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
30-Sep-2020	AA-	A1+	Stable	Maintain	-
09-Oct-2019	AA-	A1+	Stable	Maintain	-
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	-
27-Oct-2016	AA-	A1+	Stable	Maintain	-
30-Oct-2015	AA-	A1+	Stable	Upgrade	-
05-Mar-2015	A+	A1	Positive	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect strong business profile of Atlas Power Limited (APL) emanating from the demand risk coverage under Power Purchase Agreement signed between National Transmission & Despatch Company (NTDC) and the company. Meanwhile, the Implementation Agreement provides sovereign guarantee for cashflows, given adherence to agreed performance benchmarks. Nevertheless, delayed payments from the power purchaser remained a challenge. Despite higher receivable days the entity managed to sustain its financial strength. The company has moved Operations in-house successfully by retaining staff of previous O&M operator. Atlas Power continues to meet its benchmark of availability (88%) and efficiency (45%) benchmarks. Fuel supply risk is considered adequate as they procure from different suppliers with good credit terms. Short term borrowing lines are available and mainly used to fund any short-fall in working capital requirements. As of June-20, short term lines utilization stood at 58%. APL project related debt has been completely paid off and have new long term borrowings of PKR 6,500mln. Given the liquidity situation, utilization is imputed to go up. Settlement of overdue receivables is crucial. Sound financial profile of Atlas Group; the major sponsor, provides comfort to the ratings. APL has made an investment (60%) in Zhenfa Pakistan New Energy Company (Pvt) Ltd, a Solar project of 100MW in Layyah. External factors such as any changes in the regulatory framework may impact ratings. The Government has signed a MoU with the IPPs operating under the Power Policy of 2002 to make some changes in sharing of savings and conversion of dollar based ROE to rupee based ROE.

Sustained good financial discipline and upholding strong operational performance in line with agreed performance levels remain important. Accumulation of circular debt would pose threat to the company’s ability to continue with this practice.

Disclosure

Name of Rated Entity	Atlas 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	Saadat Mirza | saadat.mirza@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 levelized tariff for the period of 25 years approved by NEPRA 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%). Allied Bank Limited and National Bank of Pakistan hold (~7.5%) shares each. 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. 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. Frahim Ali Khan is the Chairman of the Board. The presence of Mr. Saquib Shirazi, CEO Atlas Honda Limited (AHL) on the 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-June20.

Management

Organizational Structure The management's role in an IPP is confined largely to operations, financial matters and regulatory interaction. In light of this, the company has a small workforce of around 73 individuals. Most of the staff is engaged in operations of the plant as maintenance is with Man Energy Solution. The workforce is in place, with individuals moving in from other set-ups within the group to the company.

Management Team Mr. Razi-ur-Rehman heads APL's operations as CEO. He has extensive experience within the Group, where he has served under various capacities and in different Group Companies since 1994. Prior to joining Atlas Group, he served Tourism Development Corporation of Punjab for 6 years. He is supported by a team of qualified and competent professionals.

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.

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 Atlas Power's key source of earnings is the revenue generated through sale of electricity to the power purchaser, NTDC. The Company will receive the capacity payments if it is at the benchmark availability and is ready to provide electricity.

Operation And Maintenance The company has successfully taken over the operations from MAN Diesel Pakistan. However, maintenance of the plant is with MAN Energy Solutions.

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, BE Energy and 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. 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 During FY20, Atlas Power generated 260GWh of electricity as compared to 668GWh during FY19. This decrease (~46%) is mainly attributable to lower electricity demand from the power purchaser. During FY20, the average capacity factor stood at 24% as compared to 35.37% during FY19. During FY20, average plant availability has been maintained according to agreed parameter.

Performance Benchmark During FY20 the sales of the company declined to PKR 10,696mln as compared to PKR 16,102mln during FY19, owing to the lower power generation on account of lower power demand by the power purchaser. The effect of decrease in power generation trickled down to operating costs, which declined from PKR 10,586mln during FY19 to PKR 5,358mln during FY20, and thus boosting the profit margins of the company.

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%. Project related debt has been completed paid off timely in Oct-2019..

Liquidity Profile As at end June-20, total receivables of the company stood at PKR 21,747 mln (FY19: PKR 16,998mln), an increase of around ~28%. As circular debt continues to be an issue for companies operating in power sector, consequently IPPs have to manage their liquidity requirements from short-term borrowings.

