



The Pakistan Credit Rating Agency Limited

Rating Report

The Hub Power Company Limited | PPSTS

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-May-2021	AA+	A1+	Stable	Initial	-
26-Apr-2021	AA+	A1+	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The rating reflects the holding company character of Hubco with an exclusive focus on the different dimension of the energy sector. In addition to the investment book, Hubco itself is a large RFO based power plant. Hubco aims to expand generation capacity to boost the country's power generation by utilizing Pakistan's indigenous natural resources. China Power Hub Generation Company (CPHGC) - A joint venture with China Power International Holdings Limited (CPIHL): 2x660MW coal-fired power plant at Hub achieved COD as of 17 August 2019. This is indeed a crucial development. Hubco is setting up two more coal power plants (i) Thar Energy Limited (TEL): 330MW mine-mouth coal-fired power plant at Thar and (ii) Thalnova Power: 330MW mine-mouth coal-fired power plant at Thar. Hubco also has an investment in Sindh Engro Coal Mining Company (SECMC). These investments are being funded through a mix of short term and long term debt and Hubco has already deployed a sizeable fund in its ongoing projects of Thalnova and Thar Energy Ltd. Hubco has working capital related borrowing as well. Currently Hubco has issued two long term and one short term sukuk to meet its working capital needs. Short term sukuk of PKR 4,500mln was due for repayment in May-21 and, as its replacement Hubco issued another PKR 4,500mln sukuk. The overall debt quantum in the wake of fresh investment is huge. The cash flows of the company can sustain the burden, which will be complemented by the dividend inflows. The cash flows are taking positive benefit for the enhanced capacity payments, emanating from quarterly indexation. Receivables keep surging due to circular debt issue however pressure on cashflows can be eased through an early settlement of receivables. Hubco has used short term debt instruments and privately placed short term Sukuk to meet its working capital requirement for some time now and meeting its obligations regarding repayment of principal and interest.

Cash flow streams of Hubco's plants are guaranteed by GoP under the Power Purchase Agreement (PPA), subject to adherence to the agreed-upon performance benchmarks; this provides comfort to the ratings. Hubco has recently signed an agreement with Govt. actual impact of the executed agreement is yet to be seen. Timely completion of new projects, settlement of receivable and payable and maintaining healthy debt service coverages are important.

Disclosure

Name of Rated Entity	The Hub Power Company Limited PPSTS
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Sukuk(Jun-20),Methodology IPP(Jun-20),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria Rating Modifier(Jun-20)
Related Research	Sector Study Power(Jan-21)
Rating Analysts	Saadat Mirza saadat.mirza@pacra.com +92-42-35869504

The Pakistan Credit Rating Agency Limited

Profile

Plant The Hub Power Company Limited (Hub Power) consists of four generating units, each comprises of 323 MW gross outputs, with an oil-fired single re-heat boiler. Company has submitted a plan in May-19 to the government to convert furnace oil-fired plant into a coal-fired power plant prior to expiry of Power Purchase Agreement (PPA) in 2027.

Tariff The current applicable tariff is US 12.28 cents/KWh. The tariff is adjusted as per PPA.

Return On Project The policy IRR of Hub Power, as agreed with NEPRA is 12%.

Ownership

Ownership Structure Mega Conglomerate Private Limited (17.3%) is the single largest shareholder, followed by Allied Bank Limited (7.00%), Fauji Foundation (8.5%), Jubilee Life Insurance (4.74%) and National Bank Pakistan (3.6%). The remaining shareholding is held by various Financial Institutions, Joint Stock Companies and general public.

Stability Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. However, sponsors association with Mega Conglomerate and Fauji Foundation group will continue to provide comfort.

Business Acumen Mega Conglomerate having a diversified experience with presence in shipping, logistics, real estate development, cement, energy and food sector.

Financial Strength Mega Conglomerate has a strong financial position with diversified business.

Governance

Board Structure The Company's Board of Directors comprises of eleven Directors, The Board's efficacy is strengthened by the presence of an executive director, the CEO.

Members' Profile Directors having strong professional profile along with diversified experience assists the management in terms of strategic guidance and implementation of strong control framework.

Board Effectiveness For effective oversight of the matters the board has formed three board committees. (i) Board audit Committee (ii) Board Investment Committee and (iii) Board Compensation Committee. The company displays relevant information on website, stock exchange and financial reports in proper way.

Financial Transparency A.F Ferguson & Co is the external auditor of the company. The auditor has given unqualified opinion on company's financial Statement as at 30th June 2020.

Management

Organizational Structure Hub Power deploys a lean organizational structure. Six functions including Finance, Corporate services, Operations, and Audit report directly to CEO. The company's department – Manufacturing Excellence (MAX) – is responsible for improving the efficiency of the organization.

