The Pakistan Credit Rating Agency Limited

Rating Report

Habibullah Coastal Power Company (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
15-Nov-2019	A	A1	Developing	Maintain	YES
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

Habibullah Power's Gas Supply Agreement (GSA) with Sui Southern Gas Company Limited (SSGCL), expired in Sep 2019. The company applied for renewal of GSA in Mar 2018. Recently Economic Coordination Committee (ECC) has approved the proposal by power division for supply of gas to plant for interim period of 3 to 6 months. Under this interim agreement (i) the company will have a 'take and pay' tariff by virtue of which the company will generate revenue only when electricity is supplied to the power purchaser (ii) Gas will be available on 'As and when available' basis (iii) No liquidity damages relating to gas supply or electricity supply will be applicable. The company is in negotiation with SSGCL for finalization of GSA. The Company had won an Arbitration Award against SSGCL and recorded the same in the audited financials for the year 2018. 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.
There is uncertainty as to the timely finalization of GSA with SSGCL. The ratings have a developing outlook and are placed on rating watch. PACRA would review the ratings once these agreements are finalized. The management is confident based on rational argument as to the finalization of GSA and continued operations of the Company.

Comfort can be drawn from Company's low leveraged balance sheet and lower net working capital lines utilization after adjustment of cash and short term investments as at 30 Sep 2019. 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, finalization of GSA is in process, while timely finalization 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 | IPP(Jun-19),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria | Rating Modifier(Jun-19)
Related Research	Sector Study | Power(Jan-19)
Rating Analysts	Mubasher Bhatti | mubasher.bhatti@pacra.com | +92-42-35869504

Profile

Plant Habibullah Coastal Power Plant (Habibullah Power) operates and maintain a combined cycle 140MW (net capacity: 129.5MW) gas-fired power plant. During the interim period the gross capacity has reduced significantly due to non-availability of gas.

Tariff Habibullah Power has take and pay tariff of PKR 9.18 per Kilowatt hour (KWh) comprising energy factor of PKR 7.50 per KWh and capacity factor of PKR 1.68 per KWh based on current gas price and the US$ exchange rate/CPI during interim period.

Return On Project The company is in negotiation with Sui Southern Gas Company Limited (SSGCL) for finalization of Gas Supply Agreement (GSA).

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 company is drawn from the sponsors affiliation with Ithaca Capital Limited continue to provide comfort.

Business Acumen Sponsor group has significant experience in investment, leasing, logistics, 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. Mr. Saad Faruqui also holds the position of the Chairman, hence, lacking challenge to executive decisions. The board members have diversified experience ranging across varied business sector.

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 Yousuf 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 but they have included emphasize of matter paragraph on going concern of the company due to expiry of GSA.

Management

Organizational Structure Habibullah Power 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 – COO. 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 in-house built software 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 operate the plant on take and pay basis. The Company's Gas Supply Agreement (GSA) with Sui Southern Gas Company Limited expired on September 10, 2019 and the Company is in negotiation with SSGCL for finalization of GSA.

Operation And Maintenance Daily O&M activities are handled in house while major maintenance related to turbines is managed by GE Pakistan .

Resource Risk The term of GSA started from the date of COD i.e. Sep 1999, which expired on Sep-2019. Company submitted the initial application for renewal on March 18. Recently Economic Coordination Committee (ECC) has approved the proposal by the petroleum division to provide gas to plant for 3 to 6 months term on 'as and when available' basis.

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. Owing to newly installed plants, Pakistan's energy mix is shifting towards Solar/Wind/Gas/RLNG and coal from Furnace Oil and other expensive sources. During July - March FY2019, installed capacity of electricity reached 34,282 MW, which was 33,433 MW in corresponding period last year, thus, posting a growth of 2.5 percent. Although electricity generation varies due to availability of inputs and other constraints, the generation increased from 82,011 GWh to 84,680 GWh, posting a growth of 3.3 percent during the period under discussion.

Generation During 9MCY19, Habibullah Power witnessed a decrease in its generation at 390GWh (9MCY18: 629GWh), owing to lower load factor and higher forced outages as compared to the corresponding period of last year.

Performance Benchmark Habibullah Power's topline increased on account of upward adjustment in the tariff due to increase in gas prices (9MCY19: PKR 4,644mln; 9MCY18: PKR 4,044mln). Company's net income decreased to PKR 40 mln during 9MCY19 in comparison to same period last year (9MCY18: PKR 301mln). 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 9MCY19, total receivables of the company stood at PKR 8,363mln (CY18: PKR 7,606mln). 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.

