The Pakistan Credit Rating Agency Limited

Rating Report

National Transmission & Despatch Company Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
13-Aug-2021	AA+	A1+	Stable	Maintain	-
28-Aug-2020	AA+	A1+	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect National Transmission and Despatch Company's (NTDC) ownership structure dominantly owned by the Government of Pakistan (GoP). The company is of strategic importance to Pakistan as being a semi-autonomous power transmission utility. It is mandated to construct, maintain and operate an integrated network of 220 kV, 500 kV, and above transmission lines and grid stations to evacuate power from an installed generation capacity of over 37,000 MW. NTDC's low business risk emanates from its leading market position and strong uphold on the transmission system in terms of its technical and business expertise. Moreover, the company's operational expenses being part of its tariff determination mechanism reflect positively on the company's performance and business risk profile. The Company's transmission losses are aligned with the globally accepted parameters and are within the limits allowed by NEPRA. Ratings also take into account the Company's moderate financial risk emanating from sizable equity, an adequate capital structure that comprises mainly of foreign loans relent in Pak Rupee to NTDC and borrowing from the local banks. NTDC has also obtained a financing facility of PKR 6.4bln on its own financial positions. Furthermore, in-house working capital management is reflected by strong internal cash generation and constructive management of circular debt by adjusting its receivables with foreign loans relent to NTDC. The ratings also incorporate NTDC's strengthened position resulting in the completion of ~30 expansion projects. Market share is expected to remain strong as NTDC has enhanced its transmission capacity to 55,300MVA by Jun-21. Power evacuation from Neelum Jehlum, Dasu Dam are some of the Company's most significant pipeline projects.

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

Disclosure

Name of Rated Entity	National Transmission & Despatch Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Distribution | Electricity(Jan-21)
Rating Analysts	Anam Waqas Ghayour | anam.waqas@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 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 the 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 the Government of Pakistan through the Ministry of Energy (Power Division). While the 12% shares are owned by government employees under the "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 hold significant industry-related experience, resulting in strong business acumen.

Financial Strength Sovereign ownership from the 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 eleven experienced professionals including six independent directors and four members non-executive directors - representatives from Ministry of Energy (Power Division), Planning & Commission, and CPPA-G. The Company's MD is a member of BOD as well.

Members' Profile Mr. Naveed Ismail is the Chairman of the board, having professional experience of decades in his portfolio. The Company's board is composed of professionals with considerable extensive experience in various spheres of the industry.

Board Effectiveness There are six committees at the Board level, namely i) Audit Committee, ii) Risk Management Committee, iii) Human Resource Committee, iv) Procurement Committee, v). Technical Committee, and vi). Nomination Committee.

Financial Transparency Grant Thornton Anjum Rahman Chartered Accountants is the external auditor of the company. They have expressed a qualified opinion on the Company's financial statements for the year ended June 30, 2020.

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 Technology reports directly to MD.

Management Team Mr. Azaz Ahmad has recently been appointed by the board as Managing Director. He holds decades of local and international engineering experience in high voltage transmission, project management, construction, operation, and maintenance of the power sector.

Effectiveness The robustness of control systems is a reflection of effective decision-making. The implied system checks have led the processes to become more systematic.

MIS NTDC's efforts towards the implementation of its Enterprise Resources Planning (ERP) Software, are in the advanced stages. Currently, the 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 installed capacity of 37,402MW (at end-Jun 20). The maximum demand of the country peaked at 26,252MW (at end-Jun20). Currently, there are 128 GENCO's including 85 IPPs, and 11 DISCOs including KE, operating in Pakistan. Since power is a supply efficient sector, DISCOs are not exposed to demand risk. The tariff is determined by NEPRA on annual basis. However, there are monthly and quarterly adjustments mainly on account of fuel price changes. Going forward, generation capacity is expected to increase by 16,923MW in the upcoming years. The Government of Pakistan also has plans to increase the share of renewable energy in total power generation to 30% by 2030.