Management Team Mr. Khalid Mansoor is appointed as the CEO of the company, in May 2013 carrying 36 years of experience in Energy & Petrochemical Sectors. He is assisted by a team of experience professionals.

Effectiveness Hub Power management effectiveness plays a significant role in empowering the organization through positive results, which has made decision making process systematic.

Control Environment Hub Power has in place an efficient MIS reporting system for its operations. The system generates real-time plant production data, enabling efficient monitoring and timely decision making.

Operational Risk

Power Purchase Agreement Hub Power's key source of earnings is the revenue generated through sale of electricity to the power purchaser, CPPA-G. The company has signed the master agreement in pursuant to MoU to revise the terms of PPA, but the execution of the agreement is yet to be seen.

Operation And Maintenance Hub Power has established a wholly owned subsidiary – Hub Power Services Limited (HPSL) – incorporated to manage the O&M in 2015.

Resource Risk Pakistan State Oil (PSO) is responsible for supplying RFO under the Fuel Supply Agreement (FSA) for 30 years. HUBCO is protected from fuel transportation issues as the company receives fuel directly from PSO.

Insurance Cover Hub Power has adequate insurance coverage for property damage and business interruption. The insured values for damages include a property damage cover (upto USD 1,774mln) & business interruption cover (up to USD 398mln).

Performance Risk

Industry Dynamics Owing to newly installed plants, Pakistan's energy mix is shifting towards Solar/Gas/and coal from Furnace Oil and other expensive sources. As on June-20, installed capacity of electricity reached 38,719 MW, which was 38,995 MW at end June-19, decline of 0.7% (276MW)in FY20, due to the expunge of 784MW of GTPS-Kotri (144MW) and TPS Guddu (640MW). There was an increase of 508MW new power projects including CPEC from coal and renewable sources and this will increase further in coming years. Although electricity generation varies due to availability of inputs and other constraints, generation decreased from 136,532 GWh to 134,745 GWh, posting a decline of 1.3% in FY20 as compared to FY19.

Generation During 9MFY21, electricity generation was 105GWh (9MFY20: 36GWh) with average load factor of 1.3% (9MFY20: 0.4%). Increase in generation was due to the facet of decreased oil prices in the market, amid outbreak of corona virus oil demand was shallow worldwide and in turn diminish the prices. Hubco is receiving capacity payments despite having minimal generation in FY21.

Performance Benchmark During 9MFY21, net profit has improved owing to higher dividend income from subsidiaries and higher income from management services to Thar Energy Ltd and partly offset by depreciation of Rupee against USD (NP: 9MFY21: PKR 14,520mln; 9MFY20: PKR 6,997mln).

Financial Risk

Financing Structure Analysis The total project cost of Hubco was \$1.5bln; with US \$175mln from international and local equity investors, US \$689mln from international banks, and the bulk of the rest coming via US \$589mln subordinated loan provided by the World Bank, JEXIM and ECAs. The project debt has been fully paid by the company.

Liquidity Profile At end Mar'21, total receivables of the company stood at PKR 87,075mln (FY20: PKR 75,031mln; FY19: PKR 66,629mln). Receivables are not in a better off position due to circular debt of the power sector.

Working Capital Financing Receivable days have reached to 975 days in 9MFY21 (FY20: 939days) a facet of delayed payments recovery from CPPA-G. Hubco has used short term debt instruments and intends to raise borrowing through a retail bond. Short term debt instruments would act as bridging short-term facility to cover the timing difference between investments and cashflow from government. As of Mar'21 company's long term equity investment stood at PKR ~57bln (FY20: PKR 56bln), company through its wholly owned subsidiary Hub Holdings Limited has made an equity investment of PKR 38.42bln in China Power Hub Generation Company (CPHGC) and Thal Nova Power Ltd.

Cash Flow Analysis During the review period, despite improvement in Free cash flows of the company, the debt coverage ratio (EBITDA/Fin Cost) has improved (9MFY21: 3.9x; FY20: 2.4x) on account of increased profit. Free cash flows as of 9MFY21 stood at PKR 15,788mln (9MFY20: PKR 15,188mln).

Capitalization Hub Power leveraging is at ~57% in 9MFY21 (Debt: equity FY20: 60%; FY19: 67%). Leveraging at HUBCO and group level is being monitored. In case, the deviation from envisaged takes place or funds are deployed in risky or unrelated avenues, this will be considered negative.



