



The Pakistan Credit Rating Agency Limited

Rating Report

PakGen Power Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Dec-2018	AA	A1+	Stable	Maintain	-
30-Jun-2018	AA	A1+	Stable	Maintain	-
22-Dec-2017	AA	A1+	Stable	Maintain	-
08-Jun-2017	AA	A1+	Stable	Maintain	-
31-Oct-2016	AA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect the regulated structure of Pakgen Power business; whereby revenues and cash flows are guaranteed by the sovereign government given adherence to agreed operational parameters. On standalone basis, increase in delta losses between required and actual efficiency levels has impacted the operational performance. Negative delta remained a drag. Topline of the company has declined on the back of lower power demand from CPPA-G, which in turn translating into reduced profitably. Receivable days has increased significantly in 9MCY18 owing to deteriorated payment behavior from the power purchaser. The company's financial profile, though adequate, is highly dependent on the behavior of the power purchaser. The Company has been consistent in paying dividends. Pakgen Power repaid its long term project debt in 2010. However, Company has a moderately leveraged capital structure, current borrowings reflects the need to bridge the working capital requirements. Because of the mounting receivables and consequent funding thereof from banking lines, remaining cushion in the available working capital facilities is limited, warranting management's immediate attention.

Company has cancelled its plan of converting the Pakgen Power plant from oil fired to coal fired boiler, owing to the government policy to restrict use of imported coal on certain projects.

Upholding operational performance in line with agreed performance levels would remain a key rating driver. Meanwhile, any significant increase in overdue receivables, as a result of rising circular debt, coupled with insufficient available working capital financing, in turn weakening in financial risk profile may negatively impact the ratings.

Disclosure

Name of Rated Entity	PakGen Power Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18),Methodology IPP (Jun-18)
Related Research	Sector Study Power(Apr-18)
Rating Analysts	Faizan Arif faizan.sufi@pacra.com +92-42-35869504

Profile

Plant Pakgen Power operates a thermal power plant on a build-own-operate (BOO) basis with a capacity of 365 MW based on residual fuel power in Mehmood Kot, near Muzaffargarh in the province of Punjab.

Tariff Pakgen Power has a generation tariff (levelized tariff for years 1-30) of US 5.7-cents/Kilowatt hour (KWh), approved from National Electric Power Regulatory Authority (NEPRA).

Return On Project There is no IRR of Pakgen Power plant with reference of Power Purchase Agreement.

Ownership

Ownership Structure The plant is majority owned by Nishat Group (NG) and The City Schools. Nishat Group collectively carries majority shareholding (40%), followed by City Schools (17%). Remaining (43%) holding is spread among Financial Institutions, corporate and individuals.

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

Business Acumen Nishat Group is a distinguished business group in Pakistan. The emergence of the Group, as a conglomerate, spans over fifty years with interests in textile, cement, insurance, power and financial sectors

Financial Strength The financial strength of the sponsors is considered strong as the sponsors have well diversified profitable businesses.

Governance

Board Structure Pakgen Power has six members on the board. The board is majority controlled by Nishat Group, including the chairman – Mr. Hassan Mansha. The key management personnel report directly to the Chairman of the board signifying an executive role of the Chairman.

Members' Profile Board members are from different educational and professional background bringing diversified professional experience and knowledge on the board.

Board Effectiveness For effective oversight of the matters the board has formed two board committees, the Audit Committee and Human Resource & Remuneration Committee. The chairman of the Audit committee is an independent director in accordance with the code of corporate governance.

Financial Transparency Riaz Ahmad & Company is the external auditors of the company. The auditors have expressed an unqualified opinion on the financial statements for the period ending December 31, 2017.

Management

Organizational Structure The Company has largely a flat organizational structure. The CEO, Plant Manager, Senior GM Purchase and CFO report directly to the Chairman of the board. Pakgen Power has a technical team with well-defined roles that ensure a smooth flow of operations.

Management Team Mr. Ghazanfar Hussain Mirza has been appointed as CEO of the company on August 6, 2014. He possesses over three decades of experience in business development, business and corporate management in an engineering, technical and multinational environment.

