



The Pakistan Credit Rating Agency Limited

Rating Report

Gul Ahmed Energy Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
10-Nov-2020	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Gul Ahmed Energy's Power Purchase Agreement (PPA) with Karachi-Electric (KE), expired in November, 2019. Recently, National Electric Power Regulatory Authority (NEPRA) has approved the tariff of GAEL for three years which is contingent till the time CPPA-G/NTDC are willing and capable of supplying equivalent additional power to KE. Under current tariff (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 i.e. K.electric and other bulk purchasers (ii) Fuel procurement will be the responsibility of GAEL (iii) No liquidated damages relating to fuel supply / electricity supply will be applicable on either party. The Company is in negotiation with KE for finalization of PPA. The Company's project debt has been paid and it has not procured any short-term facility, consequently the Company finances its working capital through its operations. GAEL holds short term investment in mutual funds amounting to PKR 5.1bln as at 31 Mar, 2020 which, being much beyond the operational requirement of the Company, lends extra cushion. Furthermore, GAEL's controlling interest in the 3 subsidiaries it owns is noted as i) Gul Ahmed Wind Power Limited 50MW which is operational since 2016, ii) Gul Ahmed Electric Limited 50MW which has achieved financial close in 2019, has subsequently achieved a Construction Start Date in July, 2020 and shall be commencing commercial operations on November, 2021 and iii) Gul Ahmed Solar Power Limited 50MW which has obtained Letter of Intent from Energy Department, Government of Sindh. GAEL's Leverage stands at virtually zero, as it does not have any sort of borrowings (neither long term nor short term).

The ratings have a stable outlook owing to the already determined tariff. The management is confident based on rational argument as to the finalization of PPA and continued operations of the Company. Comfort can be drawn from Company's liquid cash position and low leveraged balance sheet and no working capital lines utilization as at 31 Mar, 2020. Although well-managed, in-house O&M activities expose the company to operational risk; thus upholding strong operational performance would remain a key driver of the ratings. Meanwhile, the determination of PPA is the final stages, while timely finalization of the same is essential for the ratings.

Disclosure

Name of Rated Entity	Gul Ahmed Energy Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	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	Anam Waqas anam.waqas@pacra.com +92-42-35869504

Profile

Plant Gul Ahmed Energy Limited (GAEL) operates 136.17 MW (gross) FO based private power plant under 1994 Power Policy of the GOP on Build Own, Operate basis. The power plant comprises of 9 Oil Fired diesel engines having capacity 15.13 MW each.

Tariff The Company filed a petition for determination of generation tariff for its 136.17 MW Gross RFO based Power under the NEPRA Act. The Petitioner requested for extension of its PPA with KE for further five years from 3rd November 2019 to 2nd November 2024. After hearing and discussions with all the relevant stakeholders, the Authority has decided to allow for a tariff for three (3) years. The tariff determined by NEPRA is 15.8463 Rs./kWh.

Return On Project The ROE of Gul Ahmed Energy Limited, as determined by NEPRA is 12%.

Ownership

Ownership Structure The principal sponsor of the company is Gul Ahmed Energy Group (67.68%), however, rest of shareholding lies with corporate entities, including the Toyota Tsusho (18.62%), Tomen power (12.78%), and Wartsila (0.92%) as on June 2019.

Stability Gul Ahmed Energy Group has a long history of diversified business since 1948. The Group gradually diversified in various industries with operations across manufacturing, investments, power & energy and currently it is one of the leading industrial groups in the country. Mr. Iqbal Alimohamed the CEO and chairman of company.

Business Acumen Sponsor group has significant experience in power generation and real estate.

Financial Strength The financial strength of the sponsors is considered strong as they have well diversified profitable businesses. Further the company is managing its working capital from their investments and efficient management of operations, and have not opted for any working capital facility.

Governance

Board Structure The Company's Board of Directors comprises of eight Directors. All of them are experienced individuals having more than 20+ years of experience. There is no independent director on the board.