Working Capital Financing Cash cycle days stood at 770 days during FY20 (FY19: 391days, FY18: 256days). During FY20, Atlas Power has available working capital lines of PKR 20,530mln (FY19: PKR 19,010mln) of which ~58% (FY19: 74%) has been utilized.

Cash Flow Analysis Atlas Power debt coverage ratio [FCFO pre WC / Gross Interest +CMLTD], deteriorated to be at 1.7x during FY20 (FY19: 2.1x, FY18: 1.4x). This is attributable to the decrease in profitability.

Capitalization Atlas Power leveraging for FY20 remained moderate at ~52.3% (FY19: 54.8%).

Atlas Power Limited

BALANCE SHEET	30-Jun-20	30-Jun-19	30-Jun-18	30-Jun-17
	FY20	FY19	FY18	FY17
Non-Current Assets	**11,642**	**12,406**	**13,157**	**13,909**
Investments (Others)	**125**	**-**	**1**	**1**
Current Assets	**24,435**	**20,983**	**18,468**	**14,152**
Inventory	1,753	2,370	2,298	1,888
Trade Receivables	21,747	16,998	14,144	10,420
Other Current Assets	799	1,599	1,898	1,623
Cash & Bank Balances	136	17	128	222
Total Assets	**36,202**	**33,389**	**31,627**	**28,061**
Debt	**18,433**	**17,329**	**17,753**	**15,589**
Short-term	11,893	14,122	12,153	9,438
Long-term (Inlc. Current Maturity of long-term debt)	**6,541**	**3,207**	**5,601**	**6,151**
Other Short term liabilities (inclusive of trade payables)	948	1,748	2,512	2,277
Other Long term Liabilities	34	22	17	15
Shareholder's Equity	**16,786**	**14,290**	**11,345**	**10,181**
Total Liabilities & Equity	**36,202**	**33,389**	**31,627**	**28,061**
INCOME STATEMENT				
Turnover	**10,696**	**16,102**	**18,613**	**17,336**
Gross Profit	5,338	5,516	4,682	4,814
Other Income	0	1	(0)	1
Financial Charges	(2,512)	(1,719)	(1,218)	(1,209)
Net Income	**2,497**	**3,539**	**3,180**	**3,308**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	5,835	6,070	5,195	5,306
Net Cash changes in Working Capital	(4,060)	(3,511)	(4,164)	(4,611)
Net Cash from Operating Activities	(818)	953	(194)	(477)
Net Cash from InvestingActivities	(168)	(48)	(46)	(14)
Net Cash from Financing Activities	1,104	(1,016)	150	689
Net Cash generated during the period	118	(111)	(91)	198
Ratio Analysis				
Performance				
Turnover Growth	-33.6%	-13.5%	7.4%	17.7%
Gross Margin	49.9%	34.3%	25.2%	27.8%
Net Margin	23.3%	22.0%	17.1%	19.1%
ROE	14.9%	24.8%	28.0%	32.5%
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.7	2.1	1.4	1.4
Interest Coverage (X) (FCFO/Gross Interest)	2.3	3.5	4.3	4.4
FCFO Pre-WC/Gross interest+CMLTD	1.7	2.1	1.4	1.3
FCFO POST-WC/Gross interest+CMLTD	0.5	0.9	0.3	0.2
Liquidity				
Net Cash Cycle	769	391	256	192
Capital Structure (Total Debt/Total Debt+Equity)	52.3%	54.8%	61.0%	60.5%

Credit Rating

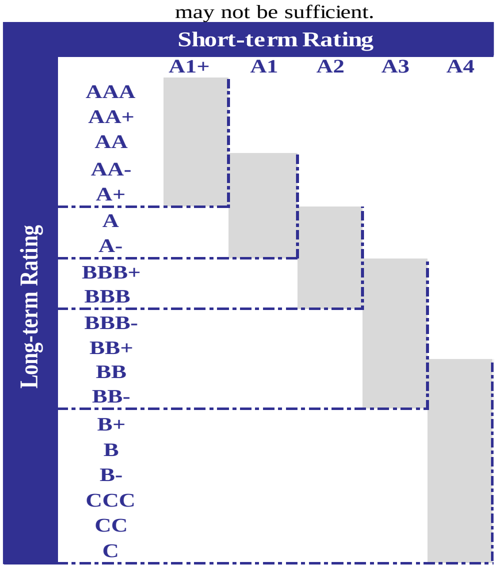
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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(Credit Rating Companies Regulations,2016)

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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)

2) **Conflict of Interest**
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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.
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(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)
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(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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