The Pakistan Credit Rating Agency Limited

Rating Report

The Hub Power Company Limited | Sukuk

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
12-Oct-2023	AA+	-	Stable	Maintain	-
14-Apr-2023	AA+	-	Stable	Maintain	-
15-Apr-2022	AA+	-	Stable	Maintain	-
16-Apr-2021	AA+	-	Stable	Maintain	-
09-Apr-2020	AA+	-	Stable	Initial	-
13-Feb-2020	AA+	-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The rating reflects the holding company character of HUBCO with an exclusive focus on the different dimension of the energy sector. HUBCO itself is a 1,292MW RFO based power plant situated at Mouza Kund, Hub in Balochistan. With its investment in Narowal Energy Limited, Laraib Energy Limited, China Power Hub Generation Company, Thar Energy Limited and Thal Nova Power Thar Ltd, the Group has an established footprint in the power generation sector. Hub Power Services Limited is a wholly owned subsidiary of HUBCO that provides Operation and Maintenance (O&M) services to its existing power plants. In addition, the Company also holds 49% stake in China Power Hub Operating Company (Pvt) Limited, a joint venture with China Power International Maintenance Engineering Company Limited, to provide O&M to the Super Critical Coal Power Plant at Hub. The Company also holds a minority stake of 8% in Sindh Engro Coal Mining Company which is establishing a coal mining facility at Thar. Prime international Oil and Gas Company (50% owned by Hub Power Holdings Ltd) has acquired all upstream operations and assets of ENI Pakistan under a J.V with ENI’s local employees. During FY23, the Company reported topline of PKR 44,516mln (FY22: PKR 62,544mln) against Energy and Capacity invoices to the power purchaser, CPPA-G. The decline in topline is a result of lower generation of 205GWh (FY22: 1,229GWh) during the period due to the governments priority to obtain electricity from plants with lower generation cost. The profitability of the Company is further supplemented by dividend and Income from Management Services received from subsidiaries.

Although HUBCO has a sizeable amount of borrowings to support its working capital needs and growth opportunities. The settlement of outstanding receivables (June 2023: PKR 55,983mln, FY22: PKR 62,919mln) due from CPPAG remains crucial.

Disclosure

Name of Rated Entity	The Hub Power Company Limited | Sukuk
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology | Independent Power Producer Rating(Jul-23),Methodology | Rating Modifiers(Apr-23),Methodology | Debt Instrument Rating(Aug-23)
Related Research	Sector Study | Power(Jan-23)
Rating Analysts	Hashim Yazdani | hashim.yazdani@pacra.com | +92-42-35869504

Issuer Profile

Profile The Hub Power Company Limited (Hub Power) consists of four generating units, each comprises of 323 MW gross outputs, with an oil-fired single re-heat boiler. The plant is situated at the Hub River estuary, Baluchistan. The plant achieved its commercial operations in March 1997.

Ownership Mega Conglomerate holds the majority stake in HUBCO of 19.48% while Fauji Foundation holds 8.5%. Both Allied Bank and National bank hold a minor stake of 3.38% and 2.97%. Remaining ownership is owned by General Public, Joint Stock Companies, Financial Institutions, Investment Companies and Insurance Companies.

Governance Overall control of the company vests in a nine-member board of directors (BoD). The BoD comprises 3 nominees from Mega Conglomerate, 1 nominee each of NIT and Fauji Foundation. 1 member represent the Government of Balochistan along with 2 independent directors. Mr. Habibullah Khan is the chairman of the board. Simultaneously, he is also the Founder and Chairman of Mega Conglomerate – Mega & Forbes Group of Companies. Remaining members also hold positions on the board of different companies belonging to diverse sectors including Foods, Cement, Container Terminals and have commendable experience in fields like Investments, Law, Real Estate, Architecture, Infrastructure Project Development and Strategy. For effective oversight of the matters the board has formed two committees. (i) Board Audit Committee (ii) Board Nomination & Compensation Committee. The board and its committees conducts regular meetings throughout the year to fulfill its oversight responsibilities.

Management The Senior Management consists of professionals having experience in the relevant fields. Mr. Kamran Kamal is the CEO of the Company and has been associated with the Group for about eight years. He has experience in several different areas including strategy, wholesale electricity market reforms, electricity derivatives, energy technology evaluation and large-scale infrastructure project structuring. He is simultaneously Chairman and CEO of LEL and NEL along with CEO of HPHL and HPSL. Hub Power management effectiveness plays a significant role in empowering the organization through positive results, which has made decision making process systematic.

