



The Pakistan Credit Rating Agency Limited

## ENTITY RATINGS REPORT

# HABIBULLAH COASTAL POWER COMPANY (PVT.) LIMITED

ENTITY	RATING	OUTLOOK	ACTION	DATE
Habibullah Coastal Power Company (Pvt.) Limited	Long Term: A Short Term: A1	Stable	Initial	29 <sup>th</sup> December 2017

### Rating Rationale

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 is in arbitration with SSGC to settle overdue liquidated damages. A favourable decision will provide one time comfort to the profitability of Habibullah Coastal. 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.

### Key Rating Drivers

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 arbitration with SSGC are critical and success here would beneficially impact the ratings

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# INDEPENDENT POWER PRODUCER

The Pakistan Credit Rating Agency Limited

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

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> <li>Pakistan total power generation is increasing on the back of new power projects under CPEC</li> <li>Pakistan's energy mix is shifting towards Gas/RLNG and coal from Furnace Oil and other expensive sources</li> <li>Gas fired power plants have lowest per unit cost among all fossil fuel power plants.</li> <li>Going forward, cheap renewable electricity will be a challenge to viability of Gas based power plants.</li> </ul>

OWNERSHIP	GOOD
<ul style="list-style-type: none"> <li>The ultimate Beneficiary of the Company is M/S Ithaca Capital Limited which is owned by Mr. Saad Faruqui - a seasoned business man with main interests in Transportation, Security and technology ventures."</li> <li>Ithaca Capital is a privately held investment holding company and, through its subsidiary, is a manager of third party private equity funds.</li> </ul>	

GOVERNANCE	NEEDS IMPROVEMENT
<ul style="list-style-type: none"> <li>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.</li> <li>The company does not follow code of corporate governance being a private company. The board has not formed any committee.</li> <li>Inclusion of Independent director is expected to improve overall governance of the company.</li> </ul>	

MANAGEMENT	GOOD
<ul style="list-style-type: none"> <li>The management control of the company vests with Ithaca Capital being largest shareholder.</li> <li>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.</li> <li>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.</li> </ul>	

BUSINESS AND OPERATIONAL RISK	GOOD
<ul style="list-style-type: none"> <li>Daily O&amp;M activities are handled in house while major maintenance related to turbines is managed by GE Pakistan.</li> <li>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.</li> <li>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.</li> </ul>	

PERFORMANCE	GOOD
<ul style="list-style-type: none"> <li>Habibullah Coastal being an old plant and due to lesser availability of gas struggled to meet the efficiency benchmark of 41.88% (9MCY17: 39.74%, CY16: 39.98%).</li> <li>Due to improvement in availability of gas in winters company's net electricity output improved in first 9 months of CY17. (9MCY17: 579GWHr, 9MCY17: 439GWHr, CY16: 628GWHr).</li> <li>Overall profitability of the company improved owing to lesser liquidated damages and lower gas prices. In house O&amp;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 (9MCY17: 618mln, 9MCY16: 130mln)</li> </ul>	

FINANCIAL RISK	ADEQUATE
<ul style="list-style-type: none"> <li>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 775mln to meet its working capital needs of which 504mln was utilized as at end Sep17.</li> <li>Cash cycle has increased due to delayed payments by power purchaser (9MCY17: 74days; CY16: 66days) - owing to increased receivable days (9MCY17: 409days; CY16: 335days).</li> <li>Post-Working Capital coverage (FCFO/Interest + Current Maturity Long Term Debt) stayed strong though declined (9MCY17: 1.9x; CY16: 2.8x) despite improvement in FCFO in 9MCY17.</li> <li>The company has paid all of its project debt and now the long term includes debt acquired for BMR or future expansion.</li> <li>The company has a low leveraged capital structure (D/D+E; 9MCY17: 19.0%; CY16: 26%).</li> </ul>	



Habibullah Coastal Power Company (Pvt.) Ltd.

**BALANCE SHEET**

	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
	9M	Annual	Annual	Annual
<b>Non-Current Assets</b>	<b>5,389</b>	<b>5,731</b>	<b>5,793</b>	<b>5,752</b>
<b>Current Assets</b>	<b>7,831</b>	<b>7,076</b>	<b>6,006</b>	<b>5,271</b>
Inventory	261	248	228	184
Trade Receivables	5,530	5,194	4,134	2,897
Other Current Assets	1,636	1,300	838	880
Cash & Bank Balances	404	334	805	1,310
<b>Total Assets</b>	<b>13,220</b>	<b>12,807</b>	<b>11,799</b>	<b>11,023</b>
<b>Debt</b>	<b>1,192</b>	<b>1,584</b>	<b>815</b>	<b>524</b>
Short-term	505	695	450	-
Long-term (Incl. Current Maturity of long-term debt)	687	889	365	524
Other Short term liabilities (inclusive of trade payables)	6,943	6,745	5,306	3,710
Other Long term Liabilities	-	-	-	-
<b>Shareholder's Equity</b>	<b>5,084</b>	<b>4,478</b>	<b>5,678</b>	<b>6,789</b>
<b>Total Liabilities &amp; Equity</b>	<b>13,220</b>	<b>12,807</b>	<b>11,799</b>	<b>11,023</b>

**INCOME STATEMENT**

<b>Turnover</b>	<b>3,683</b>	<b>5,671</b>	<b>5,441</b>	<b>4,939</b>
Gross Profit	829	730	600	357
Other Expense/Income	(6)	(0)	(4)	95
Interest Expense/Income	(75)	(57)	24	107
<b>Net Income</b>	<b>624</b>	<b>528</b>	<b>509</b>	<b>462</b>

**Cashflow Statement**

Free Cashflow from Operations (FCFO)	1,074	1,028	911	644
Net Cash changes in Working Capital	(474)	12	448	1,253
Net Cash from Operating Activities	501	983	1,277	1,962
Net Cash from Investing Activities	(109)	(504)	(415)	(896)
Net Cash from Financing Activities	(11)	(966)	(1,337)	(1,738)
Net Cash generated during the period	382	(487)	(475)	(671)

**Ratio Analysis**

**Performance**

Turnover Growth	-13.4%	4.2%	10.2%	-9.9%
Gross Margin	22.5%	12.9%	11.0%	7.2%
Net Margin	16.5%	9.3%	9.4%	9.4%
ROE	11.9%	11.8%	9.0%	6.8%

**Coverages**

Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	4.5	2.7	3.3	1.0
Interest Coverage (X) (FCFO/Gross Interest)	11.3	12.1	8.6	6.8
FCFO Pre-WC/Gross interest+CMLTD	4.7	2.7	3.3	1.0
FCFO POST-WC/Gross interest+CMLTD	2.0	2.8	5.0	3.1

**Liquidity**

Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	74	66	80	129
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**Capital Structure**

Net Debt/Net Debt+Equity	19.0%	26.1%	12.6%	7.2%
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**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.

<b>LONG TERM RATINGS</b>		<b>SHORT TERM RATINGS</b>
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<b>A1+:</b> The highest capacity for timely repayment.  <b>A1:</b> A strong capacity for timely repayment.  <b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.  <b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.  <b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.  <b>C:</b> An inadequate capacity to ensure timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> 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.	
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> 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.	
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> 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.	
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> 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> <b>B</b> <b>B-</b>	<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</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> 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.	
<b>D</b>	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**

Habibullah Coastal Power Company (Pvt.) Limited  
 Independent Power Producers  
 Solicited

Purpose of the Rating

Independent Risk Assessment

Related Criteria and Research

Power Generation - Mar17

Methodology:

IPP's Rating Methodology

Rating Analysts

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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)