



The Pakistan Credit Rating Agency Limited

Rating Report

Habibullah Coastal Power Company (Pvt.) 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	A	A1	Stable	Maintain	-
29-Dec-2017	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings of Habibullah Coastal Power Company (Pvt.) Limited (Habibullah Coastal), an established IPP, reflect its stable business profile emanating from the demand risk coverage under Power Purchase Agreement signed between power purchaser and the company. Meanwhile, the Implementation Agreement provides sovereign guarantee for cashflows, given adherence to agreed performance benchmarks. Habibullah Coastal has a Gas Supply Agreement with Sui Southern Gas Company (SSGC) for 20 years, ending in Sep 2019. The company can apply for extension of GSA in no less than 2 years or more than 18 months prior to expiry of GSA. The company was in arbitration with SSGC for the recovery of liquidated damages it incurred under the PPA, including consequential losses, due to SSGCL failure to supply gas and the final decision has been awarded in favour of HCPC in April 2018. One time impact of this decision on the profitability is yet to be seen. The company's project debt has been paid and it only borrows to meet its short term needs or for BMR purposes. Consequently, the company continues to enjoy sound coverages, underpinned by leveraged structure. However, like other IPPs, its financial profile remains dependent on the payment behaviour of the power purchaser.

Although well-managed, in-house O&M activities expose the company to operational risk; thus upholding strong operational performance in line with agreed performance levels would remain a key driver of the ratings. Meanwhile, extension in GSA with SSGC and final settlement of liquidated damages with SSGC are critical and success here would beneficially impact the ratings.

Disclosure

Name of Rated Entity	Habibullah Coastal Power Company (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating Methodology(Jul-17),Methodology Correlation between long-term and short-term rating scale(Jun-17),Methodology Criteria Modifiers(Jun-17)
Related Research	Sector Study Food and Allied(Dec-17)
Rating Analysts	Muhammad Hassan muhammad.hassan@pacra.com +92-42-35869504



HABIBULLAH COASTAL PROFILE	
Incorporated	1995
Major business lines	Independent Power Producer
Legal status	Private Limited
COD	1999
Plant Specifications	Combined Cycle – GE turbines
Primary Fuel	Gas
Plant Location	Quetta
Head Office	Karachi

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 Gas based power plants.

OWNERSHIP

- The ultimate beneficiary of Habibullah Coastal is Mr. Saad Faruqui who owns 92.5% shareholding in the Company through Ithaca Capital Limited.
- Ithaca Capital is a privately held investment holding company and, through its subsidiary, is a manager of third party private equity funds.
- Ithaca Capital has raised and deployed over \$400mm of equity, mezzanine and debt for its own investment purposes and on behalf of its limited partners and co-investors.

GOVERNANCE

- The board is dominated by the sponsor’s representatives. The company’s board of directors comprises of five directors. All the board members are seasoned professionals having interests in various sectors of the industry.
- The company does not follow code of corporate governance being a private company. The board has not formed any committee.
- Inclusion of Independent director is expected to improve overall governance of the company.

MANAGEMENT

- The management control of the company vests with Ithaca Capital being largest shareholder.
- Mr. Saad Faruqui, the CEO, has been spearheading the company since assuming the management control of the company. Mr. Saad, carries with him over two decades of experience in various fields of industry.
- Habibullah Coastal has a lean management structure. It has separate teams at head office and at plant site. At plant site, team is headed by Mr. Aali Moazzam – GM Plant.

BUSINESS AND OPERATIONAL RISK

- Daily O&M activities are handled in house while major maintenance related to turbines is managed by GE Pakistan.
- The company has a 20 years Gas Supply Agreement with Sui Southern Gas Company which is expiring in 2019. Long term contract for fuel supply eliminates risk of non-availability of fuel. However, in winter availability of gas diminishes owing to high demand by households. Going forward, with inclusion of RLNG into the gas is expected to be available throughout the year.
- The company will start negotiations for extension of GSA 18 months before expiry of GSA. Habibullah Coastal’s plant is at strategic location of Quetta which will help the company to get extension with favorable terms.