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

Control Environment The Company maintains an adequate MIS reporting system for the management to keep track of all operating activities and operational efficiencies. The system generates daily and monthly reports containing information on production, inventory and efficiency maintained. The Company uses in-house built software to generate these reports.

Operational Risk

Power Purchase Agreement Pakgen Power's key source of earnings is the revenue generated through sale of electricity to the power purchaser, CPPA-G. The Company will receive the capacity payments if it is at the benchmark availability and is ready to provide electricity, even if no purchase order is placed by Power Purchaser.

Operation And Maintenance Pakgen Power O&M activities are handled by an in house team trained under the expertise of AES, former O&M operator. This team is involved in O&M activities since the plant's COD and hence they carry significant experience.

Resource Risk Pakgen Power engaged Pakistan State Oil (PSO) - the largest local oil-marketing company - as the fuel supplier. PSO is responsible for supplying Residual Fuel Oil (RFO) under the Fuel Supply Agreement (FSA) for 30 years and ensure delivery as agreed upon by both parties.

Insurance Cover Pakgen Power has significant insurance coverage for property damage and business interruption. The insured values for damages include a property damage cover (upto PKR 51bln) & business interruption cover (up to PKR 4bln).

Performance Risk

Industry Dynamics Pakistan total power generation is increasing on the back of new power projects under CPEC. Going forward, cheap renewable electricity will be a challenge to viability of thermal power plants. During FY18, there has been a growth of ~30% in the actual power generation. Moreover, there has been an increase of ~18% in the installed capacity as at end-Jun18 to 32,613MW (FY17: 27,703MW).

Generation The Company has generated 710 GWh of electricity from Jan-18 to Aug-18 as compared to 1,265 GWh during the corresponding nine months of the previous financial year. This resulted in 31% Actual Capacity Factor during the respective time period (9MCY17: 55.5%).

Performance Benchmark During 9MCY18, the Company has made an operating profit of ~PKR 1,522mln (9MCY17: PKR 1,508mln), as Pakgen Power turnover during 9MCY18 stood at PKR 13,094mln (9MCY: PKR 15,953mln). On account of trickle-down effect of Company's topline, Company's profitability has declined to PKR 924mln (9MCY17: PKR 1,003mln) due to the reduction in power demand by the CPPA-G. However, Company's gross profit as of 9MCY18 has improved to 12.7% (9MCY17: 10.5%).

Financial Risk

Financing Structure Analysis The total Pakgen Power project's cost was US\$ 347million. The company's capital structure comprised 27% equity (US\$ 94mln) and 73% debt (US\$ 253mln), mainly financed by a consortium of IFC – USA and Bank of Tokyo – Mitsubishi Ltd, Japan. The project related debt remained completely paid by the Company.

Liquidity Profile Pakgen Power's total receivables reached at PKR 15,922mln as at 9MCY18 (CY17: PKR 13,992mln) out of which PKR 11,570mln (~73%) are overdue by more than 90 days.

Working Capital Financing Payments from power purchaser remained at low pace. Resultantly during 9MCY18 receivable days increased to 344 days as compared to 262 days as of end CY17. Therefore, company's cash cycle days as of 9MCY18 has increased to 343 days (CY17: 250 days) respectively. However to manage its working capital requirements and BMR purposes, the company has procured working capital lines of PKR 12,797mln in 9MCY18 out of which 87% has been utilized (CY17: 73% utilization).

Cash Flow Analysis Free Cash Flow of the Company declined on the back of reduced profitability (9MCY18: PKR 2,160mln, CY17: PKR 2,911mln). On account of current high level of debt Company's coverages (FCFO post WC / Gross Interest + CMLTD + Uncovered STB) as of 9MCY has detereioite to 2.3x (CY17: 2.6x).

Capitalization The Company currently has a moderately leveraged capital structure comprises 42% debt as at 9MCY18 (CY17: 39%). As of 9MCY18, STD comprises 100% (PKR 11,069mln) (CY17: 97%) of total debt.



