The Pakistan Credit Rating Agency Limited

Rating Report

Lucky Electric Power Company Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
08-Apr-2024	AA	A1+	Stable	Maintain	-
11-Apr-2023	AA	A1+	Stable	Maintain	-
11-Apr-2022	AA	A1+	Stable	Upgrade	-
06-Aug-2021	AA-	A1	Stable	Maintain	-
06-Aug-2020	AA-	A1	Stable	Upgrade	-
07-Aug-2019	A	A1	Stable	Maintain	-
08-Feb-2019	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Lucky Electric Power Company Limited ("LEPCL" or "the Company") has set up a 1x660MW (gross) coal-fired power plant. The project achieved COD in March-22 and is successfully connected to and providing electricity to the grid. The primary fuel is Coal; a coal supply agreement is signed with Sindh Engro Coal Mining Company (SECMC), SECMC will provide the coal from its developing Block-II (Phase III), which will be started in Dec 24. The previous tentative month was May-24. The Company has also signed imported coal supply agreement with reputable coal suppliers. Currently, plant is generating electricity through imported coal. The Company has generated 1486GWh of electricity during 6MFY24 eventually generating a topline of ~PKR 54bln. Lucky Electric Power Company Limited generated a bottom line of ~PKR 9.1bln during the same period. Comfort is drawn from the experience of O&M contractor, M/s Harbin Electric International Co., Ltd. -P.R. China (HEI), which has taken over the plant from previous operator from Mar-23. Going forward, the Company’s main focus would be to keep the plant operational. The Company has currently procured short-term financing facilities aggregating to ~PKR 18,249mln which are ~76% utilized as of Dec-2023. The cumulative short-term borrowings stand at ~PKR 38,823mln as of Dec-2023. Additionally, as at Dec-23, the Company has outstanding debt instruments amounting to PKR 25bln for operational needs. The financial strength and experience in the energy chain of the sponsoring company Lucky Cement – are considered positive for the ratings. Further, the sponsor has given explicit comfort to provide sufficient liquidity support. This is a key consideration in the assigned ratings. The offtake agreement is with CPPA-G, which will, upon the plant’s availability as per the contract, provide capacity payments even if no purchase order is placed. The Government of Pakistan has given a payment guarantee against dues from CPPA-G.

The management’s ability along with the explicit support from the sponsor to effectively manage operational risks provides comfort to assigned ratings. Trend in operational profitability would bode well for rating. External factors such as any adverse changes in the regulatory framework may impact the ratings.

Disclosure

Name of Rated Entity	Lucky Electric Power Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23),Methodology | Independent Power Producer Rating(Jul-23)
Related Research	Sector Study | Power(Jan-24)
Rating Analysts	Shujat Ehsanullah Wasim | Shujat.Ehsan@pacra.com | +92-42-35869504

Profile

Plant Lucky Electric Power Company Limited (Lucky Electric) Limited has set up a 1x660MW (gross) local coal fired super critical power plant at Port Qasim, Karachi, Sindh. Plant is developed on a Build-Own-Operate ("BOO") basis with project cost of USD 1193 Million in a debt to equity ratio of 75:25.

Tariff The tariff is divided into two components; Capacity Payments (PKR 10.3204/ KW)h and Energy Payments. Energy payments further have two components; variable costs (PKR 0.3777/ KWh) and fixed fuel costs (PKR 13.4690/KWh). If the Plant is operational at contract availability, capacity payments and the fixed fuel costs will be provided even if no purchase order is placed by CPPA-G. The tariff control period is 30 years.

Return On Project The PKR/KWh Return on Equity (ROE) of Lucky Electric, as agreed with NEPRA, is 29.5%.

Ownership

Ownership Structure Lucky Cement Limited owns 100% shareholding of Lucky Electric, incorporated in Pakistan on June 13, 2014 as public unlisted company. The registered office of the company is situated at 6-A, Muhammad Ali Housing Society, Karachi, Sindh.

Stability Lucky Electric is a subsidiary of Yunus Brothers Group (YBG), YBG is one of the biggest conglomerates in Pakistan with diversified interests in textiles, ,real estate, power generation, chemicals, food and automotive,

Business Acumen Lucky Cement Limited stands as the flagship company of YBG. Lucky Cement is one of the largest producers and leading exporters of quality cement in Pakistan.

Financial Strength Company's sponsors have the ability to support the entity both on a continuing basis, and support in times of crisis. Additionally, financial strength of sponsors is considered strong as the sponsors have well diversified profitable businesses.

Governance

Board Structure The board is dominated by the sponsor's representatives. The company's board of directors comprises of seven directors including CEO. All the board members represents Lucky Cement Limited.