Relative Position At present, five transmission companies have received transmission licenses from NEPRA, but only K-Electric and NTDC are being currently operational. NTDC transmits power to entire Pakistan, including K-Electric's service areas. NTDC's transmission system comprises a total of 18,519km of 500kV and 220kV lines with 61 grid stations and an overall transmitting capacity of 55,300MVA.

Revenues NTDC's topline during FY20 has improved over the years (1HFY21: PKR 27,780mln; FY20: PKR 43,445mln; FY19: PKR 41,989mln; FY18: PKR 36,744mln). The increase is attributed to the improved maximum demand indicator (FY20: 27,780MW; FY19: 23,694MW; FY18: 22,720MW) and increases in the country's overall energy generation (FY20: 127,780; FY19: 122,542Gwh; FY18; 120,791Gwh).

Margins Being the power transmitter, NTDC does not entail any direct cost of goods sold, and operating expenses are primarily associated with energy transmission. On account of improved system charges, the company's profitability before tax has improved during the review period (1HFY21: PKR 15,803mln; FY20: PKR 9,246mln). The financial charges reported growth in the last fiscal year, however, remained manageable (1HFY21: PKR 4,109mln; FY20: PKR 10,327mln) led to a growth of 3.4% in net profit (1HFY21: PKR 9,111mln; FY20: PKR 9,246mln). NP Margin stood at 33.2% for the period ended Dec-20.

Sustainability Being the national grid company of the country, NTDC management in line with the preferential requirements as set by GoP has planned to accelerate the completion of existing ongoing projects and to expand its transmission network for evacuation of power from new upcoming generation projects to eradicate power shortage in the country for good.

Financial Risk

Working Capital Timely recovery of bills is imperative for NTDC's working capital management. NTDC bills CPPA-G (Power Purchaser) against the use of system charges. The trade receivables days were reported as 235days at end-Dec20 (end-Jun20: 202days; end-Jun19: 242days; end-Jun18: 392days). Payables days for NTDC stands Nil as the business model is not based on purchase and sales of goods. The gross cash cycle improved on account of lower receivables days (end-Jun20: 202days; end-June19: 242days, end-Jun18: 392days). Moreover, the current ratio during the review is reported at 3.1x (FY20: 3.3x, FY19: 3.7x, FY18: 2.2x) indicating an adequate short-term liquidity position of the company.

Coverages NTDC's coverages are a reflection of strengthened FCFO along with the factor of enhanced profitability over the years however the finance cost is also rising on the back of higher project financing (interest coverage: end-Dec20: 5.0x, end-Jun20: 3.3x, end-Jun19: 4.1x, end-Jun18:4.5x; debt service ratio: end-Dec20: 1.0x, end-Jun20: 0.9x, end-Jun19: 1.3x, end-Jun18: 0.7x). Going forward, due to rising debt levels whilst considering the fact that NTDC's major debt obligations, directly are to GoP - providing comfort regarding the company's ability towards its debt duties can be taken.

Capitalization Being an infrastructure-based company, NTDC arranges funds from foreign and local financial institutions for the expansion of its network. The Company financed its projects mainly through Government re-lent loans and secured local financing (1HFY21: Local Financing 13%; Foreign Financing; 87%). NTDC has a moderate leverage capital structure, mainly composed of long-term financing while short-term financing stands nil (end-Dec20: ~50.2%; Jun20: ~50.8%; Jun19: ~48.5%). Furthermore, NTDC has available non-funded lines (LC Commitments) of PKR 72bln out of which current outstanding commitments amounting to PKR 33bln.