The Pakistan Credit Rating Agency Limited

PKRmln

Pakgen Power Limited

BALANCE SHEET	30-Sep-18 9M	30-Dec-17 CY17	31-Dec-16 CY16	31-Dec-15 CY15
Non-Current Assets	7,886	8,526	9,370	10,019
Investments (Others)	-	-	1	1
Current Assets	20,794	18,336	15,748	15,529
Inventory	1,503	1,234	1,157	1,023
Trade Receivables	16,439	14,167	11,635	10,834
Other Current Assets	2,780	2,874	2,366	3,672
Cash & Bank Balances	72	62	591	1
Total Assets	28,680	26,862	25,119	25,549
Debt				
Short-term	11,069	9,195	7,249	5,081
Long-term (Incl. Current Maturity of long-term debt)	446	780	1,226	1,672
Other Short term liabilities (inclusive of trade payables)	1,009	1,283	1,609	3,535
Other Long term Liabilities	-	-	-	-
Shareholder's Equity	16,156	15,604	15,034	15,262
Total Liabilities & Equity	28,680	26,862	25,119	25,549

INCOME STATEMENT

Turnover	13,094	19,755	16,044	6,523
Gross Profit	1,658	1,983	1,316	1,979
Other Income	39	191	4	3
Financial Charges	(598)	(679)	(604)	(321)
Net Income	924	1,314	517	1,598

Cashflow Statement

Free Cashflow from Operations (FCFO)	2,160	2,911	1,953	2,300
Net Cash changes in Working Capital	(2,918)	(3,451)	(1,569)	(1,654)
Net Cash from Operating Activities	(1,338)	(1,199)	(190)	158
Net Cash from Investing Activities	(23)	(84)	(200)	(2,391)
Net Cash from Financing Activities	1,370	753	980	739
Net Cash generated during the period	10	(529)	590	(1,494)

Ratio Analysis

Performance

Turnover Growth	-17.9%	23.1%	146.0%	-81.3%
Gross Margin	12.7%	10.0%	8.2%	30.3%
Net Margin	7.1%	6.7%	3.2%	24.5%
ROE	7.6%	8.4%	3.4%	10.5%

Coverages

Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	2.3	2.6	1.9	3.0
Interest Coverage (X) (FCFO/Gross Interest)	3.6	4.3	3.2	7.2
FCFO Pre-WC/Gross interest+CMLTD	2.3	2.6	1.9	3.0

Liquidity

Short Term Borrowings Coverage (Adjusted Quick Assets/Shc)	1.5	1.6	1.6	2.2
Net Cash Cycle (Inventory Days + Receivable Days - Payable)	343.7	249.5	254.7	609.8

Capital Structure (Total Debt/Total Debt+Equity)	41.6%	39.0%	36.1%	30.7%
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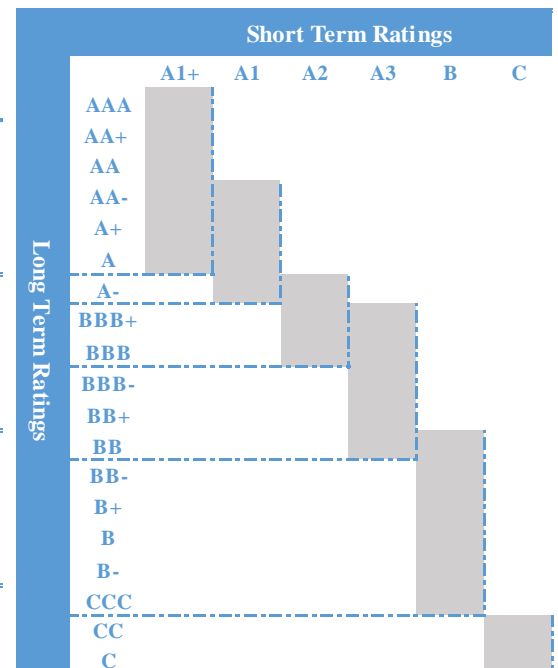
Pakgen Power Limited

Dec-18

Credit Rating Scale & Definitions

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 Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) 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.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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

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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.
- (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 | 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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