Business Risk Hub Power's key source of earnings is the revenue generated through sale of electricity to the power purchaser, CPPA-G. The company had signed a PPA with the government for 30 years that is valid till 2027. Hub Power has established a wholly owned subsidiary – Hub Power Services Limited (HPSL) – incorporated in 2015 to manage the O&M of the plant. State Oil (PSO) is responsible for supplying RFO under the Fuel Supply Agreement (FSA) for 30 years. HUBCO is protected from fuel transportation issues as the company receives fuel directly from PSO. Hub Power has adequate insurance coverage for property damage and business interruption. The insured values for damages include a property damage cover (upto USD 1,383.075mln) & business interruption cover (up to USD 310mln). The total installed capacity of the country as at End-FY22 stood at ~43,775MW with contributions from Hydro (24%), Thermal (61%), Nuclear (8%) and Renewables (7%). There has been a decline in electricity demand from RFO based plants because of their high per unit generation cost. The electricity demand is catered through cheaper sources including Renewables, Hydel, Gas and Thar Coal based projects. The remaining demand is met through costly alternatives including RFO and RLNG based plants. During FY23, the HUB plant generated Net Electrical Output of 205GWh (FY22: 1,229GWh) with a Load Factor of 1.95%. The fall in generation represents lower demand from CPPA-G as a result of governments shift to purchase electricity from other lower generation cost plants. During FY23, the plant met its performance benchmark of availability and efficiency as agreed in the PPA.

Financial Risk The total project cost of HUBCO plant was USD 1.5bln which was financed with 80% foreign debt and 20% equity injection by the sponsors. The project debt was timely repaid. HUBCO's receivables stood at PKR 55,983mln as at end June 2023 (June 2022 : PKR 62,919mln) out of which ~88% are overdue but not impaired because the trade debts are secured by a guarantee of GOP. IPPs in the local market suffer from payment discipline of the power purchaser. This has led to significant volatility in payment to IPPs by the power purchaser resulting in limited cash available for the IPPs to procure fuel for operations. Increased delay in payments by CPPA-G has caused HUBCO's Gross Working Capital Days to clock in at 501 days (June 2022: 408 days). The Company manages its payable days resulting in Net Working Capital Days of 294 days as of June 2023. (June 2022: 241 days). The company has been meeting its working capital requirements through internally generated cash and short-term borrowings including Sukuks and running finance facilities. The coverages of the company witnessed stability (FCFO/Finance Cost+CMLTB+Excess STB) : FY23: 3.4x; FY22: 4.7x; FY21: 4.7x). The Company's FCFO for FY23 stood at PKR 27,579mln (FY22: PKR 28,330mln). The finance cost relating to working capital financing is met through internal cash generation. Simultaneously, the Company's operating cashflow are further supplemented by Dividend and Income from Management Services received from subsidiaries of PKR 15,160mln during FY23. As of June 2023, the Company's leveraging stood at 45.0% (June 2022: 48.6%) which depicts borrowings relating to equity investments made in associates.

Instrument Rating Considerations

About The Instrument Hubco issued a Rated, Secured, Privately Placed, Islamic Certificate on March 19, 2020, amounting PKR 5bln to finance Company's working capital requirements. The Privately Placed Long Term Sukuk, having a tenor of four years, carries a profit rate of 1 Year Kibor + 190bps. Interest is being paid semiannually and principal will be paid in 4 equal semi-annual installments (with two years of Grace Period) starting from the 30th month of the issuance date in September 2022. Currently, the principal of PKR 3,750mln and markup of PKR ~2,128mln have been paid till September 2023 by the Company.

Relative Seniority/Subordination Of Instrument The claims of the ICP Certificate holders will rank superior to the claims of ordinary shareholders.

Credit Enhancement The instrument is secured by way of i) revolving guarantee from Narowal Energy Limited for an amount of PKR 6,666.67mln (issue amount plus 25% margin) ii) Subordinate hypothecation charge over all present and future movable fixed assets of NEL for PKR 6,667.67mln (issue amount plus 25% margin) iii) Subordinate hypothecation charge over all present and future movable fixed assets of HUBCO for PKR 6,667.67mln (issue amount plus 25% margin).

