



The Pakistan Credit Rating Agency Limited

Rating Report

WAPDA Dasu TFC-B

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Jan-2021	AAA	-	Stable	Preliminary	YES

Rating Rationale and Key Rating Drivers

The Water and Power Development Authority of Pakistan (WAPDA) is in the process of issuing the second tranche of PPTFC worth PKR 4.235bln. This is part of Series B, while Series A is already issued and rated. WAPDA intends to utilize this amount to partially finance the construction of the DASU hydropower project (Dasu). Dasu, once completed would become the second-largest hydel project in Pakistan. Dasu is a run of the river project on the Indus River located in Dasu Kohistan, Khyber Pakhtunkhwa about 350 KM from Islamabad. The project was started in 2017 and expected to be completed in Feb'2023. Out of the revised total land required (5,740 Acres) for the project 2,113 Acres have been acquired.

The preliminary rating of the TFC reflects these facts and an unconditional and irrevocable guarantee by the Government of Pakistan (GoP). The guarantee is covering the payment of the total outstanding amount of the TFC and related profit component. GoP would pay the entire called amount immediately upon receiving a demand notice from the trustee. Additionally, WAPDA shall maintain a debt payment account (DPA) under the exclusive lien of the trustee. Within the first fifteen days of each month, WAPDA shall deposit an amount equal to 1/6th of the upcoming installment in the DPA. The rating apart from a debt payment and guarantee mechanism recognize WAPDA's strategic importance as the major hydroelectric power supplier to the country. WAPDA generated 32,295GWh electricity in FY20. WAPDA expects to generate an additional ~8,070MW by the completion of new hydel projects in the next four years.

WAPDA's financial profile draws comfort from strong cash flows. However, it remains dependent on repayment behavior of power purchaser. Continued compliance with the predefined covenants of PPTFC, including maintenance of DPA would remain critical. The watch captures that the financial statements of the issuer for FY20 are being audited and will be approved in the next month. This will be followed by the process for the approval of financial statements for the ongoing financial year

Disclosure

Name of Rated Entity	WAPDA Dasu TFC-B
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Debt Instrument(Jun-20),Methodology IPP(Jun-20),Criteria Rating Modifier(Jun-20)
Related Research	Sector Study Power(Jan-20)
Rating Analysts	Timnat Thomas timnat.thomas@pacra.com +92-42-35869504

WAPDA - PROFILE	
Incorporated	1958 – Through a statutory act
Major business lines	Power Generation Water Development
Legal status	PSE
Head office	Lahore
Chairman	LT. General (Retd.) Muzzamil Hussain
Installed Capacity	8,420 MW

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> ▪ Pakistan total power generation is increasing on the back of new power projects under CPEC ▪ Pakistan's energy mix is shifting towards Gas/RLNG and coal from Furnace Oil and other expensive sources ▪ Pakistan 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.

ISSUER PROFILE

- WAPDA is a statutory body fully owned by the Government of Pakistan and was established through WAPDA Act 1958.
- WAPDA has the primary responsibility to develop Hydel Power Projects
- The entity generates a total of 32,295GWh. It is the largest hydel energy producer in the country.
- WAPDA is in the process of constructing different projects which are to add ~8,070MW by 2024.

ABOUT THE DEBT INSTRUMENTS

- WAPDA has issued privately placed term finance certificates (TFC) of PKR 10bln and Sukuks of PKR 15bln to partially finance Dasu Hydropower Project (Dasu). Profit on the debt instruments will be payable semi-annually at 6MK + 1.45%. Till now WAPDA has made seven profit payments both on TFC and Sukuk.
- The profit paid to the Sukuk A certificates holders and TFC A holders as of Nov-20 is PKR 710mln and PKR 474mln respectively. The principal payment of the Sukuk A certificate and TFC A will start from May-23.
- WAPDA is planning to issue a second tranche of TFC B and Sukuk B amounting to PKR 4.235bln and 6.352bln in early 2021.
- The total project cost of Dasu is PKR 510.980bln (USD ~3.179bln) which is to be financed from local and external financing. ECC has approved up to PKR 144bln as local financing for the project.
- WAPDA maintains a Debt Payment Account (DPA) which is held under an exclusive lien in favor of the trustee. WAPDA replenishes the DPA with 1/6th of the upcoming installment.
- Shortfall occurring for three consecutive months will constitute an event of default. Government guarantee will be callable by the trustee after serving a cure period of 45 days.
- The underlying agreements of the instruments include GoP guarantee, Trust Deed, and Investor Agreement. Further, to follow the Islamic structure of Sukuks, Musharaka Agreement, Purchase Undertaking Agreement, and Payment Agreement are signed between the issuer and Sukuk holder.

