The Pakistan Credit Rating Agency Limited

Rating Report

Atlas Power Limited

Report Contents

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	-
23-Jun-2017	AA-	A1+	Stable	Maintain	-
27-Oct-2016	AA-	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings of APL reflect its strong financial profile. APL's good credit terms with fuel supplier and efficient inventory management have enabled it better management of debt repayments. Nevertheless, delayed payments from the power purchaser remained a challenge. Despite higher receivable days the entity managed to sustain its financial strength. Business risk is considered low exhibited by demand risk coverage under Power Purchase Agreement signed between NTDC and the company. The implementation agreement further provides a sovereign guarantee for cash flows, given adherence to agreed performance benchmarks. The ratings incorporate low operational risk, a result of the performance of MAN Diesel Pakistan - the O&M operator. APL continues to meet its availability (~93%) and efficiency (45%) benchmarks. The total outstanding balance of project related debt as at end-July18 is PKR 3,036mln, payable till October 2019. Additionally, the company has re-profiled its debt (Non-Tariff) where the company has borrowed new long-term debt of PKR 2,000mln at lucrative terms to meet its permanent working capital requirements. Sound financial profile of Atlas Group; the major sponsor, provides comfort to the ratings.

Adherence to good financial discipline towards both financial and commercial obligations would remain important. Meanwhile, upholding strong operational performance in line with agreed performance levels remain important. Any significant increase in overdue receivables, in turn, weakening in financial risk profile would be a concern.

Disclosure	
Name of Rated Entity	Atlas 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	Hamza Ghalib | hamza.ghalib@pacra.com | +92-42-35869504

Profile

Plant The power plant comprises eleven Residual Fuel Oil fired diesel engines having a capacity of 18.9 MW each along with a combined cycle heat recovery system providing an additional capacity of 16.45 MW through a steam turbine. Net rated capacity, after accounting for auxiliary consumption, is 213.85 MW.
Tariff APL's key source of earnings is the generation tariff from the power purchaser, NTDC. The reference generation tariff comprises a capacity charge component and an energy charge component. The former is based upon dependable capacity and constitutes a minimum tariff guaranteed to the company which covers the fixed O&M costs, insurance charges, working capital funding costs and return on equity. The latter is a function of actual electricity dispatched. The levelized tariff for the period of 25 years is PKR/Kwh 11.6097.
Return On Project The dollar IRR of Atlas Power, as agreed with NEPRA, is 15%.

Ownership

Ownership Structure The principal sponsor of the company is Shirazi Investments (Pvt.) Limited (85%), however, rest of shareholding lies with Allied Bank Limited (ABL) (7.5%) and National Bank of Pakistan (NBP) (7.5%). MAN Diesel SE previously had 34% stake (no. of shares: 161mln) in the company, which was acquired by the Shirazi Investments (Pvt.) Limited at the price of PKR 17.8 /share in Dec-15.
Stability Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. Stability factor is considered strong.
Business Acumen Atlas is a diversified group involved in auto, engineering, financial, and trading sectors. However, despite the diversification, the group has a strong financial profile and proven business acumen.
Financial Strength Company's sponsors have the ability and showed the willingness to support the entity both on a continuing basis, and support in times of crisis. Additionally, financial strength of the sponsors is considered strong as the sponsors have well diversified profitable businesses.

Governance

Board Structure Atlas Group, through professional representation, maintains good governance standards in its entities. APL's board comprises nine members, including CEO, with six representatives of Shirazi Investments, one representative of NBP and one independent director.
Members' Profile The presence of Mr. Yusuf H. Shirazi, Chairman of Atlas Group and Mr. Saquib Shirazi, CEO Atlas Honda Limited (AHL) on APL's board is an indication of the group's commitment towards the project. The board has been actively involved in providing strategic guidance to the company and implementing strong internal control framework.
Board Effectiveness Company's board members conduct monthly board discussions where important matters related to plant's efficiency, and monthly budget are discussed.
Financial Transparency EY Ford Rhodes is the external auditor of the company. They have expressed an unqualified opinion on the company's financial statements at end-Jun18.