PERFORMANCE

- Habibullah Coastal being an old plant and due to lesser availability of gas struggled to meet the efficiency benchmark of 41.88% (CY17: 39.74%, CY16: 39.98%).
- Due to improvement in availability of gas in winters Company’s net electricity output improved in CY17. (CY17: 803GWhr, CY16: 628GWhr).
- Overall profitability of the company improved owing to lesser liquidated damages and lower gas prices. In house O&M helped to reduce admin and general expenses. Lower gas prices has helped the efficiency loss to reduce which in turn helped in better profitability (1QCY18: 298mln CY17: 949mln, CY16: 528mln)

FINANCIAL RISK

- Habibullah Coastal meets its working capital requirements through mix of short term borrowing and by delaying its payments to fuel supplier. It has acquired RF line of PKR 1bln to meet its working capital needs of which 965mln was utilized as at end Mar18.
- Cash cycle has increased due to delayed payments by power purchaser (1QCY17: 69days; CY17: 63days, CY16: 73days) - owing to increased receivable days (1QCY18: 405days CY17: 448days; CY16: 335days).
- Post-Working Capital coverage (FCFO/Interest + Current Maturity Long Term Debt) stayed strong though declined (1QCY18: 2.3x, CY17: 1.5x; CY16: 2.8x).
- The company has paid all of its project debt and now the long term includes debt acquired for BMR or future expansion.
- The company has a low leveraged capital structure (D/D+E; 1QCY18: 21.0%, CY17: 20%, CY16: 26%).



Habibullah Coastal Power Company (Pvt.) Ltd.

BALANCE SHEET

	31-Mar-18	31-Dec-17	31-Dec-16	31-Dec-15
	3M	Annual	Annual	Annual
Non-Current Assets	5,210	5,339	5,731	5,793
Current Assets	9,292	8,789	7,076	6,006
Inventory	256	262	248	228
Trade Receivables	6,352	6,178	5,194	4,134
Other Current Assets	2,078	2,024	1,300	838
Cash & Bank Balances	606	325	334	805
Total Assets	14,502	14,128	12,807	11,799
Debt	1,503	1,365	1,584	815
Short-term	965	730	695	450
Long-term (Incl. Current Maturity of long-term debt)	537	635	889	365
Other Short term liabilities (inclusive of trade payables)	7,275	7,336	6,745	5,306
Other Long term Liabilities	-	-	-	-
Shareholder's Equity	5,725	5,427	4,478	5,678
Total Liabilities & Equity	14,502	14,128	12,807	11,799

INCOME STATEMENT

Turnover	1,413	5,026	5,671	5,441
Gross Profit	398	1,173	730	600
Other Expense/Income	-	(6)	(0)	(4)
Interest Expense/Income	(35)	(86)	(57)	24
Net Income	298	972	528	509

Cashflow Statement

Free Cashflow from Operations (FCFO)	466	1,528	1,028	911
Net Cash changes in Working Capital	(324)	(938)	12	448
Net Cash from Operating Activities	112	480	983	1,252
Net Cash from Investing Activities	(25)	(239)	(487)	(420)
Net Cash from Financing Activities	93	(108)	(966)	(1,337)
Net Cash generated during the period	179	133	(471)	(505)

Ratio Analysis

Performance

Turnover Growth	30.1%	36.5%	4.2%	10.2%
Gross Margin	28.2%	23.3%	12.9%	11.0%
Net Margin	21.2%	18.9%	9.3%	9.4%
ROE	5.2%	17.5%	11.8%	9.0%

Coverages

Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	2.0	3.9	2.7	3.3
Interest Coverage (X) (FCFO/Gross Interest)	12.1	12.2	12.1	8.6
FCFO Pre-WC/Gross interest+CMLTD	2.0	3.9	2.7	3.3
FCFO POST-WC/Gross interest+CMLTD	0.6	1.5	2.8	5.0

Liquidity

Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	69	63	66	80
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Capital Structure

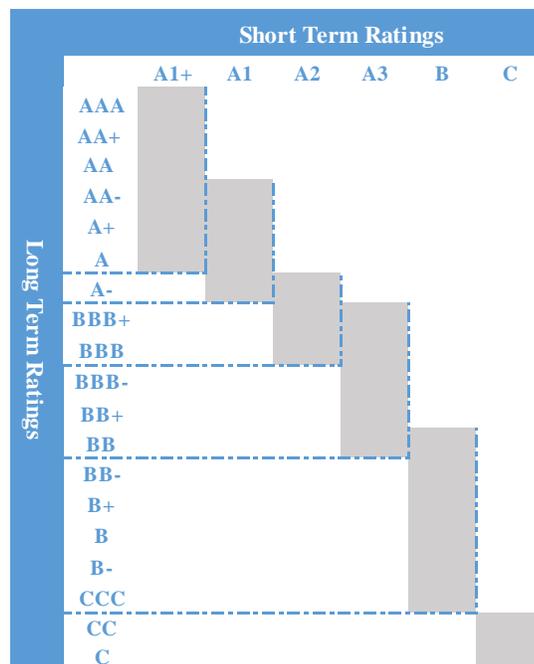
Net Debt/Net Debt+Equity	20.8%	20.1%	26.1%	12.6%
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Jun-18

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.

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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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- (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)

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- (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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