



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
16-May-2019	A	A1	Developing	Maintain	YES
27-Dec-2018	A	A1	Stable	Maintain	-
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 Power), 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 Power has a Gas Supply Agreement (GSA) with Sui Southern Gas Company Limited (SSGCL) for 20 years, ending in Sep 2019. The Company can apply for extension of GSA in no less than 2 months or more than 18 months prior to its expiry. The aforementioned condition indicates the existence of material uncertainty as to the continued operations of the Company. The Company was in arbitration with SSGCL for the recovery of liquidated damages, where International Court of Arbitration issued the final award in favour of the Company, entitling the Company for indemnity and damages from SSGCL, which in turn ultimately be utilized for the settlement of LD's claimed by WAPDA. 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.

There is uncertainty as to the timely renewal of GSA within stipulated time period as the extension of PPA is linked with the renewal of GSA. The management is confident based on rational argument as to the renewal of GSA and continued operations of the Company. If achieved, this would be positive for the company.

Comfort can be drawn from Company's low leveraged balance sheet. 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, renewal of GSA with SSGC is in process (expiring in 3QCY19), while timely renewal of the same is essential for 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 Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18),Methodology IPP (Jun-18)
Related Research	Sector Study Power(Jan-19)
Rating Analysts	Faizan Arif faizan.sufi@pacra.com +92-42-35869504

The Pakistan Credit Rating Agency Limited

Profile

Plant Habibullah Coastal Power Plant (Habibullah Power) operates and maintain a combined cycle 140MW (net capacity: 129.5MW) gas-fired power plant.
Tariff Habibullah Power has an average generation tariff of PKR 1.55313 per Kilowatt hour (KWh) approved from National Electric Power Regulatory Authority (NEPRA).
Return On Project The project is earning adequate returns.

Ownership

Ownership Structure Habibullah Power is a wholly owned subsidiary of Coastal Power International II Limited (CPI) – a holding company incorporated in Cayman Islands. The ultimate beneficiary of Habibullah Coastal is Mr. Saad Faruqui who owns 92.5% shareholding in the Company through Ithaca Capital Limited.
Stability Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. However, sponsors affiliation with Ithaca Capital Limited continue to provide comfort.
Business Acumen Sponsor group have significant experience in investment, leasing, logistic, technology consultation and energy sector.
Financial Strength Being associated with the renowned and financially sound business conglomerate—Ithaca Group, reflects a strong financial strength for the Company.

Governance

Board Structure Habibullah Power has a five member Board of Directors (BoD), including CEO – Mr. Saad Saeed Faruqui.
Members' Profile The board members are professionals with experience of managing business affairs of companies in different sectors. Out of five directors, two directors are on board since 2013, and another two are associated since 2015 while one director (Mr.Muhammad Ali) joined the board in July 2017.
Board Effectiveness The board has four committees in place to assist the board on relevant matter. These include (i) Audit, (ii) HR & Compensation, (iii) Engineering, and (iv) Govt. & Community Relations Committees.
Financial Transparency Ms. Deloitte Yousef Adil & Co. Chartered Accountants are the external auditors of the company. They expressed an unqualified opinion on Company's accounts for the period ended December 31, 2018.

Management

Organizational Structure Habibullah Power has a lean management structure. It has separate teams at head office and at plant site. Technical team is headed by Mr. Aali Moazzam - the COO, while Finance & Commercial is being looked after by Mr. Danish Hussain, FCA - the CFO. The management control of the company vests with Ithaca Capital being largest shareholder.
Management Team 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.
Effectiveness Habibullah Power management effectiveness plays a significant role in empowering the organization through positive results, which has made decision making process systematic.
Control Environment The Company maintains an adequate MIS reporting system for the management to keep track of all operating activities and operational efficiencies. The system generates daily and monthly reports containing information on production, inventory and efficiency maintained. The company uses Maximo-IBM and SAP to generate these reports.

Operational Risk

Power Purchase Agreement Habibullah Power's key source of earnings is the revenue generated through sale of electricity to the power purchaser, WAPDA. The Company will receive the capacity payments if it is at the benchmark availability and is ready to provide electricity, even if no electricity is purchased by Power Purchaser. On April 12, 2002 the term of PPA was amended from twenty years to thirty years subject to extension of Gas Supply Agreement (GSA) with Sui Southern Gas Company Limited.
Operation And Maintenance Daily O&M activities are handled in house while major maintenance related to turbines is managed by GE Pakistan
Resource Risk Habibullah Power engaged Sui Southern Gas Company Limited (SSGCL), for supply of 25mmcf/d Gas to the plant for a period of 20 years. The term of GSA started from the date of COD i.e. Sep 1999, which will be expired on Sep-2019. Company has submitted the initial application for renewal on March18, the renewal of GSA with SSGC is yet to be seen that would impact the ratings both in positive and negative way.
Insurance Cover Habibullah Power has significant insurance coverage for property damage and business interruption. The insured values for damages include a property damage cover (upto \$139mln) & business interruption cover (up to \$26mln).