Management

Organizational Structure The management's role in an IPP is confined largely to financial matters and regulatory interaction. In light of this, APL has a small work force of around 40 individuals. Most of the staff is engaged in finance-related activities as the operations of the plant have been outsourced to MAN Diesel. The work force is in place, with individuals moving in from other set-ups within the group to APL.
Management Team Mr. Maqsood A. Basraa heads APL's operations as the CEO. He has extensive experience within the group, where he has served under various capacities since 1989. Prior to joining Atlas Group, he served the State Bank of Pakistan for ten years. He is supported by a team of qualified and competent individuals.
Effectiveness Over the years APL's effective management played a significant role in empowering the organization through its progressive results. Additionally, management's effective decision-making cause processes more systematic while robustness of control systems is considered a reflection of strong management, which is considered positive.
Control Environment The company takes advantage of advanced I.T. solutions to deliver comparatively better on many fronts. Moreover, APL's quality of the I.T. infrastructure and the breadth and depth of activities performed has remained well satisfactory.

Operational Risk

Power Purchase Agreement According to the agreement, the obligations of the power purchaser are guaranteed by the GoP. Furthermore, a stable revenue stream is also ensured through the minimum guaranteed capacity charge (the component of the tariff received irrespective of electricity production). Nevertheless, if APL is unable to supply electricity as agreed with NTDC, it would be liable to pay liquidated damages as per provisions of the PPA. Also, if the plant is unable to supply electricity due to its own inefficiencies, or fails to notify NTDC of the available capacity 12 hours prior to the dispatch, the company would have to settle all due penalties.
Operation And Maintenance Operations and maintenance of the plant are outsourced to Man Diesel and Turbo; the world's leading provider of large-bore diesel engines for marine and power plants. The company has a long-term contract with MAN diesel expiring in June-2021. Man Diesel Pakistan has been efficiently maintaining the plant availability, output, and efficiency level.
Resource Risk APL is required to maintain a fuel inventory of 30 days including the affirmed orders. APL has established fuel supply arrangements with suppliers including Attock Petroleum, Total Parco, Hascol etc. Purchases are made on a credit basis. Though APL has been managing fuel supply timely, yet this arrangement exposes APL to the risks related to inventory management.
Insurance Cover The company has adequate insurance coverage for property damage and business interruption.

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 the 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 ~17% in the installed capacity as at end-Jun18 to 32,641MW (FY17: 27,731MW).
Generation During FY18 electricity of 1,246,472,016 KWhr was produced (FY17: 1,336,896,768 KWhr) at 45% thermal efficiency. The decline in the generation is seen due to low demand from the power purchaser.
Performance Benchmark APL's availability remained well above its requirement benchmark (Required: 88%, Actual: 93%).

Financial Risk

Financing Structure Analysis The project capital structure comprises 25% equity and 75% debt. Project related debt was PKR 14,124mln. The tenor of the project was 10 years with Forty (40) Consecutive Quarterly payments, started from July-2009. Profit rate on the borrowed amount is 3-month KIBOR + 3%. By end-Jul18, PKR 11,088mln has been paid off, while total principal outstanding is PKR 3,036mln during the same period.
Liquidity Profile During FY18, total receivables of the company stood at ~PKR 14bln (FY17: ~PKR 10bln), an increase of ~36%. As circular debt continues to be an issue for companies operating in the power sector. Consequently, IPPs have to manage their liquidity requirements through short-term borrowings.
Working Capital Financing Debtors days increased (FY18: 277days, FY17: 219days) owing to deteriorated payment behavior from the power purchaser resulting in escalation of net cash cycle days (FY18: 256days, FY17: 192days). During FY18, total working capital lines are arranged to amount PKR 18,660mln (FY17: PKR 18,260mln) of which ~65% has been utilized. The cushion to borrow, in case of the company needs it, is ~35%.
Cash Flow Analysis FCFO (FY18: ~PKR 5,195mln, FY17: ~PKR 5,306mln) of the company largely remained at the same level culminating sustained coverages in comparison to the same period last year (SPLY) [Interest coverage: FY18: 4.3x, FY17: 4.4x].
Capitalization The company has a leveraged capital structure and stood at ~61% at end-Jun18 (end-Jun17: ~60%).

