

**Date**

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www.pacra.com**Applicable Criteria**

- Rating Modifiers | Outlook and Rating Watch (Jun 17)
- Sukuk Rating (Jun 17)
- Methodology | Independent Power Producers (IPP) (Jun 17)
- Debt Instrument (Jun 17)

Related Research

- Sector Study | Power Generation (Mar 17)

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PACRA Assigns Ratings to Debt Instruments of WAPDA

Rating Type	PPTFC PKR 10bln	PPTFC PKR 10bln	Sukuk PKR 15bln	Sukuk PKR 15bln
	Current (20-Nov-2017)	Previous (04-Apr-2017)	Current (20-Nov-2017)	Previous (04-Apr-2017)
Action	Initial	Preliminary	Initial	Preliminary
Ratings	AAA	AAA	AAA	AAA
Outlook	Stable	Stable	Stable	Stable
Rating Watch	-	-	-	-

The Water and Power Development Authority of Pakistan is in the process of the construction of DASU hydro power project (Dasu). Dasu, once completed would become second largest hydel project in Pakistan. Dasu is a run of the river project on Indus River located in Dasu Kohistan, Khyber Pakhtunkhwa about 345 KM from Islamabad. Project, planned to be started within 2017, will be completed in two stages. Stage 1 (2,160 MW) is expected to complete in five year time with cost of USD ~4.247bln. For partial financing of the project, WAPDA is issuing debt instruments worth PKR 88bln (TFCs: 35.2bln, Sukuks: 52.8bln) in multiple tranches. For this purpose in May 2017 first tranche of debt instruments has been issued.

The ratings of PPTFCs (Tranche 1: PKR 10bln) and Sukuks (Tranche 1: PKR 15bln) reflects an unconditional and irrevocable guarantee by the Government of Pakistan (GoP). The guarantee covers the payment of total outstanding amount of the instruments and related profit component. GoP would pay the entire called amount immediately upon receiving a demand notice from the trustee. Additionally, WHE is maintaining a debt payment account (DPA) under the exclusive lien of the trustee. Within first fifteen days of each month, WHE deposits an amount equal to 1/6th of the upcoming instalment in the DPA. The rating apart from a debt payment and guarantee mechanism recognizes strong cashflows of WAPDA Hydro Electric; The core source of repayment. WAPDA also has strategic importance as the major hydroelectric power supplier to the country (30% in overall electricity generation in FY17).

WAPDA's revenues primarily emanate from WAPDA Hydro Electric (WHE) overlooked by the power wing. WHE receives tariff based revenue from CPPA-G against supply of electricity. WAPDA generated 30,797Gwh electricity in FY17 and it expects to generate additional ~7,000Gwh by completion of new hydel projects in next five years. WAPDA continues to enjoy strong profitability on the back of healthy margins. For FY18 WAPDA's tariff petition inclusive of financial servicing of this facility is under approval of NEPRA after which cashflows will further improve.

WHE's financial profile draws comfort from strong cashflows. However, it remains dependent on repayment behavior of power purchaser. Timely tariff allowance by regulator going forward would remain important for cashflows of WHE. Continued compliance with the predefined covenants of Debt instruments, including maintenance of DPA would remain critical.

About the Entity

The Pakistan Water and Power Development Authority (WAPDA), WHE was established through an act of parliament in February 1958 (WAPDA Act 1958) for development and maintenance of water and power resources. WHE has 19 projects with total hydel generation capacity of 6,902MW.

About the PPTFC

WAPDA has issued privately placed Term Finance Certificates of PKR 10bln in May 17. The instrument, having a tenor of 15 years, shall be redeemed in 20 equal semi-annual instalments starting from Nov22. Profit will be paid semiannually in arrears at 6M Kibor + 145bps. First profit payment will be made in Nov17.

About the Sukuk

WAPDA has issued Sukuks of PKR 15bln in May 17 for a period of 15 years. The drawdowns will be completed in five years. The instrument shall be redeemed in 20 equal semi-annual instalments starting from Nov22. Profit will be paid semiannually in arrears at 6M Kibor + 145bps. First profit payment will be made in Nov17.