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
04-Nov-2020	A	A1	Developing	Maintain	YES
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. The company is in negotiation with SSGCL for finalization of GSA. In 2019 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 which was further extended by CPPAG only for the period of 12 months. Due to non-availability of gas, company's generation during the period was zero. The Company enjoys significant strategic advantage due to its location. There is no other power generation facility in the close vicinity of Quetta which makes HCPC Power Plant a must run facility for stability of national grid and power security of Quetta City. 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. The company has sizeable liquidity available (cash and cash equivalents PKR ~1,465mln).

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, favorable delta between WAPDA receivables/payable and management's action to refurbish/revamp the machinery so generation will be according to the benchmarks as set by the NEPRA once GSA is renewed. 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.

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 Ratings(Jun-20),Methodology | IPP(Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Power(Jan-20)
Rating Analysts	Saadat Mirza | saadat.mirza@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.

Tariff Habibullah Power has take and pay tariff of PKR 9.71 per Kilowatt hour (KWh) comprising energy factor of PKR 7.82 per KWh and capacity factor of PKR 1.89 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 The ownership of the company is in transition phase, represented by the management at an advanced stage. The company is currently owned 92.5% by Mr.Saad Faruqui, as the man at the last mile. With this transition, the sponsors will take over, which may provide the company with the much needed focus and attention to take it forward. Mr. Ali Jehangir Siddiqui is expected to take over.

Stability Stability is a function of long term view of the sponsor shareholder. With the new shareholder, there is reason to believe that stability to emerge.

Business Acumen Mr. Ali Jehangir Siddiqui has extensive interests in the different facets of the economy including financial and non-financial world. The previous sponsors had interest in the service industry and power sector.

Financial Strength Both outgoing and incoming sponsors have available resources to support the company. The key to the survival of the company is not financial resources per se but other relevant factors.

Governance

Board Structure Habibullah Power has a four 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, 2019 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. Zaheer Abbas – Plant Manager. 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, CPPA-G. 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 Company's key resource for generation of power is Natural Gas. Pakistan's overall gas reserves has depleted without significant new discovery. However, given the significant dependence of Pakistan's domestic and industrial sector on this resource, government has taken significant measures for import of Regasified Liquefied Natural Gas (RLNG) including allowing private parties to import and build terminal and storage capacities. This shall allow HCPC to continue to receive Natural Gas Molecule whether from domestic production or imported RLNG.

Insurance Cover Habibullah Power has sufficient insurance coverage for property damage. The insured values for damages include a property damage cover (upto $139mln).

Performance Risk

Industry Dynamics Owing to newly installed plants, Pakistan's energy mix is shifting towards Solar/Gas/and coal from Furnace Oil and other expensive sources. As on June-20, installed capacity of electricity reached 38,719 MW, which was 38,995 MW at end June-19, decline of 0.7%.(276MW)in FY20, due to the expunge of 784MW of GTPS-Kotri (144MW) and TPS Guddu (640MW). There was an increase of 508MW new power projects including CPEC from coal and renewable sources and this will increase further in coming years. Although electricity generation varies due to availability of inputs and other constraints, generation decreased from 136,532 GWh to 134,745 GWh, posting a decline of 1.3% in FY20 as compared to FY19.

Generation The generation of electricity is dependent on availability of gas. The company would be able to produce as it gets supplies of gas.

Performance Benchmark The company has reduced its HR base and also other overhead to control costs. Habibullah Power's topline decreased on account of non-availability of gas (CY20: PKR 287mln; CY19: PKR 4,578mln; CY18: PKR 6,033mln). Company's net income is at PKR 83 mln during 6MCY20 (6MCY19: PKR 137.489mln). 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.

Financial Risk

Financing Structure Analysis Habibullah Power's total project related debt remained completely paid by the Company. HCPC has long term borrowings of PKR 227mln (including current maturity) as at end 6MCY20.

Liquidity Profile The company has sizeable liquidity available (cash and cash equivalents PKR ~1,465mln). The company has a payable of PKR ~6,946mln which is offset by an equally large amount of PKR ~7,329mln due from WAPDA.

Working Capital Financing Due to circular debt issues trade receivables are piling up. Habibullah Power has arranged working capital lines of PKR 1,150mln (CY19: 1,000mln; CY18: PKR 1,000mln) out of which PKR 1,124mln was utilized as at 30 June 2020. Comfort can be drawn from the favorable delta in WAPDA receivables and payable.