Members' Profile Directors having strong professional profile along with diversified experience assist the management in terms of strategic guidance and implementation of strong control framework. Mr. Iqbal Alimohammed is serving as Chairman and has accumulated more than 50 years of experience. All other directors are experienced personnel.

Board Effectiveness The experiences of the board will help in guiding the management in developing operational and financial policies. However, they have not formed any committees to assist the board.

Financial Transparency A.F. Ferguson & Co is the external auditor of the company. The auditor has given unqualified opinion on company's financial statement as at 30th June 2019.

Management

Organizational Structure Gul Ahmed Energy deploys a lean organizational structure. Company has separate teams at head office and at plant site. The CEO is supported by a team of qualified and experienced professionals. At head office Six functions including Finance, I.T, Legal, Company Secretary and Technical Advisor add more strength to the structure. At plant site, team is headed by Plant Manager Mr. Ghulam Shabbir who is an experienced professional.

Management Team Mr. Iqbal Alimohamed is the CEO of the company. Mr. Iqbal has over fifty years of diversified experience in industry. He is a member of ICAP and ICAEW.

Effectiveness The management's role in an IPP is confined largely to financial matters and regulatory interaction. The management tier ensures effective delegation of functional responsibility across various departments, facilitating a smooth flow of operations through positive results, which has made decision making process systematic.

Control Environment The Company has in place an efficient MIS reporting system for its operations. The system generates real-time plant production data, enabling efficient monitoring and timely decision making.

Operational Risk

Power Purchase Agreement Gul Ahmed Energy key source of earnings is the revenue generated through sale of electricity to the power purchaser i.e. K-Electric and other bulk purchasers, the contract is structured in a way that it protects the company simultaneously from many risks including currency risk, interest risk and fuel supply disruptions, however the PPA of GAEL has expired in November 2019 and the Company is exposed to all the aforementioned risk. Uncertainty regarding the renewal of PPA leaves the Company in a vulnerable position. Although, management is confident of obtaining the PPA as the tariff has already been approved by NEPRA for 3 years.

Operation And Maintenance Initially the O&M contract was awarded to Wartsila Diesel Pakistan Limited in September 1996, however after expiration of O&M contract in November 2019, the management of the company has set up in-house O&M operations. since the plant has been operational for 22 years, management has the required expertise to run the operations effectively.

Resource Risk Pakistan State Oil (PSO) was responsible for supplying RFO under the Fuel Supply Agreement (FSA) for 22 years. however the FSA expired in November 2019. Currently, the Company is obtaining fuel from different fuel supplier on competitive prices.

Insurance Cover Gul Ahmed Energy Limited has adequate insurance coverage for property damage and business interruption. The insured values for damages include a property damage cover (upto Rs. 17,550 million) & business interruption cover (up to Rs.1,170 million).

Performance Risk

Industry Dynamics Pakistan's energy mix is shifting towards Solar/Gas/RLNG and coal from Furnace Oil and other expensive sources. Pakistan total power generation is increasing on the back of new power projects under CPEC. As on Sep-19, installed capacity of electricity reached 34,523 MW, which was 32,574 MW at end June-19, thus, posting a growth of 5.98%. Although electricity generation varies due to availability of inputs and other constraints, the generation decreased from 148,042 GWh to 146,231 GWh, posting a decline of 1.2% in FY19 as compared to FY18.

Generation Electricity Generation During FY20, decreased by 23% FY20: 496GW (FY19: 648.71GWH, FY18: 745.72GWH, FY17: 780.22GWH) with average load factor of 94.73% (FY18: 96.79%). Generation was lower due to the facet of lower power demand on the back of improving energy mix.

Performance Benchmark During 9MFY20, net profit has decreased to PKR 877mln on the back of lower generation (9MFY19: PKR 1,446mln, FY19: PKR 2,233mln; FY18: PKR 1,185mln). Plant availability during 9MFY20 stood at 94.21%.

Financial Risk

Financing Structure Analysis The Gul Ahmed Energy Limited total project cost was USD 140mln on a debt equity of 70:30. Out of total USD 97mln of total debt, IFC contributed USD 62mln and remaining USD 35mln was contributed from ING Bank. The project debt remained fully paid by the Company in 2009.

