying debt 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+ 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.		

<p>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’.</p>	<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. 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.</p>	<p>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.</p>	<p>Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information</p>
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Disclaimer: PACRA's ratings are 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.

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

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- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (12) 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 fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is 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 | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) 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 | Chapter III | 14-(f-VII)

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Regulatory and Supplementary Disclosure

Repayment Schedule PPTFC

PPTFC 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	-
Total			9,327,000	4,079,826	(332,642)	13,074,183	-