Atlas Power Limited *PKR mln*

BALANCE SHEET	30-Jun-18	30-Jun-17	30-Jun-16	30-Jun-15
	FY18	FY17	FY16	FY15
Non-Current Assets	**13,157**	**13,909**	**14,686**	**15,472**
Investments (Others)	**1**	**1**	**1**	**-**
Current Assets	**18,468**	**14,152**	**10,687**	**9,959**
Inventory	2,298	1,888	1,481	447
Trade Receivables	14,144	10,420	7,745	8,406
Other Current Assets	1,898	1,623	1,437	984
Cash & Bank Balances	128	222	24	122
Total Assets	**31,627**	**28,061**	**25,374**	**25,431**
Debt	**17,753**	**15,589**	**12,967**	**13,163**
Short-term	12,153	9,438	5,060	4,251
Long-term (Inlc. Current Maturity of long-term debt)	**5,601**	**6,151**	**7,907**	**8,912**
Other Short term liabilities (inclusive of trade payables)	2,512	2,277	3,149	4,378
Other Long term Liabilities	17	15	12	10
Shareholder's Equity	**11,345**	**10,181**	**9,245**	**7,880**
Total Liabilities & Equity	**31,627**	**28,061**	**25,374**	**25,431**
INCOME STATEMENT				
Turnover	**18,613**	**17,336**	**14,730**	**22,774**
Gross Profit	4,682	4,814	4,480	4,358
Other Income	(0)	1	(10)	(6)
Financial Charges	(1,218)	(1,209)	(1,125)	(1,899)
Net Income	**3,180**	**3,308**	**3,144**	**2,290**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	5,195	5,306	5,068	4,984
Net Cash changes in Working Capital	(4,164)	(4,611)	(1,541)	397
Net Cash from Operating Activities	(194)	(477)	2,317	3,404
Net Cash from InvestingActivities	(46)	(14)	(5)	(10)
Net Cash from Financing Activities	150	689	(2,410)	(3,762)
Net Cash generated during the period	(91)	198	(98)	(368)
Ratio Analysis				
Performance				
Turnover Growth	7.4%	17.7%	-35.3%	-19.5%
Gross Margin	25.2%	27.8%	30.4%	19.1%
Net Margin	17.1%	19.1%	21.3%	10.1%
ROE	28.0%	32.5%	34.0%	29.1%
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.4	1.4	1.8	1.5
Interest Coverage (X) (FCFO/Gross Interest)	4.3	4.4	4.5	2.6
FCFO Pre-WC/Gross interest+CMLTD	1.4	1.3	1.8	1.5
FCFO POST-WC/Gross interest+CMLTD	0.3	0.2	1.2	1.6
Liquidity				
Net Cash Cycle	255.9	192.3	155.4	110.1
Capital Structure (Total Debt/Total Debt+Equity)	61.0%	60.5%	58.4%	62.6%

Rating Scale

Credit Rating Scale & Definitions

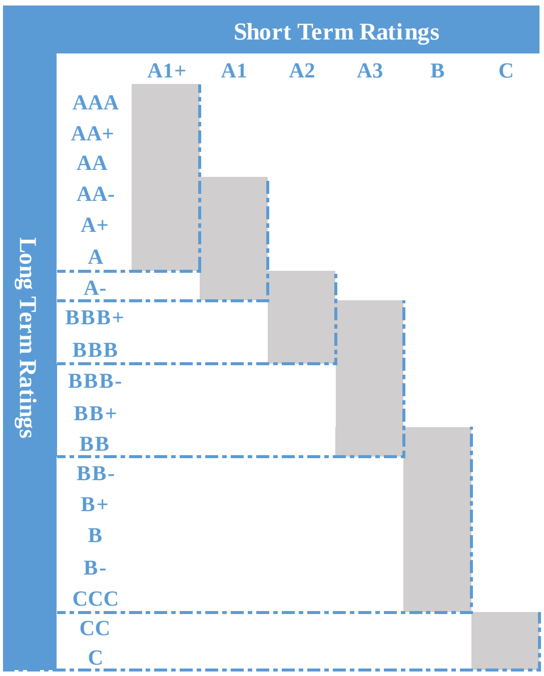
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

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 Ratings

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.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



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 surveill the opinion due to lack of requisite information.

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

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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