Liquidity Profile At 9MFY20, total receivables of the company stood at PKR 434mln (FY19: PKR 2,994mln, FY18: PKR 2,209mln; FY17: PKR 1,731mln), which is due from K-Electric.

Working Capital Financing Receivable days have decreased to 6.4 days in 9MFY20 (FY19: 86 days) which is much better as compared to others players as in case of Narowal it stood at 344 days . As of 9MFY20, company's long term equity investment stood at PKR 2,173 million (FY19: PKR 1,973 million).

Cash Flow Analysis During 9MFY20, cashflows from operations of the company have declined as compared to last year (9MFY20: PKR 595 mln, FY19: PKR 2,291mln, FY18: PKR 1,374mln).

Capitalization The Company has not procured any short term facility further, the long term debt remained fully paid by company in 2009.



Gul Ahmed Energy

PKRmn

BALANCE SHEET	31-Mar-20	30-Jun-19	30-Jun-18	30-Jun-17
	9M	Annual	Annual	Annual
Non-Current Assets	465	694	989	1,108
Investments (Others)	7,283	4,223	5,131	4,179
Current Assets	1,931	5,050	4,179	3,213
Inventory	736	742	741	471
Trade Receivables	435	2,994	2,209	1,731
Other Current Assets	743	1,311	1,223	1,007
Cash & Bank Balances	17	2	5	4
Total Assets	9,679	9,966	10,299	8,501
Debt	-	-	-	-
Short-term	-	-	-	-
Long-term (Incl. Current Maturity of long-term debt)	-	-	-	-
Other Short term liabilities (inclusive of trade payables)	608	1,767	2,064	441
Other Long term Liabilities	29	34	32	31
Shareholder's Equity	9,042	8,165	8,203	8,029
Total Liabilities & Equity	9,679	9,966	10,299	8,501
INCOME STATEMENT	31-Mar-20	30-Jun-19	30-Jun-18	30-Jun-17
Turnover	6,194	12,708	9,491	8,479
Gross Profit	721	2,140	1,184	1,004
Other Operating Expense	(223)	(186)	(148)	(144)
Other Income	379	280	149	165
Financial Charges	-	-	-	-
Taxation	-	-	-	-
Profit from discontinued operations	-	-	-	-
Net Income	877	2,233	1,185	1,025
Cashflow Statement	31-Mar-20	30-Jun-19	30-Jun-18	30-Jun-17
Free Cashflow from Operations (FCFO)	595	2,291	1,374	1,190
Net Cash changes in Working Capital	1,979	(1,244)	637	(1,618)
Net Cash from Operating Activities	2,574	1,048	2,010	(428)
Net Cash from Investing Activities	(2,559)	1,221	(999)	1,350
Net Cash from Financing Activities	-	(2,272)	(1,010)	(926)
Cash transferred to NEL	-	-	-	-
Net Cash generated during the period	15	(4)	2	(4)
Ratio Analysis	31-Mar-20	30-Jun-19	30-Jun-18	30-Jun-17
Performance				
Turnover Growth	9.6%	33.9%	11.9%	30.3%
Gross Margin	11.6%	16.8%	12.5%	11.8%
Net Margin	14.2%	17.6%	12.5%	12.1%
ROE	77.6%	26.9%	15.8%	12.8%
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	n/a	n/a	n/a	n/a
Interest Coverage (X) (FCFO/Gross Interest)	n/a	n/a	n/a	n/a
FCFO post WC / Gross Interest +CMLTD	n/a	n/a	n/a	n/a
Liquidity				
Short Term Borrowings Coverage	n.a.	n.a.	n.a.	n.a.
Net Cash Cycle	8.5	49.7	26.7	75.9
Capital Structure (Total Debt**/Total Debt+Equity)	0.0%	0.0%	0.0%	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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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):

<p>Entities</p> <ul style="list-style-type: none"> 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 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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(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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- (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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- (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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