GOVERNANCE & MANAGEMENT

- WAPDA is a statutory body under the administrative control of the Federal Government.
- The Authority comprises the Chairman, member of each wing (Water, Power, and Finance), and secretary WAPDA.
- Lt. General (Retd.) Muzzamil Hussain is the Chairman of WAPDA since 2016.
- Mr. Hussain - a retired army professional and a diplomat brings the experience of over 3 decades with him to the management of the WAPDA.
- The Ministry of Water Resources provides oversight to WAPDA.
- WAPDA has a highly experienced management team with most of them having a long-term association.

BUSINESS RISK

- WAPDA generates a total of 32,295GWh, while many projects are in pipeline including Tarbela 5th Extension and Dasu I and Diamer Basha. The aforementioned projects with a maximum capacity of 8,070MW are expected completion in the year 2021, 2023, and 2024 respectively.
- WAPDA generation increased by 19% in FY20: 32,295Gwh (FY19: 27,196Gwh; FY18: 26,773Gwh).
- WAPDA's revenue in 6MFY20 is PKR 31,303mln (6MFY19: PKR 35,401mln). Revenue in FY19 is PKR 67,230mln (FY18: PKR 59,317mln).

FINANCIAL RISK

- WAPDA as part of its arrangements with provinces pays Net Hydel Profit @ 1.155Kwh to provinces. This amount is recoverable from CPPA-G via approved tariff. NEPRA approved WAPDA's tariff including Net Hydel Profit payable to provinces was approved in FY17. Consequently, WHE's receivables increased significantly in 6MFY20 to PKR 208,724mln (6MFY19: PKR 183,306mln). Thus, receivable days have also increased to 1,173days as of Dec-19 (as of Dec-18: 734days).
- WAPDA's free cash flow from operation (FCFO) during 6MFY20 is PKR 27,101mln (6MFY19: PKR 30,926mln). FCFO in FY19: PKR 58,276mln (FY18: PKR 50,557mln). Consequently, WAPDA's debt service ratio in 6MFY20 is 1.8x. (6MFY19: 2.5x).
- During 6MFY20, WAPDA's leverage capital structure stood at 28% (6MFY19: ~30%), on account of the decrease in long term debt (6MFY20: PKR 287,376mln, 6MFY19: PKR 346,274mln) and increase in short-term debt service liabilities.