Performance Risk

Industry Dynamics Pakistan total power generation is increasing on the back of new power projects under CPEC. Going forward, cheap renewable electricity will be a challenge to viability of thermal power plants. During FY18, there has been a growth of ~30% in the actual power generation. Moreover, there has been an increase of ~18% in the installed capacity as at end-Jun18 to 32,613MW (FY17: 27,703MW).
Generation During CY18, Habibullah Power witnessed an increase in its generation at 856GWh (CY17: 808GWh), owing to higher load factor and lesser forced outages as compared to the corresponding period of last year.
Performance Benchmark Habibullah Power's topline increased on account of increased power generation and higher power demand from WAPDA (CY18: PKR 6,033mln; CY17: PKR 5,026mln) on the back of improving energy mix of the country through inclusion of RLNG and coal-based power projects. Company's net income improved to PKR 3,516mln during CY18 in comparison to same period last year (CY17: PKR 949mln) on account of arbitral award issued in favour of the Company by International Court of Arbitration, entitling the Company for indemnity and damages from SSGCL. Moreover, increase in other income to PKR 1,945mln (CY17: PKR 39mln) augmented the bottom line. Ever since the management took charge of conducting in-house O&M, the efficiency and availability of the plant has been maintained according to agreed upon parameters. Habibullah Power has kept efficiency at the required level of 41.88% as per the PPA.

Financial Risk

Financing Structure Analysis Habibullah Power's total project related debt remained completely paid by the Company.
Liquidity Profile During CY18, total receivables of the company stood at PKR 7,606mln (FY18: PKR 6,177mln). As circular debt continues to be an issue for companies operating in power sector. Consequently, IPPs have to manage their liquidity requirements partly from internal cash generation and short-term borrowings. However, gas based and renewable energy power projects enjoy the priority in merit order list.
Working Capital Financing During CY18 cash cycle days have increased to 213 days (CY17: 63days) on account of increase in receivable days (CY18: 460 days, CY17: 449 days) a facet of delay in payments recovery from CPPA-G. Company's cash conversion efficiency has improved over the years (CY18: 29%, CY17: 9.6%, CY16: 17.3%). Habibullah Power has arranged working capital line of PKR 1,000mln (CY17: PKR 775mln) out of which PKR 999mln was utilized during CY18. The Company was in arbitration with SSGCL for the recovery of liquidated damages, where International Court of Arbitration issued the final award in favour of the Company, entitling the Company for indemnity and damages from SSGCL, which in turn ultimately be utilized for the settlement of LD's claimed by WAPDA.
Cash Flow Analysis Free cash Flows of the Company improved on the back of improved profitability (CY18: PKR 1,590mln; CY17: PKR 1,528mln). On account of Company's improved cash flows, debt coverage ratio (FCFO / Gross Interest + CMLTD) as of CY18 has increased to 4.8x (CY17: 3.9x).
Capitalization To meet the working capital requirements, Company has availed short term borrowing facility. (STD-CY18: PKR 999mln; CY17: PKR 730mln; CY16: PKR 695mln). Overall the capital structure of the Company, remained low leveraged (CY18: 15%, CY17: 20%, CY16: 26%).



Habibullah Coastal Power Company (Pvt.) Ltd.

PKRmln

BALANCE SHEET	31-Dec-18	31-Dec-17	31-Dec-16	31-Dec-15
	Annual	Annual	Annual	Annual
Non-Current Assets	4,153	5,339	5,731	5,793
Current Assets	11,306	8,789	7,076	6,006
Inventory	244	262	248	228
Trade Receivables	7,606	6,178	5,194	4,134
Other Current Assets	2,561	2,024	1,300	838
Cash & Bank Balances	895	325	334	805
Total Assets	15,459	14,128	12,807	11,799
Debt	1,385	1,365	1,584	815
Short-term	1,000	730	695	450
Long-term (Inlc. Current Maturity of long-term debt)	385	635	889	365
Other Short term liabilities (inclusive of trade payables)	6,281	7,336	6,745	5,306
Other Long term Liabilities	-	-	-	-
Shareholder's Equity	7,793	5,427	4,478	5,678
Total Liabilities & Equity	15,459	14,128	12,807	11,799

INCOME STATEMENT

Turnover	6,033	5,026	5,671	5,441
Gross Profit	4,707	1,173	730	600
Other Expense/Income	(829)	(6)	(0)	(4)
Interest Expense/Income	(151)	(86)	(57)	24
Net Income	3,516	949	528	509

Cashflow Statement

Free Cashflow from Operations (FCFO)	1,590	1,528	1,028	911
Net Cash changes in Working Capital	305	(938)	12	448
Net Cash from Operating Activities	1,782	480	983	1,252
Net Cash from Investing Activities	31	(225)	(487)	(420)
Net Cash from Financing Activities	(1,185)	(264)	(966)	(1,337)
Net Cash generated during the period	628	(9)	(471)	(505)

Ratio Analysis

Performance

Turnover Growth	20.0%	-11.4%	4.2%	10.2%
Gross Margin	78.0%	23.3%	12.9%	11.0%
Net Margin	58.3%	18.9%	9.3%	9.4%
ROE	45.1%	17.5%	11.8%	9.0%

Coverages

Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	4.8	3.9	2.7	3.3
Interest Coverage (X) (FCFO/Gross Interest)	8.5	12.2	12.1	8.6
FCFO Pre-WC/Gross interest+CMLTD	4.8	3.9	2.7	3.3
FCFO POST-WC/Gross interest+CMLTD	5.7	1.5	2.8	5.0

Liquidity

Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	213	63	66	80
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Capital Structure

Net Debt/Net Debt+Equity	15.1%	20.1%	26.1%	12.6%
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Apr-19

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)

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)
- (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)

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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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