



The Pakistan Credit Rating Agency Limited

Rating Report

WAPDA Dasu TFC-B

Report Contents

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
17-May-2024	AAA	-	Stable	Maintain	-
17-Nov-2023	AAA	-	Stable	Maintain	-
18-Nov-2022	AAA	-	Stable	Maintain	-
18-Nov-2021	AAA	-	Stable	Initial	-
29-Jan-2021	AAA	-	Stable	Preliminary	Yes

Rating Rationale and Key Rating Drivers

The Pakistan Water and Power Development Authority ("WAPDA") has issued the 2nd tranche of TFC worth PKR 4,235.3mln on 29-Jul-21. WAPDA will utilize this amount to partially finance the construction of the Dasu hydropower project Stage-I ("Dasu"). Dasu, once completed would become the second-largest hydel project in Pakistan. Dasu is a run-river project on the Indus River located in Dasu Kohistan, Khyber Pakhtunkhwa about 350 KM from Islamabad. The project started in 2017 and is expected to be completed in May'27. The project will be completed in two stages, the installed capacity would be 4,320MW (stage-I 2,160MW) and the total annual energy of 21,485 GWh will be produced (Stage-I 12,220 GWh). Stage -I project includes constructing a hydraulic structure on the Indus River and underground power generation facilities. The total land required for the project has been acquired. The Project would be financed through a mix of WAPDA internally generated cash (15%) and borrowing (85%) i) Long-term (local & foreign) and ii) bond issuance (Islamic & Conventional). Currently, the physical progress of the Project stands at ~21.14%, while financial progress stands at ~57.86%. The Series B TFC is part of the local financing facility package of PKR 144bln availed from the local syndicate bank for a period of 15 years, whereby PKR 35.2bln is to be raised in the form of GOP guarantee-backed TFC in total five tranches. WAPDA has currently issued 4 Series (A, B, C, and D) of TFC by aggregate amount of PKR 28.471bln and the remaining available limit ~PKR 6.729bln will be issued in the form of TFC E. The assigned rating of TFC "B" incorporates an unconditional and irrevocable guarantee by the Government of Pakistan (GoP). The guarantee covers the payment of the total outstanding amount of the TFC and the related profit component. GOP would pay the entire call amount immediately upon receiving a demand notice from the issuing agent. Additionally, WAPDA has maintained a Debt Payment Account (DPA) with the Facility Agent which is held under an exclusive lien in favor of the Issue agent. During each month, WAPDA deposits an amount equivalent to 1/6th of the upcoming Installment into the DPA, so that the aggregate amount available in the DPA on the upcoming Installment Date is equal to the relevant upcoming Installment. WAPDA has generated a topline of ~PKR 75bln (FY22: ~PKR 99bln) and a bottom line of ~PKR 8bln during FY23 (FY22: ~PKR 19bln).

WAPDA generated 31,286 GWh of electricity in FY23. WAPDA expects to generate an additional ~8,990MW by the completion of new hydel projects in the next six years.

Disclosure

Name of Rated Entity	WAPDA Dasu TFC-B
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Corporate Rating(Jul-23),Methodology Rating Modifiers(Apr-23),Methodology Debt Instrument Rating(Dec-23)
Related Research	Sector Study Power(Jan-24)
Rating Analysts	Madiha Sohail madiha.sohail@pacra.com +92-42-35869504

Issuer Profile

Profile power wing, WAPDA's mandate is now the development of water and hydropower resources in an efficient manner. Thus it has the primary responsibility to develop Hydel Power Projects. The entity generates a total of 9,389MW. It is the largest hydel energy producer in the country. WAPDA is in the process of constructing different projects which are to add ~8,990MW by 2029.

Ownership WAPDA is an autonomous and statutory body under the administrative control of the Federal Government, which maintains tight control of the authority. The Authority's budget and accounts require government approval, as do changes in its powers, duties and projects. The government funds the majority of WAPDA's projects via grants, re-lending and loans. It also provides a favorable tariff scheme, sufficiently meeting WAPDA's operating costs and provides a reasonable return on investment.

Governance The Authority comprises the Chairman, a member of each wing (Water, Power, and Finance), and secretary WAPDA. Lt. General (Retd.) Sajjad Ghani is the Chairman of WAPDA since 2022 a retired army professional and a diplomat brings the experience of 4 decades with him to the management of the WAPDA. The Ministry of Water Resources provides oversight to WAPDA.

Management WAPDA has a highly experienced management team with most of them having long term associations.

Business Risk WAPDA plans to add over 10,000MW hydel electricity in the next decade. Going forward, cheap renewable electricity will be a challenge to the viability of thermal power plants. WAPDA has a total generation capacity of 9,389MW, while many projects are in pipeline including Mohmand Dam, Tarbela 5th Extension, Dasu Hydro power and Diamer Bhasha Dam Power Project. The aforementioned projects with a maximum capacity of 8,990 MW are expected to complete in the year 2025, 2026, 2027 and 2029 respectively. WAPDA generated 31,286GWh electricity in FY23. The Company has generated a topline of ~PKR 75bln during FY23 (FY22: ~PKR 99bln). WAPDA generated a humble bottom line of ~PKR 8bln during FY23 (FY22: ~PKR 19bln).

