



The Pakistan Credit Rating Agency Limited

Rating Report

Atlas Power Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Jun-2018	AA-	A1+	Stable	Maintain	-
22-Dec-2017	AA-	A1+	Stable	Maintain	-
23-Jun-2017	AA-	A1+	Stable	Maintain	-
27-Oct-2016	AA-	A1+	Stable	Maintain	-
30-Oct-2015	AA-	A1+	Stable	Upgrade	-

Rating Rationale and Key Rating Drivers

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 a 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 (93%) and efficiency (45%) benchmarks. Total outstanding balance of project related debt as at end-Apr18 is PKR 4,142mln, payable till October 2019. Additionally, company has borrowed new long-term debt of PKR 2,000mln at lucrative terms to meet its permanent working capital requirements. Sound financial profile of Atlas Group; the major sponsor, provides comfort to the ratings.

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.

Disclosure

Name of Rated Entity	Atlas Power Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation between long-term and short-term rating scale(Jun-17),Methodology Criteria Modifiers(Jun-17),Methodology Independent Power Producers (IPP)(May-17)
Related Research	Sector Study Power(Apr-18)
Rating Analysts	Hamza Ghalib hamza.ghalib@pacra.com +92-42-35869504



Atlas Power Limited – Profile	
Incorporated	2007
Major business lines	Independent Power Producer
Legal status	Public, unlisted
COD	2009
Name plate capacity	225 MW
Primary Fuel	RFO
Plant Location	Lahore Sheikhpura Road

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 ▪ Gas fired power plants have lowest per unit cost among all fossil fuel power plants. ▪ Going forward, cheap renewable electricity will be a challenge to viability of Thermal power plants.

OWNERSHIP

- The company’s major shareholder (85% Shareholding) is Shirazi Investments - Holding Company of Atlas Group, whereas other shareholding lies with Allied Bank (7.5%) and National Bank of Pakistan (7.5%).
- Atlas Group (Atlas) was founded in 1962 with the establishment of Shirazi Investments (Pvt.) Limited (SIL). Since then, Atlas has emerged as one of the leading business groups in the country

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 strategic 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
- EY Ford Rhodes Chartered Accountants are the external auditors of the company. They have expressed an unqualified opinion on the company’s accounts for the period ended June 30, 2017

MANAGEMENT AND CONTROL

- Mr. Maqsood A. Basra is the Chief Executive 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.
- Various MIS reports are prepared for the management to keep track of all operating activities and operational efficiencies. Apart from daily reporting, a more detailed MIS on a monthly basis is also generated.

BUSINESS AND OPERATIONAL RISK

- Operations and maintenance 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 availability, output, and efficiency level.
- APL has fuel supply arrangements mainly with two suppliers namely Total Parco, and Attock Petroleum.

PERFORMANCE

- During 9MFY18 electricity of 923GWhr was produced (9MFY17: 974 GWhr) at 45% thermal efficiency. APL’s availability remained well above its requirement benchmark (Required: 88%, Actual: 93%)
- Profitability of the company remained strong (9MFY18: 2,363mln, 9MFY17: 2,487). Slight dip in profitability is observed owing to higher administrative expenses during the period under review.

FINANCIAL RISK

- Debtors days increased (9MFY18: 279days, FY17: 219days) owing to deteriorated payment behavior from the power purchaser resulting in escalation of net cash cycle days (9MFY18: 247days, FY17: 192days).
- FCFO of the company largely remained at the same level culminating sustained coverages in comparison to same period last year (SPLY) [Interest coverage: 9MFY18: 4.3x, 9MFY17: 4.3x]
- Company’s leveraging increased despite gradual repayment of project loan mainly due to significant increase in short term and long-term borrowings (9MFY18: 64%, 9MFY17: 60%).
- Project related debt was PKR 14,124mln, out of which PKR 9,982mln has been paid off. Total Principal outstanding at end-Jan18 is PKR 4,142mln.
- During FY18, management has undertaken new loan amounted to PKR 2000mln (Non-current Liability) to finance its permanent working capital needs. Total tenure of the loan will be four years with the grace period of three years. The loan will be paid in four quarterly installments during its last year.



