



The Pakistan Credit Rating Agency Limited

## Rating Report

### Atlas Power Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-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	-
23-Jun-2017	AA-	A1+	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

The ratings of Atlas power 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 the Power Purchase Agreement signed between Power Purchaser 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 (~95%) and efficiency (45%) benchmarks. Meanwhile, the company continues to enjoy sound coverages, though its financial profile is highly dependent on the timely repayment of the receivables. The recent sizeable payment of PKR 200bln to IPPs, including Atlas Power, has improved the liquidity position. The Company has been paying dividends which in times of need is an internal source of liquidity available. The company has been managing its working capital requirements through a mix of internal cash generation and short-term borrowings. Lately, the management has slightly increased available lines that provide support. The total outstanding balance of project related debt as at end-Mar19 is PKR 1,840mln, payable till October 2019. The sound financial profile of Atlas Group; the major sponsor, provides comfort to the ratings. The ratings continue to take comfort from APL's association with good business groups – Atlas Group, Allied Bank Limited, and National Bank of Pakistan.

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. However, the management ably supported by sponsors' remains committed to sustain improvement in the management of commercial obligations and timely debt repayments.

#### Disclosure

<b>Name of Rated Entity</b>	Atlas Power Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Criteria   Rating Modifier(Jun-18),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-18),Methodology   IPP (Jun-18)
<b>Related Research</b>	Sector Study   Power(Jan-19)
<b>Rating Analysts</b>	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 additional capacity of 16.45 MW through a steam turbine. Net rated capacity, after accounting for auxiliary consumption, is 213.85 MW.

**Tariff** Company's key source of earnings is the generation tariff from the power purchaser. 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, the 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 the CEO, with Six representatives of Shirazi Investments, one representative of ABL and two independent directors.

**Members' Profile** Mr. Yusuf H. Shirazi is the Chairman of Atlas Group. The presence of Mr. Saquib Shirazi, CEO Atlas Honda Limited (AHL) on the company's board is an added benefit to the company. 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 quarterly board discussions where important matters related to the plant's efficiency, and budget is 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-Dec18.

## Management

**Organizational Structure** The management's role in an IPP is confined largely to financial matters and regulatory interaction. In light of this, The company has a small workforce 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 workforce is in place, with individuals moving in from other set-ups within the group to the company.

**Management Team** Mr. Razi-ur-Rahman has replaced Mr. Maqsood Ahmad as new CEO of APL effective from 01 April 2019, whereas Mr. Maqsood Ahmad has joined the board as an executive director effective from 18 March 2019. Mr. Razi has been associated with the group for ~25 years. He is supported by a team of qualified and competent individuals.

**Effectiveness** Over the years company'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, the Company'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 plant availability, output, and efficiency level.

**Resource Risk** Atlas Power 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 1HFY19, electricity of 411,494,112 kWh was produced (end-Dec17: 630,245,952 kWh) at 45% thermal efficiency. The decline in the generation is seen due to low demand from the power purchaser.

**Performance Benchmark** Company's availability remained well above its requirement benchmark (Required: 88%, Actual: 95%)

## 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-March19, PKR 12,284mln has been paid off, while total principal outstanding is PKR 1,840mln during the same period.

**Liquidity Profile** As at Dec-18, total receivables of the company stood at ~PKR 15,791mln (FY18: ~PKR 14,144mln), an increase of ~12%. 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 have increased (6MFY19: 317days, FY18: 277days) owing to deteriorated payment behavior from the power purchaser resulting in an escalation of net cash cycle days (6MFY19: 311days, FY18: 256days). As at end-Dec18, total working capital lines are arranged to amount PKR 19,010mln (FY18: PKR 18,660mln) of which ~70% has been utilized. The cushion to borrow, in case the company needs is ~30%.

**Cash Flow Analysis** Free-Cashflow from operations (FCFO) (6MFY19: ~PKR 2,987mln, 6MFY18: ~PKR 2,505mln) of the company has increased by ~19% on account of increased profitability. A slight decline in the coverages has seen [Interest coverage: 6MFY19: ~4.0x, 6MFY18: ~4.2x] owing to higher interest rate environment.

**Capitalization** The company has a leveraged capital structure and stood at ~57% at end-Dec18 (end-Jun18: ~61%).



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BALANCE SHEET	31-Dec-18 6M	30-Jun-18 FY18	30-Jun-17 FY17	30-Jun-16 FY16
<b>Non-Current Assets</b>	12,797	13,157	13,909	14,686
Investments (Others)	0	1	1	1
<b>Current Assets</b>	19,536	18,468	14,152	10,687
Inventory	1,911	2,298	1,888	1,481
Trade Receivables	15,791	14,144	10,420	7,745
Other Current Assets	1,816	1,898	1,623	1,437
Cash & Bank Balances	18	128	222	24
<b>Total Assets</b>	<b>32,333</b>	<b>31,627</b>	<b>28,061</b>	<b>25,374</b>
<b>Debt</b>	17,749	17,753	15,589	12,967
Short-term	13,298	12,153	9,438	5,060
Long-term (Inlc. Current Maturity of long-term debt)	4,452	5,601	6,151	7,907
Other Short term liabilities (inclusive of trade payables)	1,382	2,512	2,277	3,149
Other Long term Liabilities	19	17	15	12
<b>Shareholder's Equity</b>	<b>13,182</b>	<b>11,345</b>	<b>10,181</b>	<b>9,245</b>
<b>Total Liabilities &amp; Equity</b>	<b>32,333</b>	<b>31,627</b>	<b>28,061</b>	<b>25,374</b>

INCOME STATEMENT

<b>Turnover</b>	9,093	18,613	17,336	14,730
Gross Profit	2,697	4,682	4,814	4,480
Other Income	(1)	(0)	1	(10)
Financial Charges	(744)	(1,218)	(1,209)	(1,125)
<b>Net Income</b>	<b>1,838</b>	<b>3,180</b>	<b>3,308</b>	<b>3,144</b>

Cashflow Statement

Free Cashflow from Operations (FCFO)	2,987	5,195	5,306	5,068
Net Cash changes in Working Capital	(2,361)	(4,164)	(4,611)	(1,541)
Net Cash from Operating Activities	(67)	(194)	(477)	2,317
Net Cash from Investing Activities	(39)	(46)	(14)	(5)
Net Cash from Financing Activities	(4)	150	689	(2,410)
Net Cash generated during the period	(110)	(91)	198	(98)

Ratio Analysis

<b>Performance</b>				
Turnover Growth	2.9%	7.4%	17.7%	-35.3%
Gross Margin	29.7%	25.2%	27.8%	30.4%
Net Margin	20.2%	17.1%	19.1%	21.3%
ROE	27.9%	28.0%	32.5%	34.0%
<b>Coverages</b>				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.5	1.4	1.4	1.8
Interest Coverage (X) (FCFO/Gross Interest)	4.0	4.3	4.4	4.5
FCFO Pre-WC/Gross interest+CMLTD	1.5	1.4	1.3	1.8
FCFO POST-WC/Gross interest+CMLTD	0.3	0.3	0.2	1.2
<b>Liquidity</b>				
Net Cash Cycle	311.2	255.9	192.3	155.4
<b>Capital Structure (Total Debt/Total Debt+Equity)</b>	<b>57.4%</b>	<b>61.0%</b>	<b>60.5%</b>	<b>58.4%</b>

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## 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	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> 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.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> 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.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> 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.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> 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>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> 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>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> 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.		
<b>D</b>	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.

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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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- 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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- (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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- (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)
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- (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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