Financial Risk As part of its arrangement with the provinces, WAPDA is liable to pay a Net Hydel Profit @ 1.404 Kwh to KPK and @ 1.337 Kwh to Punjab. This amount is recoverable from CPPA-G via its tariff. NEPRA approved WAPDA's tariff including Net Hydel Profit payable to provinces in FY17. Consequently, WHE's receivables increased significantly at the end of FY23 to ~PKR 290bln (FY22: ~PKR 275bln). Thus, receivable days have also increased to ~1,379 days at end FY23 (FY22: ~957 days). WAPDA's free cash flow from operation (FCFO) during FY23 increased to ~PKR 21bln (FY22: ~PKR 86bln). Consequently, WAPDA's interest cover ratio has also decreased to ~ 0.5x at end FY23 (FY22: 2.1x). During FY23, WAPDA's leverage capital structure stood at ~ 74.2% (FY22: ~ 69.9%), on account of total borrowing increased significantly at end FY23 to ~PKR 718bln (FY22: ~PKR 577bln).

Instrument Rating Considerations

About The Instrument WAPDA has issued a rated, secured, privately placed WAPDA Dasu TFC-B ("TFC") of PKR 4,235.3mln on 29-Jul-21 to partially finance stage-1 of Dasu Hydropower Project, a 2,160MW run-of-river project. Stage-1 Project ("DHP-I" or the "Project") includes the construction of a hydraulic structure on the Indus river and underground power generation facilities. The total financing package for the Project will be subject to a maximum aggregate limit of PKR 144bln and comprises of distinct conventional and Islamic finance facilities classified as i) Facilities secured by an irrevocable, sovereign guarantee issued by the Government of Pakistan without SLR eligibility amounting to PKR 88bln and ii) Facilities secured by WAPDA's assets amounting to PKR 56bln. The TFC has a tenor of 11 years. The profit is being paid semi-annually in arrears at the rate of 6M Kibor+1.45% p.a calculated on a 365 days basis on the outstanding principal amount. The principal is also being paid in twenty equal semi-annual installments commenced from 8-Nov-22 amounting to PKR 211.77mln each. Total markup of PKR 1,469mln and total principal of PKR 635mln has been paid till date. There is also a call option attached to the TFC exercisable only after the expiry of the availability Period on instalment payment dates, subject to a 30 day's prior written irrevocable notice to the Facility Agent. A prepayment price equivalent to 0.20% will be applicable to the amount being prepaid. Currently, the physical progress of the Project stands at 21.14%, while financial progress stands at 57.86%. The work on the Project site was suspended in Jul'21 due to some unforeseen circumstances but resumed again on Oct'21. Now, it is fully mobilized.

Relative Seniority/Subordination Of Instrument The claims of the TFC holders will rank superior to the claims of other stakeholders.

Credit Enhancement The TFC facility is covered through the GoP Guaranteed Backed Facilities i.e. Unconditional and irrevocable First Demand Guarantee covering principal and profit amount and any other amounts becoming due for payment in respect of the facilities from the Ministry of Finance, Government of Pakistan without SLR eligibility. WAPDA will also maintain a Debt Payment Account with the Investment Agent which will be held under exclusive lien in favor of the Issue Agent. During each month WAPDA shall deposit equivalent to the 1/6th of the instalment amount into the Debt Payment Account (not later than the 15th day of each month of the instalment period) so that the aggregate amount available in the Debt Payment Account on the upcoming instalment date is equal to the relevant instalment amount.



Pakistan Water and Development Authority (Hydroelectric - NEPRA Regulated Business) Power	Jun-23 12M	Jun-22 12M	Jun-21 12M
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A BALANCE SHEET

1 Non-Current Assets	893	719	605
2 Investments	21	-	-
3 Related Party Exposure	-	-	-
4 Current Assets	516	482	427
<i>a Inventories</i>	-	-	-
<i>b Trade Receivables</i>	290	275	243
5 Total Assets	1,430	1,201	1,032
6 Current Liabilities	31	26	19
<i>a Trade Payables</i>	17	19	16
7 Borrowings	718	577	470
8 Related Party Exposure	128	98	90
9 Non-Current Liabilities	302	252	218
10 Net Assets	250	249	234
11 Shareholders' Equity	250	249	234

B INCOME STATEMENT

1 Sales	75	99	67
<i>a Cost of Good Sold</i>	(29)	(27)	(26)
2 Gross Profit	46	72	41
<i>a Operating Expenses</i>	(3)	(2)	(2)
3 Operating Profit	43	70	39
<i>a Non Operating Income or (Expense)</i>	13	(0)	8
4 Profit or (Loss) before Interest and Tax	57	70	47
<i>a Total Finance Cost</i>	(49)	(50)	(30)
<i>b Taxation</i>	-	-	-
6 Net Income Or (Loss)	8	19	17