The Pakistan Credit Rating Agency Limited

WAPDA Hydroelectric

BALANCE SHEET

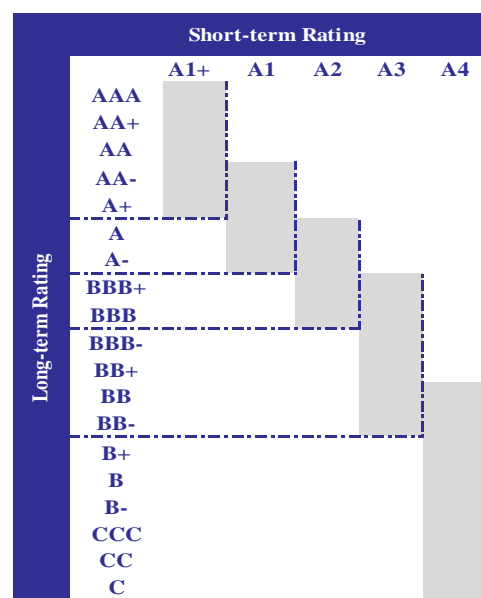
As at	<i>PKR mln</i>	<i>PKR mln</i>	<i>PKR mln</i>	<i>PKR mln</i>	<i>PKR mln</i>
	31-Dec-19	30-Jun-19	31-Dec-18	30-Jun-18	30-Jun-17
	<i>Biannual</i>	<i>Annual</i>	<i>Biannual</i>	<i>Annual</i>	<i>Annual</i>
<i>Non-Current Assets</i>	1,263,092	1,258,436	1,173,922	1,169,948	1,145,131
<i>Investments</i>	-	3,000	30,000	31,000	2,000
<i>Related party exposure</i>	2	2	-	-	-
<i>Cash and Bank Balances</i>	110,681	71,672	69,194	69,687	58,086
<i>Stores and Spares</i>	7,698	7,511	5,594	5,095	4,694
<i>Trade Receivables</i>	208,724	193,570	183,306	101,324	53,472
<i>Receivable against Hydel Levies</i>	2,078	-	12,887	605	1
<i>Other Current Assets</i>	11,951	9,324	13,455	45,045	8,471
	1,604,226	1,543,514	1,488,358	1,422,705	1,271,855
<i>Current Liabilities</i>					
<i>Current Liabilities</i>	148,597	114,413	115,707	58,838	35,496
<i>Long term borrowings (Including current maturity)</i>	330,100	321,013	352,850	343,189	229,745
<i>Other Non-Current Liabilities</i>	95,505	82,936	44,973	54,621	38,103
<i>Shareholders' Equity</i>	1,030,025	1,025,152	974,828	966,056	968,512
	1,604,226	1,543,514	1,488,358	1,422,705	1,271,855
PROFIT & PROFIT ACCOUNT	31-Dec-19	30-Jun-19	31-Dec-18	30-Jun-18	30-Jun-17
<i>Turnover</i>	31,303	67,230	35,401	59,317	65,235
<i>Gross Profit</i>	17,847	29,079	19,598	31,827	36,250
<i>Other Income</i>	-	-	-	-	2,654
<i>Financial Charges</i>	(14,831)	(38,691)	(12,354)	(32,287)	(21,349)
<i>Net Income</i>	4,873	(7,724)	8,772	605	17,015
CASH FLOW STATEMENT	31-Dec-19	30-Jun-19	31-Dec-18	30-Jun-18	30-Jun-17
<i>EBIDTA</i>	29,944	61,347	33,750	52,699	60,450
<i>Free Cash Flow from operation (FCFO)</i>	27,101	58,276	30,926	50,557	57,857
<i>Net Cash provided by operating activities</i>	15,842	9,724	12,269	(49,919)	39,255
<i>Net Cash available from investing activities</i>	(11,469)	(15,064)	(13,969)	(60,254)	(71,393)
<i>Cash flow from financing activities</i>	34,367	7,325	1,208	121,774	43,284
RATIO ANALYSIS	31-Dec-19	30-Jun-19	31-Dec-18	30-Jun-18	30-Jun-17
<i>Gross Margin</i>	57.0%	43.3%	55.4%	53.7%	55.6%
<i>Net Profit Margin</i>	15.6%	-11.5%	24.8%	1.0%	26.1%
<i>Net Cash Cycle (Days)</i>	1,151	775	717	427	240
<i>Interest Coverage</i>	2.0	1.6	2.7	1.6	2.7
<i>Debt Payback</i>	16.6	19.6	11.1	19.7	6.8
<i>Capital Structure</i>	71.6%	72.8%	70.2%	72.8%	80.0%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying debt 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+	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	
AA-	
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	
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+	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	
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 on debt instrument is carried out on an ongoing basis till the maturity of the instrument or cessation of contract. 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.

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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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(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)

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Dasu TFC-B	TENTATIVE REPAYMENT SCHEDULE
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Nature of Instrument	Size of Issue (PKR)	Years	Security	Quantum of Security	Nature of Assets	Trustee
Dasu TFC B	4,235 mln	15 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

Payment Period	Tentative 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%		
0	Jan-21	4,235,300	-	-	-	4235300
1	Jul-21	4,235,300	-	184,822	184,822	4235300
2	Jan-22	4,235,300	-	187,885	187,885	4235300
3	Jul-22	4,235,300	-	184,822	184,822	4235300
4	Jan-23	4,235,300	-	187,885	187,885	4235300
5	May-23	4,235,300	211,765	129,681	341,446	4,023,535
6	Nov-23	4,023,535	211,765	178,491	390,256	3,811,770
7	May-24	3,811,770	211,765	166,339	378,104	3,600,005
8	Nov-24	3,600,005	211,765	159,702	371,467	3,388,240
9	May-25	3,388,240	211,765	147,857	359,622	3,176,475
10	Nov-25	3,176,475	211,765	140,914	352,679	2,964,710
11	May-26	2,964,710	211,765	129,375	341,140	2,752,945
12	Nov-26	2,752,945	211,765	122,125	333,890	2,541,180
13	May-27	2,541,180	211,765	110,893	322,658	2,329,415
14	Nov-27	2,329,415	211,765	103,337	315,102	2,117,650
15	May-28	2,117,650	211,765	92,411	304,176	1,905,885
16	Nov-28	1,905,885	211,765	84,548	296,313	1,694,120
17	May-29	1,694,120	211,765	73,929	285,694	1,482,355
18	Nov-29	1,482,355	211,765	65,760	277,525	1,270,590
19	May-30	1,270,590	211,765	55,446	267,211	1,058,825
20	Nov-30	1,058,825	211,765	46,971	258,736	847,060
21	May-31	847,060	211,765	36,964	248,729	635,295
22	Nov-31	635,295	211,765	28,183	239,948	423,530
23	May-32	423,530	211,765	18,482	230,247	211,765
24	Nov-32	211,765	211,765	9,394	221,159	0
		Total	10,000,000	2,646,215	6,881,515	0