Members' Profile Mr. Muhammad Ali Tabba, the Chairman has been associated with the Group in different capacities for nearly three decades and is currently chairing the Board with his visionary leadership and vast experience. All board members are highly qualified and competent enough for effective leadership.

Board Effectiveness Board members meets quarterly or conduct regular board discussions on need basis. Chairman of the board exercises close oversight over the affairs of the company. However, there are no sub-committees. Board has been actively involved in providing strategic guidance to the company. There is no independent director on the board.

Financial Transparency A.F. Ferguson & CO., Chartered Accountants, is the external auditor of the company. They have expressed an unqualified opinion on the company's financial statements at end-Jun-23.

Management

Organizational Structure Lucky Electric's management team comprises qualified professionals in areas like technical, commercial and legal specialists with the capability to construct, develop, operate, finance and maintain the project. The company has a well-defined organizational structure with the CEO reporting to the board.

Management Team Mr. Ruhail Muhammad, the CEO, is MBA and CFA Charter holder. Mr. Ruhail carries vast experience in leading various corporate organizations and is also on the board of various renowned corporate entities. He is supported by an experienced team of professionals.

Effectiveness Over the years since incorporation, management played a significant role in empowering the organization through its progressive results and achieved project milestones in a timely and accurate manner. The company takes advantage of advanced I.T. solutions to deliver comparatively better on many fronts. Moreover, Lucky Electric's quality of the I.T. infrastructure and the breadth and depth of activities performed has remained well satisfactory.

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Operational Risk

Power Purchase Agreement The electricity generated is being sold to Central Power Purchasing Agency (CPPA-G) under 30 years Power Purchase Agreement (PPA). RCOD as per the PPA was March 01 2021. However, the company achieved COD on March 21, 2022 owing to global pandemic of Novel Corona Virus.

Operation And Maintenance The Company has replaced existing O&M Contractor, KEPCO Plant Services & Engineering Co. Ltd - Republic of Korea (KPS) with M/s Harbin Electric International Co., Ltd. - P.R. China (HEI) from Mar-23 for the period of 5 years. The project revenues and cash flows are primarily dependent upon maintaining plant's availability and capacity factors at the adequate levels.

Resource Risk The Coal Supply Agreement (CSA) of Lucky Electric is with SECMC. SECMC is expanding up to 13.1 mmpta coal mine in Thar Block – II in three phases. Company has also negotiated imported coal supply agreement from Indonesia. Plant would run on imported coal in case of non-availability of Thar coal.

Insurance Cover Lucky Electric has obtained four types of different insurances to cover its various types of risks.

Performance Risk

Industry Dynamics As at June 30,2023 the installed capacity within CPPAG system stood at 42,362MW which is distributed amongst various sources including thermal (60%), Hydroelectric (25%), Wind (4%), Solar (1%), Biomass (1%) and Nuclear (9%). Total electricity generated in the country during FY23 amounted to 138,028.86 GWh (FY22: 154,056.18 GWh). The fall in consumption is a result of declining economic activity and slowdown in the industrial and commercial operations. The high cost of electricity for consumers has also negatively impacted the consumption patterns of households.

Generation LEPCL generated 1486 GWh of electricity during 6MFY24 and reported revenues of PKR 54,262mln (6MFY23: PKR 45,738mln). However, due to the increase in policy rate company incurred the finance cost of PKR 16,319mln. Thus, reporting a profit of PKR 9,163mln (6MFY23: PKR 2,196mln)

Performance Benchmark The contract availability for the plant over 30 years is agreed to be at 85%. If these aren't met, Lucky Electric would be charged LDs by the Power Purchaser

Financial Risk

Financing Structure Analysis Lucky Electric's capital structure comprises 25% equity and debt financing constitutes 75% of the initial estimated project cost; ~USD 895mln, financed from local and foreign financial institutions. Local Facility obtained from multiple consortium of banks aggregating to PKR 65.9 billion has a 10 year tenure starting June 2022 and to be paid in 40 quarterly installments. The foreign facility is USD 210mln. Out of which USD 20mln will be paid quarterly and USD 190mln will be paid semiannually.

Liquidity Profile IPPs face delays in payments from the power purchaser due to the circular debt issues faced by the country. Consequently, the Company has to manage its liquidity requirements from short term borrowings.

Working Capital Financing Company manages its working capital needs through internal cash flows as well as through Short term borrowings due to delayed payments from power purchaser. Receivables of the company stands at PKR 40,523mln at end Dec-23. Similarly, short term borrowings stand at PKR 38,823mln at end Dec-23.

