



The Pakistan Credit Rating Agency Limited

Rating Report

National Transmission & Despatch Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Aug-2020	AA+	A1+	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings also take support from National Transmission and Despatch Company's (NTDC) ownership structure-dominantly owned by the Government of Pakistan (GoP) holds strategic importance to the authorities, as being a semi-autonomous power transmission utility; it is mandated to construct, maintain and operate an integrated network of 500 kV, 220 kV transmission lines and grid stations to evacuate power from an installed generation capacity of over 36,000 MW. NTDC's low business risk emanates from its leading market position, strong uphold on transmission system in terms of its technical and business expertise; moreover, company's operational expenses being part of tariff determination mechanism reflect positively on the company's risk profile and its business and growth prospects; the Company maintains that transmission losses are aligned with the globally accepted parameters. Ratings also take into account Company's moderate financial risk emanating from sizable equity, sound capital structure comprising mainly of local financing as foreign loans are provided under relent policy with inherent protection against currency and foreign exchange risk. Furthermore, working capital management is reflective of strong internal cash generation and effective management of circular debt by adjusting receivables with loans repayments on foreign relent loans. The ratings also incorporate NTDC's strengthened position resulting through completion of 31 expansion projects. Market share, is expected to remain strong as NTDC is planning of enhancing its transmission capacity from 53,410MVA to 62,355MVA by Jun'21. Power evacuation from Neelum Jhelum, Diamer Basha Dam are some of Company's huge and magnificent in pipeline projects.

Effective management of upcoming projects, in addition to ERP system installation, consistency in financial profile and risk matrixes remains critical for the ratings. Meanwhile, reconciliation of outstanding adjustments regarding Business Transfer Agreements and sustained competitive positioning is also imperative.

Disclosure

Name of Rated Entity	National Transmission & Despatch Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-20),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria Rating Modifier(Jun-20)
Related Research	Sector Study Distribution Electricity(Jan-20)
Rating Analysts	Sana Shameen sana.shameen@pacra.com +92-42-35869504

Profile

Legal Structure National Transmission and Despatch Company (NTDC) is a public unlisted company, incorporated in Pakistan on November 06, 1998. The registered office of the Company is situated at WAPDA House, Lahore.

Background After unbundling of WAPDA, NTDC took over certain properties, assets, rights, obligations and liabilities relating to transmission of electricity from WAPDA under Business Transfer Agreement (BTA) on March 01, 1999. Later, upon receiving direction from The Prime Minister of Pakistan, Company signed a Business Transfer Agreement (BTA) on June 03, 2015 with Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) and had transferred its functions, operations, assets and liabilities related to CPPA and CRPEA to CPPA-G.

Operations The principal activity of the Company is transmission of electric power to DISCOS through its transmission infrastructure and network facilities. NEPRA granted transmission license to NTDC in December 2002 for a term of thirty (30) years. NTDC's 1st tariff was notified by NEPRA in April, 2004.

Ownership

Ownership Structure NTDC is 88% owned by Government of Pakistan through Ministry of Water and Power. While the 12% shares are owned by government employees under "Benazir Employee Stock Option Scheme" (BESOS).

Stability Majority shareholding owned by Government of Pakistan provides support to stability of the company.

Business Acumen Government of Pakistan holds NTDC as its strategically vital asset and representatives from GoP holds significant industry-related experience, resulting into a strong business acumen.

Financial Strength Sovereign ownership from Government of Pakistan and given the strategic importance of NTDC to the GoP, in terms of being the largest energy evacuator and transmitter, the probability of sovereign support, in case the company requires it, remains high.

Governance

Board Structure The board of NTDC comprises ten experienced professionals, six independent directors are a provincial nominee, three members are non-executive directors representing Ministry of Energy, Power Division. Company's MD is a member of BOD as well.