PKR mln

National Transmission & Despatch Company Distribution | Electricity	Dec-20 6M	Jun-20 12M	Jun-19 12M	Jun-18 12M
A BALANCE SHEET				
1 Non-Current Assets	337,800	318,313	290,580	252,306
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	133,086	125,366	111,233	108,110
a Inventories	-	-	-	-
b Trade Receivables	*38,940*	*31,814*	*16,335*	*39,440*
5 Total Assets	470,886	443,679	401,813	360,417
6 Current Liabilities	43,018	37,605	30,108	49,309
a Trade Payables	-	-	-	-
7 Borrowings	177,708	166,866	148,613	132,731
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	78,093	76,252	65,347	56,375
10 Net Assets	172,068	162,956	157,746	122,002
11 Shareholders' Equity	172,068	162,956	157,746	122,002
B INCOME STATEMENT				
1 Sales	27,480	43,445	41,989	36,744
a Cost of Good Sold	-	-	-	-
2 Gross Profit	27,480	43,445	41,989	36,744
a Operating Expenses	(12,498)	(27,460)	(21,827)	(17,141)
3 Operating Profit	14,983	15,985	20,162	19,603
a Non Operating Income or (Expense)	*821*	*4,216*	*1,994*	*969*
4 Profit or (Loss) before Interest and Tax	15,803	20,201	22,156	20,572
a Total Finance Cost	*(4,109)*	*(10,327)*	*(8,119)*	*(4,575)*
b Taxation	*(2,583)*	*(628)*	*(2,801)*	*(1,261)*
6 Net Income Or (Loss)	9,111	9,246	11,236	14,736
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*20,383*	*33,689*	*33,143*	*20,808*
b Net Cash from Operating Activities before Working Capital Changes	*17,997*	*26,918*	*30,087*	*19,274*
c Changes in Working Capital	*(8,344)*	*(19,081)*	*1,075*	*(14,247)*
1 Net Cash provided by Operating Activities	9,653	7,836	31,162	5,027
2 Net Cash (Used in) or Available From Investing Activities	(22,196)	(32,000)	(41,000)	(28,695)
3 Net Cash (Used in) or Available From Financing Activities	10,820	19,844	15,355	24,575
4 Net Cash generated or (Used) during the period	(1,723)	(4,319)	5,517	908
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	26.5%	3.5%	14.3%	17.3%
b Gross Profit Margin	100.0%	100.0%	100.0%	100.0%
c Net Profit Margin	33.2%	21.3%	26.8%	40.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	43.8%	33.6%	81.5%	17.9%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	10.9%	6.0%	7.5%	13.0%
2 Working Capital Management				
a Gross Working Capital (Average Days)	235	202	242	354
b Net Working Capital (Average Days)	N/A	N/A	N/A	N/A
c Current Ratio (Current Assets / Current Liabilities)	3.1	3.3	3.7	2.2
3 Coverages				
a EBITDA / Finance Cost	5.6	3.6	4.3	5.0
b FCFO / Finance Cost+CMLTB+Excess STB	1.0	0.9	1.3	0.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	5.5	7.1	5.9	8.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	50.8%	50.6%	48.5%	52.1%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	4.8%	6.5%	5.8%	3.7%

Credit Rating

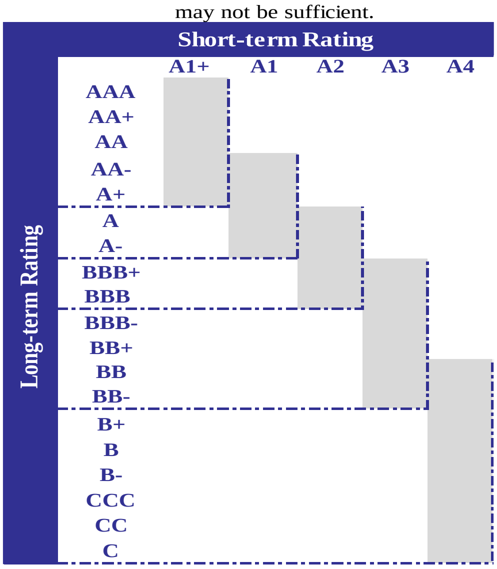
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

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

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

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)

(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)

(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.

(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)

(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)

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

(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity

(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)

(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)

(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)

(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)

(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)

(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)

(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

Proprietary Information