Cash Flow Analysis Free cash Flows of the Company as at 6MCY20 stood at PKR 692mln (CY19: PKR 966mln; CY18: PKR 1600mln). Due to low finance cost, debt coverage ratio (FCFO / Gross Interest + CMLTD) as of 6MCY20 is 4.2x (CY19: 2.8x).

Capitalization The equity base of the company is PKR 7,223mln as at end 6MCY20. Total project related debt remained completely paid by the Company due to which the capital structure of the Company, remained low leveraged 6MCY20:15.8% (CY19: 14.8%, CY18: 15%, CY17: 20%).

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Financial Summary
PKR mln

Habibullah Coastal Power Company (Pvt) Ltd	Jun-20	Dec-19	Dec-18	Dec-17
Power	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	4,834	4,973	4,153	5,339
2 Investments	-	-	-	-
3 Related Party Exposure	633	525	929	535
4 Current Assets	10,071	9,439	10,323	8,253
a Inventories	-	-	-	-
b Trade Receivables	*7,329*	*7,358*	*7,606*	*6,178*
5 Total Assets	15,538	14,937	15,405	14,128
6 Current Liabilities	6,964	6,503	6,261	7,336
a Trade Payables	*752*	*599*	*885*	*4,068*
7 Borrowings	1,351	1,246	1,385	1,365
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	7,223	7,187	7,759	5,427
11 Shareholders' Equity	7,223	7,187	7,759	5,427
B INCOME STATEMENT				
1 Sales	287	4,578	6,033	5,026
a Cost of Good Sold	*(365)*	*(3,679)*	*(4,742)*	*(3,853)*
2 Gross Profit	(78)	900	1,291	1,173
a Operating Expenses	(116)	(204)	(196)	(120)
3 Operating Profit	(194)	696	1,095	1,053
a Non Operating Income or (Expense)	*758*	*225*	*2,591*	*33*
4 Profit or (Loss) before Interest and Tax	565	921	3,686	1,086
a Total Finance Cost	*(475)*	*(229)*	*(186)*	*(126)*
b Taxation	*(6)*	*(15)*	*(17)*	*(12)*
6 Net Income Or (Loss)	83	678	3,483	949
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*692*	*996*	*1,600*	*1,528*
b Net Cash from Operating Activities before Working Capital Changes	*187*	*800*	*1,486*	*1,418*
c Changes in Working Capital	*495*	*1,433*	*296*	*(938)*
1 Net Cash provided by Operating Activities	682	2,233	1,782	480
2 Net Cash (Used in) or Available From Investing Activities	(64)	(1,101)	31	(225)
3 Net Cash (Used in) or Available From Financing Activities	102	(1,295)	(1,243)	(264)
4 Net Cash generated or (Used) during the period	719	(163)	570	(9)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-87.5%	-24.1%	20.0%	-11.4%
b Gross Profit Margin	-27.3%	19.6%	21.4%	23.3%
c Net Profit Margin	29.1%	14.8%	57.7%	18.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	414.1%	53.1%	31.4%	11.7%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	2.4%	9.3%	46.8%	18.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	4675	597	417	413
b Net Working Capital (Average Days)	4245	537	267	133
c Current Ratio (Current Assets / Current Liabilities)	1.4	1.5	1.6	1.1
3 Coverages				
a EBITDA / Finance Cost	7.6	4.7	13.0	12.4
b FCFO / Finance Cost+CMLTB+Excess STB	4.2	2.8	5.9	3.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.2	0.3	0.3	0.5
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	15.8%	14.8%	15.1%	20.1%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	12.4%	14.4%	9.0%	9.0%

Credit Rating

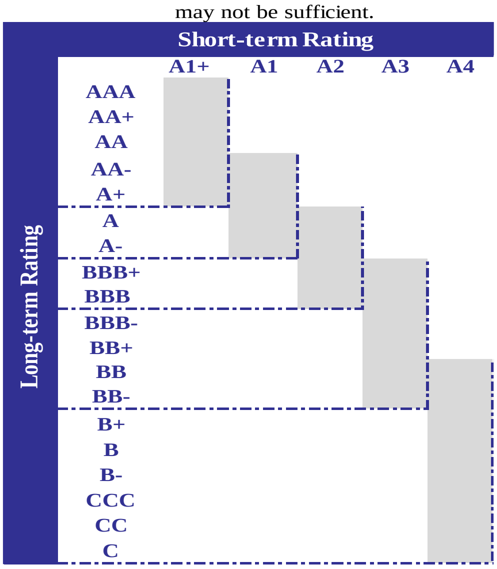
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
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 Rating

Scale	Definition
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
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) 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.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

Entities
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

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