Members' Profile Mr. Babar Iqbal is the Chairman of the board, with more than ~30 years of experience in his portfolio. Company's board comprises of highly qualified board members with considerable extensive experience in various spheres of the industry. Moreover, diversification in terms of knowledge and experience is considered good.

Board Effectiveness During FY19, the board held nine meetings to address the strategic decisions of the company. There are six committees at the Board level, namely i) Audit Committee, ii) Risk Management committee, iii) Human Resource Committee, and iv) Procurement committee, V). Negotiation Committee, VI). Nomination Committee.

Financial Transparency Grant Thornton Anjum Rehman are the external auditors of the company. They have given qualified opinion on company's financial statements for the year ended June 30, 2019.

Management

Organizational Structure NTDC has a strong organizational structure. MD, Chief Internal Auditor, Board Committees are directed by BOD of the company. While Chief Officers and Deputy Managing Directors of six operational departments namely: Asset Management & Development, Finance, Legal, Security Operation, Procurement & Engineering, HR and Information Centre; reports directly to MD.

Management Team Eng. Dr. Khawaja Riffat Hassan is the Managing Director of the company. He is associated with the group for ~21 years with overall ~27 years of power sector experience in his portfolio. His expertise lies in power system design, planning, asset management & execution of large, industrial complexes.

Effectiveness The robustness of control systems is a reflection of strong management. The management's effective decision-making has led to processes becoming more systematic.

MIS NTDC's incorporation of SAP as its Enterprise Resources Planning (ERP) Software specifically the FICO (Finance Module) for maintaining its financial database was observed absent. Company is following old-school operational parameters for generating reports.

Control Environment NTDC maintains an effective control environment with defined policies and procedures. Company's internal audit function performs regular reviews on the financial, operational and compliance controls and reports directly to the audit committee for all critical issues.

Business Risk

Industry Dynamics Pakistan has a total dependable capacity of 34,523MW (at end-Sep19). The maximum demand of the country peaked at 26,348MW (at end-Jun19). There are 62 GENCO's including 58 IPPs, and 11 DISCOs including KE, operating in Pakistan. Currently sizeable gap exists between the electricity generated by the GENCOs/IPP's the amount billed by the DISCOs, and recovered from the customers. This has led to accumulation of inter-corporate debt in the country's energy chain. Improvement in the sector's financial performance depends upon the permanent resolution of the circular debt problem.

Relative Position At present, five transmission companies have received transmission license from NEPRA, but only K-Electric and NTDC being currently operational, and between the two NTDC transmits power to the entire Pakistan, excluding K-Electric's service areas. NTDC's transmission system comprises a total of 17,929km of 500kV and 220kV lines with 61 grid stations and an overall transmitting capacity of 53,410MVA.

Revenues NTDC's revenue is in terms of System Charges. The last notified tariff for the FY18-19 is Rs.176.16/kW/month. During FY19, company has received 114,407GWh of energy and units sold to distribution centers stood at 111,009GWh. NTDC's topline during FY19 has improved significantly (FY19: PKR 41,989mIn; FY18: PKR 36,744mIn; FY17: PKR 31,326mIn). The increase is attributed to the improved maximum demand indicator (FY19: 23,694MW; FY18: 22,720MW) and an increase in country's overall energy generation (FY19:122,542Gwh; FY18:120,791Gwh; FY17:107,932Gwh). Company's topline during 6MFY20 is reported at PKR 22,045mIn with net profit of PKR 6,939mIn.

Margins NTDC does not entail any direct cost of goods sold and operating expenses are mainly associated with energy transmission. On account of improved system charges, company's profitability before tax and financial charges has improved during the review period (FY19: PKR 22,156mIn; FY18: PKR 20,572mIn; FY17: PKR 16,692mIn). Company has posted a net profit of PKR 11,236mIn (FY18: PKR 14,736mIn; FY17: PKR 10,585mIn) on account of trickle-down effect of increased finance cost. Hence, net profit margin has also declined to 27% (FY18: 40%; FY17: 34%). Net profit margin as of 6MFY20 stands at 31%.

