The Pakistan Credit Rating Agency Limited

PAKGEN POWER LIMITED

	NEW [OCT-16]	PREVIOUS [NOV-15]
Long-Term	AA	AA
Short-Term	A1+	A1+
Outlook	Stable	Negative

REPORT CONTENTS

1. RATING ANALYSES
2. FINANCIAL INFORMATION
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

OCTOBER 2016

Profile &Ownership

- An independent power producer (IPP) under the power policy 1994. The company completed 18 years out of 30 year tenor under the PPA.
- Pakgen Power Limited started commercial operations in Feb-98. It operates a thermal power plant with a net capacity of 365MW.
- Nishat Group (43%) and City School (17%) are the major sponsors of the company.
- Major Sponsor – Nishat Group – is the biggest conglomerate of the country with interests in textile,cement, power, real estate,banking and insurance.
- Listed on Pakistan Stock Exchange.

Governance

- BoD comprises eight members including the CEO.
- The board has formed two committees Audit Committee and Human Resource & Remuneration Committee.
- Six members from Nishat Group ensuring majority control.
- Mr. Hassan Mansha - chairman of the board holds position of Group Head-Energy and directorship of six other companies.
- Key management directly reporting to chairman compromising efficacy of the board.

Management

- Mr. Ghazanfar Hussain Mirza is CEO since Aug-14 and has over three decades of experience in business development and corporate management.
- Pakgen has a lean organizational structure with a professional management team.

Business and Operational Risk

- In house O&M activities.
- Plant remained shut down for most of the CY15, and thus remained unavailable for power generation.
- Thermal efficiency below par (Required: 38%; Actual: 36%), resultantly efficiency losses absorbed by Pakgen.
- Plant's conversion into Coal is in pipeline, financial close is expected in Dec16. Conversion will take 3 years and existing plant will be shut down for 6 months. Power Purchaser has agreed to pay Capacity payment for all three years including 6 month in which plant will not be operational.

Performance

- Plant resumed its operations in Jan16 after remaining shut down for nearly 11 months.
- Power purchaser has lodged liquidated damages of PKR ~4bln as plant was shutdown and was unable to meet demand.
- Company's insurance policy covers business interruption loss after 45 days.
- Received insurance claim of PKR ~2.6bln remaining amount is likely to be recieved by end Dec16.

Financial Risk

- Recievable days surged significantly due to non payment of capacity payments and lesser revenue on the back of plant shut down during CY15. Resultantly, net cash cycle deterioted.
- The company has procured working capital lines of PKR 8,946mln (SPLY: 5,411mln) at end Jun-16.
- Debt mainly comprises short-term borrowings to finance working capital requirements (STB: 79%; LTL: 21%).
- Declining cashflows leading to considerable decline in coverages (Post Working Capital coverage (1HCY16: -4.5x; CY15:0.8; CY14: 7.6x)

RATING RATIONALE

The ratings reflect the regulated structure of Pakgen's business; whereby revenues and cashflows are guaranteed by the sovereign government given adherence to agreed operational parameters. Pakgen's plant, after closure of almost eleven months, resumed normal operations in January 2016. The company's loss of profit and cost of replacement of transformer is covered under insurance policy thus protecting the company from loss. To date, insurance claim has been submitted and majority of the amount has already been received. Meanwhile, trade receivables continues to surge on the back of delayed capacity payments from the power purchaser. The company's financial profile, though adequate, is highly dependent on the behavior of the power purchaser.

KEY RATING DRIVERS

Upholding operational performance in line with agreed performance levels would remain a key rating driver. Accumulation of debt to finance CAPEX - the coal conversion project and/or fresh investment in new power project – may impact financial risk profile of the company. Meanwhile, any significant increase in overdue receivables, as a result of rising circular debt, may negatively impact the ratings.