Working Capital Financing During 9MCY19 cash cycle days have increased to 447 days (CY18: 392days) on account of decrease in creditors days (9MCY19: 44 days, CY18: 68 days) . Company's cash conversion efficiency has improved over the years (CY19: 43%, CY18: 29%, CY17: 9.6%). Habibullah Power has arranged working capital lines of PKR 1,575mln (CY18: PKR 1,000mln) out of which PKR 1,574mln was utilized as at 30 Sep 2019. Comfort can be drawn from the lower net working capital lines utilization after adjusting cash and short term investments as at 30 Sep 2019.

Cash Flow Analysis Free cash Flows of the Company improved on the back of improved profitability (9MCY19: PKR 1,128mln; 9MCY18: PKR 842mln). On account of increase in finance cost, debt coverage ratio (FCFO / Gross Interest + CMLTD) as of 9MCY19 has decreased to 1.2x (CY18: 2.3x).

Capitalization Total project related debt remained completely paid by the Company due to which the capital structure of the Company, remained low leveraged (9MCY19: 21%, CY18: 15%, CY17: 20%).

Habibullah Coastal Power Company (Pvt.) Ltd. *PKRmln*

BALANCE SHEET	30-Sep-19	31-Dec-18	31-Dec-17	31-Dec-16
	9M	Annual	Annual	Annual
Non-Current Assets	**5,070**	**4,153**	**5,339**	**5,731**
Current Assets	**11,320**	**11,252**	**8,789**	**7,076**
Inventory	256	244	262	248
Trade Receivables	8,363	7,606	6,178	5,194
Other Current Assets	1,430	2,506	2,024	1,300
Cash & Bank Balances	1,270	895	325	334
Total Assets	**16,390**	**15,405**	**14,128**	**12,807**
Debt	**1,856**	**1,385**	**1,365**	**1,584**
Short-term	1,575	1,000	730	695
Long-term (Inlc. Current Maturity of long-term debt)	281	385	635	889
Other Short term liabilities (inclusive of trade payables)	7,735	6,261	7,336	6,745
Other Long term Liabilities	-	-	-	-
Shareholder's Equity	**6,799**	**7,759**	**5,427**	**4,478**
Total Liabilities & Equity	**16,390**	**15,405**	**14,128**	**12,807**
INCOME STATEMENT				
Turnover	**4,644**	**6,033**	**5,026**	**5,671**
Gross Profit	965	1,291	1,173	730
Other Expense/Income	-	2,554	(6)	(0)
Interest Expense/Income	(741)	(150)	(86)	(57)
Net Income	**40**	**3,483**	**949**	**528**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	1,128	1,600	1,528	1,028
Net Cash changes in Working Capital	1,509	296	(938)	12
Net Cash from Operating Activities	1,982	1,782	480	983
Net Cash from InvestingActivities	(1,202)	31	(225)	(487)
Net Cash from Financing Activities	(883)	(1,185)	(264)	(966)
Net Cash generated during the period	(102)	628	(9)	(471)
Ratio Analysis				
Performance				
Turnover Growth	14.8%	20.0%	-11.4%	4.2%
Gross Margin	20.8%	21.4%	23.3%	12.9%
Net Margin	0.9%	57.7%	18.9%	9.3%
ROE	0.6%	44.9%	17.5%	11.8%
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.2	4.8	3.9	2.7
Interest Coverage (X) (FCFO/Gross Interest)	1.4	8.6	12.2	12.1
FCFO Pre-WC/Gross interest+CMLTD	1.2	4.8	3.9	2.7
FCFO POST-WC/Gross interest+CMLTD	2.9	5.7	1.5	2.8
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	447	392	63	66
Capital Structure				
Net Debt/Net Debt+Equity	21.4%	15.1%	20.1%	26.1%

Rating Scale | Corporate

2019

Credit Rating Scale & Definitions

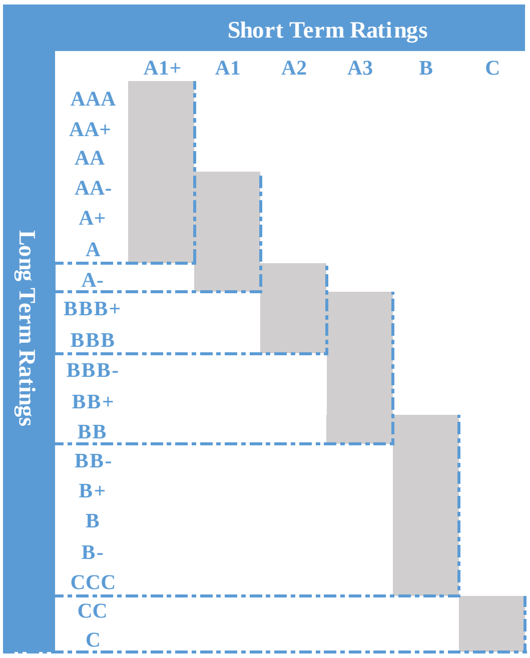
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.

Short Term Ratings

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



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 surveill the opinion due to lack of requisite information.

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

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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