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

The Hub Power Company Ltd	Jun-23	Jun-22	Jun-21	Jun-20
Power	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	6,775	8,325	10,285	12,194
2 Investments	-	-	-	-
3 Related Party Exposure	73,670	67,992	62,395	57,413
4 Current Assets	71,378	77,692	87,328	94,914
a Inventories	*2,253*	*1,831*	*2,806*	*6,319*
b Trade Receivables	*55,084*	*62,919*	*72,206*	*75,031*
5 Total Assets	151,823	154,008	160,007	164,521
6 Current Liabilities	40,025	34,312	42,722	57,042
a Trade Payables	*27,529*	*22,743*	*34,496*	*55,981*
7 Borrowings	50,342	58,208	62,360	64,799
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	61,455	61,488	54,924	42,680
11 Shareholders' Equity	61,455	61,488	54,924	42,680
B INCOME STATEMENT				
1 Sales	44,516	62,544	32,292	27,524
a Cost of Good Sold	*(18,875)*	*(39,140)*	*(11,897)*	*(9,630)*
2 Gross Profit	25,641	23,404	20,395	17,893
a Operating Expenses	(767)	(559)	(789)	(757)
3 Operating Profit	24,874	22,845	19,606	17,137
a Non Operating Income or (Expense)	*15,926*	*6,429*	*8,741*	*3,007*
4 Profit or (Loss) before Interest and Tax	40,800	29,275	28,347	20,144
a Total Finance Cost	*(8,680)*	*(6,552)*	*(5,772)*	*(9,395)*
b Taxation	*(1,178)*	*(1,594)*	*(1,141)*	*(582)*
6 Net Income Or (Loss)	30,942	21,128	21,434	10,167
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*27,579*	*28,330*	*24,738*	*20,395*
b Net Cash from Operating Activities before Working Capital Changes	*19,894*	*22,546*	*19,298*	*11,857*
c Changes in Working Capital	*11,744*	*(1,531)*	*(12,117)*	*(11,442)*
1 Net Cash provided by Operating Activities	31,638	21,015	7,181	415
2 Net Cash (Used in) or Available From Investing Activities	8,097	(1,889)	4,223	(7,221)
3 Net Cash (Used in) or Available From Financing Activities	(39,096)	(19,038)	(11,614)	5
4 Net Cash generated or (Used) during the period	639	88	(211)	(6,801)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-28.8%	93.7%	17.3%	-24.1%
b Gross Profit Margin	57.6%	37.4%	63.2%	65.0%
c Net Profit Margin	69.5%	33.8%	66.4%	36.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	88.3%	42.8%	39.1%	32.5%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	50.0%	33.7%	38.5%	24.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	501	408	884	1012
b Net Working Capital (Average Days)	294	241	372	267
c Current Ratio (Current Assets / Current Liabilities)	1.8	2.3	2.0	1.7
3 Coverages				
a EBITDA / Finance Cost	3.4	4.7	4.7	2.3
b FCFO / Finance Cost+CMLTB+Excess STB	1.6	1.8	2.5	2.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.2	1.4	1.8	3.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	45.0%	48.6%	53.2%	60.3%
b Interest or Markup Payable (Days)	58.3	51.5	43.4	33.2
c Entity Average Borrowing Rate	15.2%	10.1%	8.3%	13.7%

Credit Rating

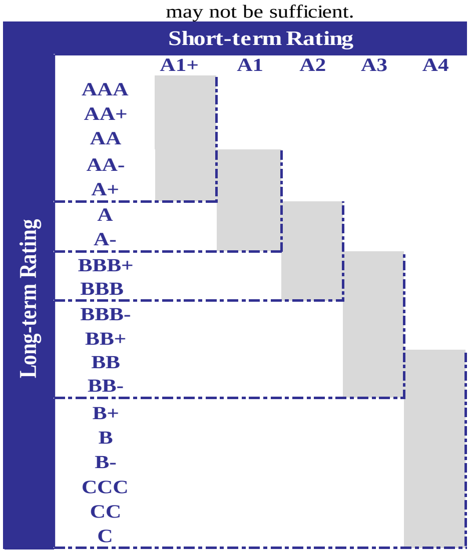
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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 | 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
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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Book Value of Assets (PKR mln)	Nature of Assets	Trustee
Rated, Secured, Privately Placed, Islamic Certificates	5,000 mln	4 years	Revolving Cross Corporate Guarantee (“RCCG”) from Narowal Energy Limited (“NEL”) for the an amount of PKR 6,666.67 million (Issue Amount plus 25% margin) •Subordinate hypothecation charge over all present and future movable fixed assets of NEL for PKR 6,666.67 million (Issue Amount plus 25% margin) •Subordinate charge over all present and future movable current assets of HUBCO for PKR 6,666.67 million (Issue Amount plus 25% margin)		-	Pak Brunei Investement Company Limited

Name of Issuer	The Hub Power Company Limited (HUBCO)
Issue Date	19-Mar-20
Maturity	19-Mar-24
Profit Rate	1 Year KIBOR + 1.90%

The Hub Power Company Limited (HUBCO) \| Sukuk

Sr.	Due Date Principal	Opening Principal	1Year Kibor	Markup/Profit Rate (1YK + 1.90%)	Markup/Profit Payment	Principal Payment	Total	Principal Outstanding
		PKR			PKR			
Issue Date	19-Mar-20	5,000,000,000	12.28%	14.18%	-	-	-	5,000,000,000
1	19-Sep-20	5,000,000,000	12.28%	14.18%	357,413,699	-	357,413,699	5,000,000,000
2	19-Mar-21	5,000,000,000	12.28%	14.18%	351,586,301	-	351,586,301	5,000,000,000
3	19-Sep-21	5,000,000,000	8.23%	10.13%	255,331,507	-	255,331,507	5,000,000,000
4	19-Mar-22	5,000,000,000	8.23%	10.13%	251,168,493	-	251,168,493	5,000,000,000
5	19-Sep-22	5,000,000,000	12.39%	14.29%	360,186,301	1,250,000,000	1,610,186,301	3,750,000,000
6	19-Mar-23	3,750,000,000	12.39%	14.29%	265,735,274	1,250,000,000	1,515,735,274	2,500,000,000
7	19-Sep-23	2,500,000,000	21.45%	23.35%	286,875,925	1,250,000,000	1,536,875,925	1,250,000,000
8	19-Mar-24	1,250,000,000	21.45%	23.35%	144,738,014	1,250,000,000	1,394,738,014	-
					2,273,035,514	**5,000,000,000**	**7,273,035,514**	