Atlas Power Limited

BALANCE SHEET	30-Mar-18	30-Jun-17	31-Mar-17	30-Jun-16	30-Jun-15
	9M	FY17	9M	FY16	FY15
Non-Current Assets	13,353	13,909	14,104	14,686	15,472
Investments (Others)	1	1	1	1	-
Current Assets	18,446	14,152	13,319	10,687	9,959
Inventory	2,228	1,888	1,878	1,481	447
Trade Receivables	13,648	10,420	9,760	7,745	8,406
Other Current Assets	1,821	1,623	1,470	1,437	984
Cash & Bank Balances	749	222	211	24	122
Total Assets	31,800	28,061	27,424	25,374	25,431
Debt	18,855	15,589	14,910	12,967	13,163
Short-term	12,713	9,438	8,297	5,060	4,251
Long-term (Incl. Current Maturity of long-term debt)	6,142	6,151	6,614	7,907	8,912
Other Short term liabilities (inclusive of trade payables)	2,399	2,277	2,548	3,149	4,378
Other Long term Liabilities	16	15	12	12	10
Shareholder's Equity	10,530	10,181	9,954	9,245	7,880
Total Liabilities & Equity	31,800	28,061	27,424	25,374	25,431

INCOME STATEMENT

Turnover	13,362	17,336	12,604	14,730	22,774
Gross Profit	3,485	4,814	3,615	4,480	4,358
Other Income	-	1	2	(10)	(6)
Financial Charges	(898)	(1,209)	(922)	(1,125)	(1,899)
Net Income	2,363	3,308	2,487	3,144	2,290

Cashflow Statement

Free Cashflow from Operations (FCFO)	3,858	5,306	3,998	5,068	4,984
Net Cash changes in Working Capital	(3,664)	(4,611)	(3,023)	(1,541)	397
Net Cash from Operating Activities	(684)	(477)	40	2,317	3,404
Net Cash from Investing Activities	(40)	(14)	(11)	(5)	(10)
Net Cash from Financing Activities	1,252	689	158	(2,410)	(3,762)
Net Cash generated during the period	528	198	187	(98)	(368)

Ratio Analysis

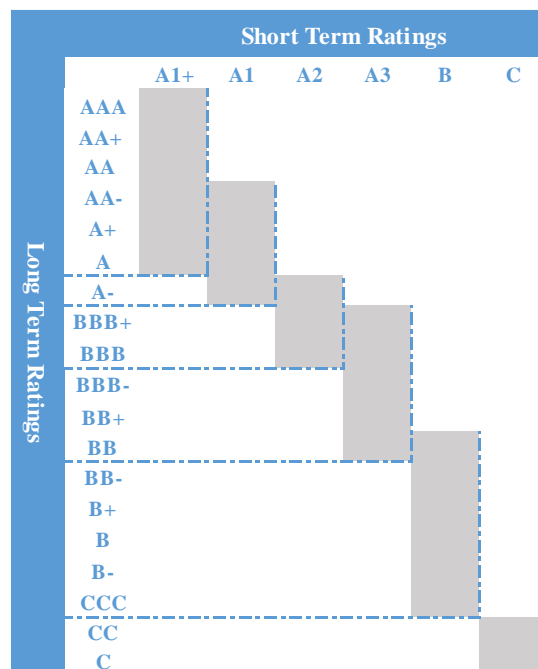
Performance					
Turnover Growth	6.0%	17.7%	11.1%	-35.3%	-19.5%
Gross Margin	26.1%	27.8%	28.7%	30.4%	19.1%
Net Margin	17.7%	19.1%	19.7%	21.3%	10.1%
ROE	29.9%	32.5%	33.3%	34.0%	29.1%
Coverages					
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.5	1.4	1.4	1.8	1.5
Interest Coverage (X) (FCFO/Gross Interest)	4.3	4.4	4.3	4.5	2.6
FCFO Pre-WC/Gross interest+CMLTD	1.3	1.3	1.3	1.8	1.5
FCFO POST-WC/Gross interest+CMLTD	0.1	0.2	0.3	1.2	1.6
Liquidity					
Net Cash Cycle	247.8	192.3	175.5	155.4	110.1
Capital Structure (Total Debt/Total Debt+Equity)	64.2%	60.5%	60.0%	58.4%	62.6%

Atlas Power Limited

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	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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.

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

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (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.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (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)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (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)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can 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 prior written consent