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	21	86	53
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	21	86	53
<i>c Changes in Working Capital</i>	17	(27)	(10)
1 Net Cash provided by Operating Activities	38	60	43
2 Net Cash (Used in) or Available From Investing Activities	(57)	(75)	(52)
3 Net Cash (Used in) or Available From Financing Activities	26	27	90
4 Net Cash generated or (Used) during the period	8	12	80

D RATIO ANALYSIS

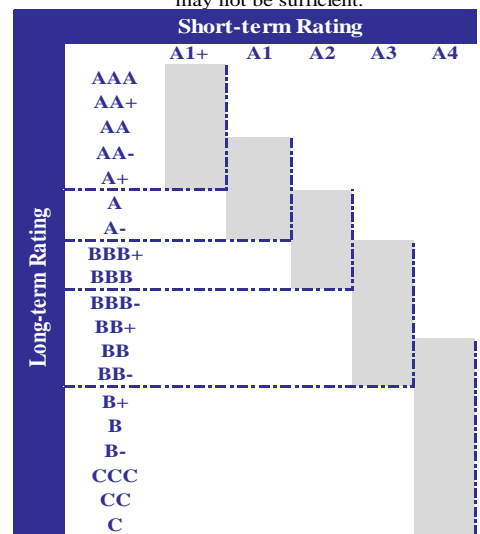
1 Performance			
<i>a Sales Growth (for the period)</i>	-24.2%	47.8%	6.4%
<i>b Gross Profit Margin</i>	61.3%	73.0%	61.4%
<i>c Net Profit Margin</i>	10.1%	19.7%	25.2%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	50.4%	60.8%	64.7%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]</i>	3.0%	8.1%	7.4%
2 Working Capital Management			
<i>a Gross Working Capital (Average Days)</i>	1379	957	1264
<i>b Net Working Capital (Average Days)</i>	1289	892	1209
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	16.8	18.9	22.1
3 Coverages			
<i>a EBITDA / Finance Cost</i>	1.4	2.1	1.9
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	0.1	0.3	0.2
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	-21.0	9.6	14.4
4 Capital Structure			
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	74.2%	69.9%	66.7%
<i>b Interest or Markup Payable (Days)</i>	34.8	28.3	22.7
<i>c Entity Average Borrowing Rate</i>	7.3%	8.2%	6.8%

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+	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	
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):

- 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

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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 | 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)

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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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 17-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security	Nature of Assets	Issue Agent
TFC - B	4,235.3 mln	11 years	1. Un-conditional & irrevocable first demand guarantee covering principal and profit from the Ministry of Finance, GoP. 2. Exclusive lien over debt payment account for the benefit of investors.	WAPDA maintains a Debt Payment Account (DPA) with the HBL (Facility Agent). During each month (not later than the fifteenth (15th) day of each month), WAPDA shall deposit amount equivalent to the 1/6th share of the Installment into the DPA	WAPDA's own cash flows.	Pak Brunei Investment Company

Name of Issuer	Water and Power Development Authority
Issue Date	29-Jul-21
Maturity	7-May-32
Option	N/A

WAPDA Dasu TFC-B | Redemption Schedule

PKR "000"

Payment Period	Date	Principal as at Start of Period	Principal Repaid	Profit Payments	Cumulative amount to be paid	Balance as at end of period
				Interest 6MK+1.45%		
PKR in "000"						
0	Jul-21	4,235,300	-	-	-	4,235,300
1	Nov-21	4,235,300	-	107,112	107,112	4,235,300
2	May-22	4,235,300	-	216,325	216,325	4,235,300
3	Nov-22	4,235,300	211,765	348,441	560,206	4,023,535
4	May-23	4,023,535	211,765	344,976	556,741	3,811,770
5	Nov-23	3,811,770	211,765	452,141	663,906	3,600,005
6	May-24	3,600,005	211,765	414,603	626,368	3,388,240
7	Nov-24	3,388,240	211,765	394,502	606,267	3,176,475
8	May-25	3,176,475	211,765	364,812	576,577	2,964,710
9	Nov-25	2,964,710	211,765	346,135	557,900	2,752,945
10	May-26	2,752,945	211,765	316,171	527,936	2,541,180
11	Nov-26	2,541,180	211,765	296,687	508,452	2,329,415
12	May-27	2,329,415	211,765	267,529	479,294	2,117,650
13	Nov-27	2,117,650	211,765	247,239	459,004	1,905,885
14	May-28	1,905,885	211,765	219,495	431,260	1,694,120
15	Nov-28	1,694,120	211,765	197,251	409,016	1,482,355
16	May-29	1,482,355	211,765	170,246	382,011	1,270,590
17	Nov-29	1,270,590	211,765	148,344	360,109	1,058,825
18	May-30	1,058,825	211,765	121,604	333,369	847,060
19	Nov-30	847,060	211,765	98,896	310,661	635,295
20	May-31	635,295	211,765	72,962	284,727	423,530
21	Nov-31	423,530	211,765	49,448	261,213	211,765
22	May-32	211,765	211,765	24,388	236,153	-
		Total	4,235,300	5,219,309	9,454,609	-