The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

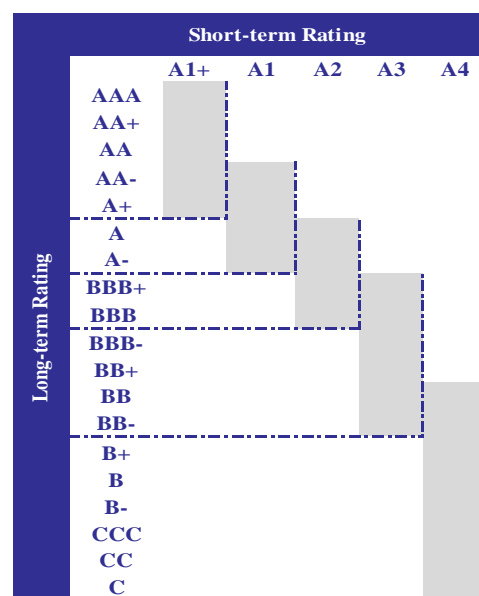
The Hub Power Company Ltd Power	Mar-21 9M	Jun-20 12M	Jun-19 12M	Jun-18 12M
A BALANCE SHEET				
1 Non-Current Assets	10,775	12,194	13,741	15,477
2 Investments	-	-	-	-
3 Related Party Exposure	61,374	57,413	48,404	20,738
4 Current Assets	106,470	94,914	91,582	100,403
a Inventories	4,312	6,319	4,576	5,688
b Trade Receivables	87,075	75,031	66,629	82,684
5 Total Assets	178,619	164,521	153,728	136,617
6 Current Liabilities	66,143	57,042	57,110	80,367
a Trade Payables	51,161	55,981	56,273	79,821
7 Borrowings	64,479	64,799	64,355	36,424
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	47,997	42,680	32,263	19,827
11 Shareholders' Equity	47,997	42,680	32,263	19,827
B INCOME STATEMENT				
1 Sales	22,762	27,524	36,029	76,676
a Cost of Good Sold	(7,919)	(9,630)	(24,295)	(66,873)
2 Gross Profit	14,843	17,893	11,733	9,803
a Operating Expenses	(628)	(757)	(872)	(900)
3 Operating Profit	14,215	17,137	10,861	8,903
a Non Operating Income or (Expense)	4,943	3,007	2,375	2,119
4 Profit or (Loss) before Interest and Tax	19,158	20,144	13,237	11,022
a Total Finance Cost	(4,440)	(9,395)	(4,961)	(2,248)
b Taxation	(198)	(582)	(239)	(209)
6 Net Income Or (Loss)	14,520	10,167	8,037	8,565
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	15,788	21,627	14,950	10,478
b Net Cash from Operating Activities before Working Capital Changes	11,450	11,857	8,246	8,324
c Changes in Working Capital	(10,394)	(11,442)	(8,129)	(1,385)
1 Net Cash provided by Operating Activities	1,055	415	117	6,939
2 Net Cash (Used in) or Available From Investing Activities	4,303	(7,221)	(24,720)	(7,305)
3 Net Cash (Used in) or Available From Financing Activities	(5,590)	5	31,489	(430)
4 Net Cash generated or (Used) during the period	(231)	(6,800)	6,885	(796)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	10.3%	-23.6%	-53.0%	-2.4%
b Gross Profit Margin	65.2%	65.0%	32.6%	12.8%
c Net Profit Margin	63.8%	36.9%	22.3%	11.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	23.7%	37.0%	18.9%	11.9%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh	42.0%	24.6%	26.4%	46.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	1039	1012	808	392
b Net Working Capital (Average Days)	394	267	119	51
c Current Ratio (Current Assets / Current Liabilities)	1.6	1.7	1.6	1.2
3 Coverages				
a EBITDA / Finance Cost	3.9	2.4	3.2	5.7
b FCFO / Finance Cost+CMLTB+Excess STB	2.3	2.3	1.2	1.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.3	2.7	2.9	2.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	57.3%	60.3%	66.6%	64.8%
b Interest or Markup Payable (Days)	35.0	33.2	44.0	62.9
c Entity Average Borrowing Rate	8.5%	13.7%	10.0%	7.0%

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 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 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)

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- 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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- (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)

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- (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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- (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)
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- (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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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets (PKR mln)
Rated, Privately Placed, Islamic Certificates	4,500mln	6 months	NA	NA	NA	MBL	N/A

Name of Issuer	The Hub Power Company Limited (HUBCO)
Issue Date	5-May-21
Maturity	5-Nov-21
Option	N/A

Due Date Principal*	Opening Principal	Principal Repayment*	Due Date Markup/ Profit*	Markup/Profit rate	6M Kibor Plus 150bps	Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln							
Issuance								4,500,000,000
5-May-21	4,500,000,000			6M KIBOR + 1.1%	8.50%		-	4,500,000,000
5-Nov-21	4,500,000,000	4,500,000,000	5-Nov-21	6M KIBOR + 1.1%	8.50%	188,630,137	4,688,630,137	-
		4,500,000,000				188,630,137	4,688,630,137	