Cash Flow Analysis The stability and sustainability of future cash flows of Lucky Electric depends completely on continuous performance of its power plant. During 6MFY24, company generated FCFOs of PKR 28,063mln (6MFY23: PKR 16,134mln). Interest coverage stands at 1.8x and Debt Coverage stands at 1.4x.

Capitalization The project has incurred a project cost of USD 895mln with 75:25 debt to equity ratio. Currently debt to equity ratio stood at 76.7% as of end Dec-2023 with a total debt of the company at PKR 156,380mln and equity of PKR 47,443mln.

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Financial Summary
PKR mln

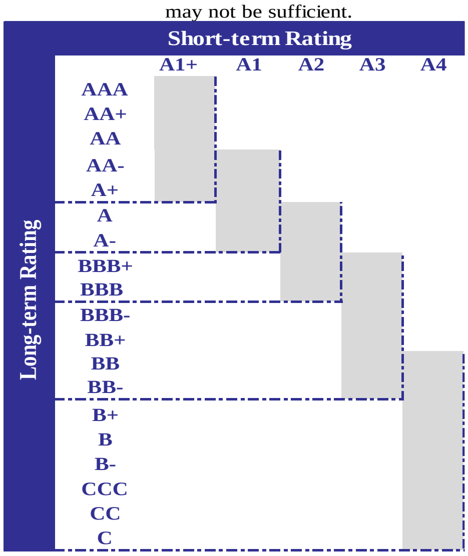
Lucky Electric Power Company Limited Power	Dec-23 6M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	143,593	146,974	134,264	105,489
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	614
4 Current Assets	80,832	76,150	51,780	6,013
a Inventories	*10,998*	*9,227*	*14,439*	-
b Trade Receivables	*40,523*	*30,859*	*16,372*	-
5 Total Assets	224,425	223,123	186,043	112,116
6 Current Liabilities	20,484	23,069	14,360	4,686
a Trade Payables	*6,603*	*8,221*	-	-
7 Borrowings	156,380	161,659	142,717	83,666
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	119	116	89	62
10 Net Assets	47,443	38,279	28,877	23,702
11 Shareholders' Equity	47,443	38,279	28,877	23,702
B INCOME STATEMENT				
1 Sales	54,262	98,280	25,953	-
a Cost of Good Sold	*(28,507)*	*(62,126)*	*(19,647)*	-
2 Gross Profit	25,756	36,154	6,306	-
a Operating Expenses	(335)	(545)	(156)	(2,116)
3 Operating Profit	25,420	35,609	6,150	(2,116)
a Non Operating Income or (Expense)	*78*	*74*	*(139)*	*0*
4 Profit or (Loss) before Interest and Tax	25,498	35,683	6,011	(2,116)
a Total Finance Cost	*(16,319)*	*(26,231)*	*(5,236)*	*(1)*
b Taxation	*(16)*	*(62)*	-	*616*
6 Net Income Or (Loss)	9,163	9,390	775	(1,500)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*28,063*	*40,446*	*7,337*	*(2,031)*
b Net Cash from Operating Activities before Working Capital Changes	*11,909*	*16,387*	*(3,130)*	*(8,520)*
c Changes in Working Capital	*(10,859)*	*(11,708)*	*(36,033)*	*(2,982)*
1 Net Cash provided by Operating Activities	1,050	4,679	(39,163)	(11,502)
2 Net Cash (Used in) or Available From Investing Activities	(498)	(1,082)	(14,206)	(11,634)
3 Net Cash (Used in) or Available From Financing Activities	(4,426)	1,774	53,659	23,517
4 Net Cash generated or (Used) during the period	(3,874)	5,371	289	380
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	10.4%	278.7%	N/A	N/A
b Gross Profit Margin	47.5%	36.8%	24.3%	N/A
c Net Profit Margin	16.9%	9.6%	3.0%	N/A
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	31.7%	29.2%	-110.6%	N/A
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sl*	38.7%	26.8%	3.3%	N/A
2 Working Capital Management				
a Gross Working Capital (Average Days)	154	132	433	N/A
b Net Working Capital (Average Days)	129	101	N/A	N/A
c Current Ratio (Current Assets / Current Liabilities)	3.9	3.3	3.6	1.3
3 Coverages				
a EBITDA / Finance Cost	1.8	1.6	1.5	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	1.4	1.2	1.0	-1.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	5.8	10.0	42.8	-41.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	76.7%	80.9%	83.2%	77.9%
b Interest or Markup Payable (Days)	42.8	51.9	0.0	N/A
c Entity Average Borrowing Rate	20.0%	16.5%	4.6%	0.0%

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):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies 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 | Clause 11-(A)(p).
(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
Proprietary Information