The Pakistan Credit Rating Agency Limited

Rating Report

PakGen Power Limited

Report Contents

Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
01-Oct-2020	AA	A1	Stable	Maintain	-
02-Oct-2019	AA	A1	Stable	Maintain	-
18-Apr-2019	AA	A1+	Stable	Maintain	-
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	-
20-Nov-2015	AA	A1+	Negative	Maintain	-
20-Nov-2014	AA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect the regulated structure of Pakgen Power Limited (Pakgen Power) business; whereby revenues and cash flows are guaranteed by the sovereign government given adherence to agreed operational parameters. A risk of any decrease in efficiency factor against required benchmark would be borne by the Company itself given the fact, Pakgen Power is managing its operations and maintenance (O&M) in-house. Topline of the company coupled with capacity utilization has decreased, on the back of lower power generation during the period demanded by power purchaser amid to better energy mix. Receivable days has increased during 1HYCY20 owing to the delay in timely receipt of receivables; however, minor recovery in overdue receivables from the Energy Sukuk of PKR200bln is observed and settlement of pending receivables is considered crucial. Pakgen Power has been paying dividend which in times of need is an internal source of liquidity available. The long term project debt was completely paid off in 2010; thus, company's debt position mainly reflects current borrowings secured to bridge the working capital requirements and maintenance of projects. Pakgen has been paying dividend which in times of need is an internal source of liquidity available. Because of the mounting receivables and consequent funding thereof from banking lines, remaining cushion in the available working capital facilities is limited, company's utilization of working capital lines by 67% leaving a cushion of 33% as at end-June20 requires management's immediate attention.

Upholding operational performance in line with agreed performance levels would remain a key rating driver. Meanwhile, despite seeking comfort in take or pay tariff regime, 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 | 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-20)
Rating Analysts	Sana Shameen | sana.shameen@pacra.com | +92-42-35869504

Profile

Plant Pakgen Power Limited (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).
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 (40.09%), followed by City Schools (17.33%). Remaining (42.57%) 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 seven members on the board. The board is majority controlled by Nishat Group, including the chairman – Mr. Ghanzanfar Hassan Mirza .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 ended June 30, 2020.

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. Mian Hassan Mansha has been appointed as CEO of the company on March 25, 2019. He is on the board of 13 other companies and is also Group Head Nishat – Energy projects.
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 ensures availability and is ready to provide electricity, even if no energy demand 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 58bln) & business interruption cover (up to PKR 7.9bln).

Performance Risk

Industry Dynamics Pakistan total power generation is increasing on the back of new power projects under CPEC. Owing to newly installed plants, Pakistan's energy mix is shifting towards Solar/Gas/RLNG and coal from Furnace Oil and other expensive sources. Pakistan total power generation is increasing on the back of new power projects under CPEC. As on Sep-19, installed capacity of electricity reached 34,523 MW, which was 32,574 MW at end June-19, thus, posting a growth of 5.98%. Although electricity generation varies due to availability of inputs and other constraints, the generation decreased from 148,042 GWh to 146,231 GWh, posting a decline of 1.2% in FY19 as compared to FY18.
Generation The Company has generated 60 GWh of electricity during 6MCY20 as compared to 234 GWh during the corresponding period of previous financial year. This resulted in 15.1% Actual Capacity Factor during the respective time period (CY19: 10.5%).
Performance Benchmark During 6MCY20, the Company has made an operating profit of ~PKR 2,901mln (CY19: PKR 4,282mln), as Pakgen Power turnover during 6MCY20 stood at PKR 4,994mln (CY19: PKR 12,185). Despite decline in company's power generation, company's profitability on account of reduced cost of sales and increased tariff has remained stable to PKR 2,256mln. (CY19: PKR 2,911mln). The Company's Gross profit margin as of 6MCY20 has also improved to 60.4% (CY19: 37.5%) due to the same reasons.

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's total receivables reached at PKR 21,566mln as at 6MCY20 (CY19: PKR 20,586mln) on account of delayed payments from Power Purchaser.
Working Capital Financing Payments from power purchaser remained at low pace. Resultantly as at end 6MCY20 receivable days increased to 788 as compared to 616 days as of end CY19. Therefore, company's cash cycle days as of 6MCY20 has increased to 758days (CY19: 611 days) respectively. However to manage its working capital requirements and BMR purposes, the company has procured working capital lines of PKR 14,139mln in out of which 67% has been utilized (CY19: 82% utilization).
Cash Flow Analysis FCFO of the company as of 6MCY20 are reported at PKR 3,368mlm. On account of adequate cashflows and reduction in gross interest obligations coverages (FCFO post WC / Gross Interest + CMLTD + Uncovered STB) as of 6MCY20 has improved to 4.9x (CY19: 3.5x).
Capitalization The Company currently has a moderately leveraged capital structure comprises ~31% debt as at 6MCY20 (CY19: 38%). As of 6MCY20, STD comprises 99.6% (PKR 9,507mln) (CY19: 100%) of total debt.