Pakgen Power Limited *PKR mln*

BALANCE SHEET	30-Jun-16	31-Dec-14	31-Dec-13	31-Dec-12
	6M	Annual	Annual	Annual
Non-Current Assets	**9,799**	**8,463**	**8,204**	**8,089**
Investments (Others)	**1**	**2**	**-**	**-**
Current Assets	**19,412**	**12,492**	**13,108**	**15,537**
Inventory	1,047	1,267	1,082	884
Trade Receivables	14,208	8,009	10,047	12,770
Other Current Assets	4,144	1,721	1,719	1,769
Cash & Bank Balances	13	1,495	261	114
Total Assets	**29,211**	**20,957**	**21,312**	**23,626**
Debt				
Short-term	8,476	5,270	6,530	8,711
Long-term (Inlc. Current Maturity of long-term debt)	1,449	-	-	-
Other Short term liabilities (inclusive of trade payables)	4,298	1,279	428	926
Other Long term Liabilities		-	-	-
Shareholder's Equity	**14,988**	**14,408**	**14,354**	**13,989**
Total Liabilities & Equity	**29,211**	**20,957**	**21,312**	**23,626**
INCOME STATEMENT				
Turnover	**7,368**	**34,923**	**37,744**	**33,718**
Gross Profit	493	1,315	2,132	3,100
Other Income	1	15	17	128
Financial Charges	(301)	(578)	(835)	(1,031)
Net Income	**99**	**612**	**1,110**	**2,031**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	775	1,660	2,486	3,286
Net Cash changes in Working Capital	(3,142)	2,745	2,568	(2,397)
Net Cash from Operating Activities	(2,627)	3,798	4,073	(7)
Net Cash from InvestingActivities	(163)	(746)	(631)	(816)
Net Cash from Financing Activities	2,802	(1,818)	(3,295)	(55)
Net Cash generated during the period	12	1,234	147	(878)
Ratio Analysis				
Performance				
Turnover Growth	67.4%	-7.5%	11.9%	7.7%
Gross Margin	6.7%	3.8%	5.6%	9.2%
Net Margin	1.3%	1.8%	2.9%	6.0%
ROE	1.4%	16.9%	7.3%	15.1%
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.5	2.9	3.0	3.2
Interest Coverage (X) (FCFO/Gross Interest)	2.6	2.9	3.0	3.2
FCFO Pre-WC/Gross interest+CMLTD	1.5	2.9	4.4	1.9
Liquidity				
Short Term Borrowings Coverage (Adjusted Quick Assets/Short Term Borrowings)	1.7	1.6	1.6	1.4
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	352.9	19.2	99.5	130.8
Capital Structure (Total Debt/Total Debt+Equity)	34.2%	26.8%	31.3%	40.9%

The Pakistan Credit Rating Agency Limited

STANDARD RATING SCALES & 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 or 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**. "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.

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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

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'.

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, a suspended 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, or e) the entity/issuer defaults.

Disclaimer: PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

Regulatory and Supplementary Disclosure

Name of Rated Entity	Pakgen Power Limited
Sector	IPP
Type of Relationship	Solicited
Purpose of the Rating	Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
20-Nov-15	AA	A1+	Negative	Maintain
20-Nov-14	AA	A1+	Stable	Maintain
05-Nov-13	AA	A1+	Stable	Maintain
28-Nov-12	AA	A1+	Stable	Maintain
13-Jan-12	AA	A1+	Stable	Maintain

Related Criteria and Research

Rating Methodology	IPP's Rating Methodology
Sector Research	Power Sector - Viewpoint | Feb16

Rating Analysts

Aisha Khalid	Rana Nadeem
aisha@pacra.com	Nadeem@pacra.com
(92-42-35869504)	(92-42-35869504)

Rating Team Statement

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

Disclaimer

Rating Shopping

PACRA maintains principle of integrity in seeking rating business.

PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information.

Conflict of Interest

PACRA, the analysts involved in the rating process, and members of its rating committee do not have any conflict of interest relating to the credit rating done by them

The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest

The analysts and members of the rating committees including the external member members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA

The analysts or any of its family members do not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This is, however, not applicable on investment in securities through collective investment schemes. PACRA has established appropriate policies governing investments and trading in securities by its employees

PACRA may provide consultancy/advisory services or other services to any of its clients or to any of its clients' associated companies and associated undertakings that is being rated or has been rated by it. In such cases, PACRA has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities

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 ii) fee mandate - signed with the payer, which can be different from the entity

PACRA ensures that the credit rating assigned to an entity or instrument should 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

Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

Reporting of Misconduct

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality

PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties

Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

Prohibition

Probability of Default (PD)

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