Sustainability Market share, is expected to remain strong as NTDC is planning of enhancing its transmission capacity from 53,410MVA to 62,355MVA by Jun'21.

Financial Risk

Working Capital Recovery ratio for receivables as reported by management stands at 65% and rest are adjusted against loans and interest obligations towards GoP's lent loans. During FY19, an adjustment of PKR 37bIn is received against outstanding receivables which resultantly decreased the trade debts to PKR16bIn and has improved trade receivables days to 142days at end-June19 (end-Jun18: 392days; end-Jun17: 372days). NTDC is strongly managing its entire working capital requirement through internal cash generation. NTDC's average gross working capital days during 6MFY20 clocked in at 189 days.

Coverages NTDC's coverages despite increasing FCFO – factor of higher profitability have exhibited a moderate declining trend as reflected from higher finance cost in terms of increased debt repayments (interest coverage: end-Dec19: 3.2x, end-Jun19: 4.1x, end-Jun18: 4.5x; debt service ratio: end-Dec19: 1.0x, end-Jun19: 1.3x, end-Jun18: 0.7x).

Capitalization Being an infrastructure-based company, NTDC arranges funds from foreign and local financial institutions for the expansion/development of its Transmission Network. NTDC has a moderately leverage capital structure, mainly composed of long term financing. Company's long-term debt on account of extensive investment program has experienced an increasing trend; however, company's strong equity has supported management in maintaining debt to debt plus equity ratio at an adequate level (end-Dec19: ~50%; Jun19: ~49%; Jun18: ~52%).

National Transmission & Despatch Company Limited

BALANCE SHEET	31-Dec-19 6MFY20	30-Jun-19 Annual	30-Jun-18 Annual	30-Jun-17 Annual
Non-Current Assets	314,060	290,580	252,306	216,636
Current Assets	113,591	111,233	108,109	93,609
Trade Receivables	22,797	16,335	39,440	31,925
Others	90,794	94,898	68,669	61,684
Total Assets	427,651	401,813	360,417	310,244
Debt	157,755	148,613	132,731	108,239
Short-term	-	-	-	-
Long-term (Incl. Current Maturity of long-term debt)	157,755	148,613	132,731	108,239
Other shortterm liabilities	37,277	30,108	49,309	41,421
Other Longterm Liabilities	67,934	65,347	56,375	51,047
Shareholder's Equity	164,685	157,745	122,002	109,536
Total Liabilities & Equity	427,651	401,813	360,417	310,244
INCOME STATEMENT				
Turnover	22,045	41,989	36,744	31,326
Interest Expense	(5,320)	(8,119)	(4,575)	(1,259)
Net Income	6,939	11,236	14,736	10,585
OPERATIONAL PERFORMANCE				
Recovery Ratio	65.0%	65.0%	65.0%	65.0%
T & T Losses (%)	2.8-3.0	2.8-3.0	2.8-3.0	2.8-3.0
CASHFLOW STATEMENT				
Free Cashflow from Operations (FCFO)	16,915	33,143	20,808	17,699
Net Cash from Operating Activities	14,054	31,162	5,027	(1,551)
Net Cash from InvestingActivities	(23,617)	(41,000)	(28,695)	(27,664)
Net Cash from Financing Activities	9,919	15,355	24,575	25,947
RATIO ANALYSIS				
Coverages				
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD)	1.0	1.3	0.7	1.0
Interest Coverage (x) (FCFO/Gross Interest)	3.2	4.1	4.5	14.1
Debt Payback (Years) (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Inter	6.8	5.9	8.2	6.6
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	189	142	392	372
Capital Structure (Total Debt/Total Debt+Equity)	48.9%	48.5%	52.1%	49.7%

National Transmission & Despatch Company Limited (NTDC)

August 2020

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	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.
CC	
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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- (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.
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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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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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