Pakgen Power Limited *PKRmln*

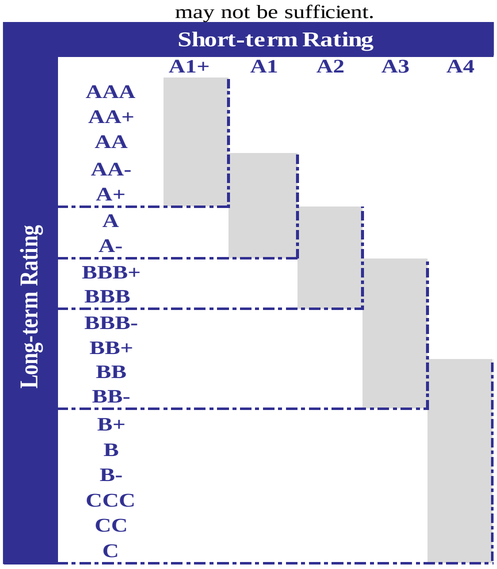
BALANCE SHEET	30-Jun-20 HYCY20	31-Dec-19 CY19	30-Dec-18 CY18	30-Dec-17 CY17
Non-Current Assets	**6,392**	**6,832**	**7,711**	**8,526**
Investments (Others)	**5**	**-**	**-**	**-**
Current Assets	**25,247**	**24,623**	**21,101**	**18,336**
Inventory	1,056	1,252	1,349	1,234
Trade Receivables	21,566	20,586	16,939	14,167
Other Current Assets	2,523	2,633	2,810	2,874
Cash & Bank Balances	101	152	3	62
Total Assets	**31,644**	**31,455**	**28,812**	**26,862**
Debt				
Short-term	9,507	11,536	11,094	9,195
Long-term (Inlc. Current Maturity of long-term	49	-	334	780
Other Short term liabilities (inclusive of trade paya	766	845	661	1,283
Other Long term Liabilities	11	21	29	-
Shareholder's Equity	**21,311**	**19,054**	**16,694**	**15,604**
Total Liabilities & Equity	**31,644**	**31,455**	**28,812**	**26,862**
INCOME STATEMENT				
Turnover	**4,994**	**12,185**	**16,218**	**19,755**
Gross Profit	3,018	4,567	2,426	1,983
Other Income	38	162	95	191
Financial Charges	(683)	(1,533)	(859)	(679)
Net Income	**2,256**	**2,911**	**1,485**	**1,314**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	3,368	5,342	3,184	2,911
Net Cash changes in Working Capital	(831)	(3,455)	(3,445)	(3,451)
Net Cash from Operating Activities	1,779	698	(1,033)	(1,199)
Net Cash from InvestingActivities	150	(98)	(78)	(84)
Net Cash from Financing Activities	(1,979)	(452)	1,053	753
Net Cash generated during the period	(51)	149	(59)	(529)
Ratio Analysis				
Performance				
Turnover Growth	-25.8%	-24.9%	23.9%	23.1%
Gross Margin	60.4%	37.5%	15.0%	10.0%
Net Margin	45.2%	23.9%	9.2%	6.7%
ROE	21.2%	15.3%	8.9%	8.4%
Coverages				
Debt Service Coverage (X) (FCFO/Gross Inter	4.9	3.5	2.7	2.6
Interest Coverage (X) (FCFO/Gross Interest)	4.9	3.5	3.7	4.3
FCFO Pre-WC/Gross interest+CMLTD	4.9	3.5	2.7	2.6
Liquidity				
Short Term Borrowings Coverage (Adjusted Qu	2.5	2.0	1.7	1.6
Net Cash Cycle (Inventory Days + Receivable I	758.6	611.5	385.6	249.5
Capital Structure (Total Debt/Total Debt+Equity	31.0%	37.7%	40.6%	39.0%

Credit Rating

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

Long-term Rating	
Scale	**Definition**
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating	
Scale	**Definition**
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

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

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

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

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
Proprietary Information
(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA’s prior written consent