



The Pakistan Credit Rating Agency Limited

HALMORE POWER GENERATION COMPANY LIMITED

	INITIAL [MAR-17]	REPORT CONTENTS
Long-Term	A	1. RATING ANALYSES
Short-Term	A1	2. FINANCIAL INFORMATION
Outlook	Stable	3. RATING SCALE
		4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

MARCH 2017

Profile & Ownership

- Halmore Power Generation Company Limited (HPGCL) is an independent power producer (IPP) under the power policy 2002. It operates a combined Cycle Gas turbine plant of 225MW capacity. The plant efficiency is designed for gas which is the primary fuel whereas High Speed Diesel is the backup fuel.
- HPGCL started commercial operations in June 2011 after delay of 6 months.
- Final project cost was PKR 22,750mln financed with debt to equity ratio of 75:25.
- HPGCL has signed 30 years Power Purchase Agreement with the power purchaser – CPPA.
- HPGCL is majorly owned by Mian Muhammad Sharif – a non resident Pakistani business magnate.

Governance

- BoD comprises five members including one executive director, four members represent family.
- Mr. Mian Muhammad Sharif is the chairman of the board. He has over 5 decades of experience in real estate. Mr. Sharif is accompanied by his sons on the board in order to oversee the company matters.
- Inclusion of independent director on the board will strengthen the governance structure besides adhering to corporate governance practices.

Management

- Mr. Zaheer Ahmed is the chief operating officer since Jan17, he has over 26 years of experience in construction, operation and maintenance of power generation and transmission.
- HPGCL has a lean organization structure with small and efficient management team.
- The company maintains an adequate MIS which helps management to keep track of all operations and liaison with O&M operator.

Business and Operational Risk

- HPGCL has signed Gas Supply Agreement and Fuel Supply Agreement with SNGPL and PSO for gas and HSD respectively for 30 years.
- Recently, the company has also started to procure HSD from other oil marketing companies.
- HPGCL has signed an 18 year O&M agreement with General Electric International. GE ensures adherence with operational benchmarks as agreed with power purchaser.
- Plant availability remained well above required level – 88% (FY: 94%, FY: 93%).

Performance

- Electricity generation increased by 28% (FY16: 915GWH, FY15: 713GWH); a facit of higher electricity demand from the power purchaser.
- Net profit remained strong though declined (FY16: PKR 1,078mln; FY15: PKR 1,234mln).
- The plant has contracted efficiency of 51% for gas and 47% for HSD. During FY16 HPGCL on average managed to meet efficiency targets.

Financial Risk

- During 1QFY17 receivable days increased on the back of delayed payments from power purchaser (1QFY17: 114 days; FY16: 98 days; FY15 91 days) resultantly cash cycle days increased (1QFY17: 82 days; FY16: 58 days; FY15 49 days).
- Trade receivables include amount under litigation of PKR 3.2bln receivable from NEPRA.
- To meet working capital requirements the company has procured working capital lines of PKR 4,471mln out of which 22% has been unutilized.
- The company's debt service coverage improved owing to decrease in interest rates (1QFY17: 1.1x; FY16 1.0x; FY15 0.9x).
- HPGCL financed the project with total debt of PKR 14,683mln payable in 40 installments. HPGCL has repaid 24 installments till end Dec16.
- Project cost over runs were financed by sponsor. Sponsor loan stands at PKR 3,184mln at end June16. Interest on sponsor loan is repayable on demand and principal will be paid in lumpsum at end Dec17.

RATING RATIONALE

Halmore Power Generation Company Limited (HPGCL) runs a 225MW power plant. The company operates in the regulated power sector. It enjoys sovereign guarantee against receivables from power purchaser - NTDC - given adherence to agreed performance benchmarks. The Company's operations and maintenance operator, General Electric International (GE), is a key source of comfort in managing the plant's operations. The Company's financial risk profile is largely dependent on repayment behaviour of the power purchaser. In recent periods, availability of primary fuel was challenging; however operational performance remained healthy. Although energy payments observed improvement, the Company's cash cycle witnessed a surge on account of delayed capacity payments by CPPA. HPGCL funds its working capital requirements mainly through short term borrowing. The company avails forbearance period while meeting its financial obligations; nevertheless, the repayment behavior has improved.

KEY RATING DRIVERS

Upholding operational performance in line with agreed performance levels would remain a key rating driver. Improving repayment behaviour would be ratings positive. Any significant increase in overdue receivables, as a result of rise in circular debt, may impact the ratings.



Independent Power Producer

The Pakistan Credit Rating Agency Limited

Financials (Summary)

	PKR mln	PKR mln	PKR mln	PKR mln
Pakgen Power Limited				
BALANCE SHEET				
	30-Sep-16	30-Jun-16	30-Jun-15	30-Jun-14
	Annual	Annual	Annual	Annual
Non-Current Assets	19,294	19,487	20,246	20,928
Investments (Others)	-	-	-	-
Current Assets	7,982	7,514	8,553	7,087
Inventory	197	140	230	99
Trade Receivables	7,058	6,703	7,578	6,049
Other Current Assets	647	597	557	851
Cash & Bank Balances	80	75	190	87
Total Assets	27,276	27,001	28,799	28,015
Debt				
Short-term	3,498	2,770	2,870	2,794
Long-term (Incl. Current Maturity of long-term debt)	8,194	8,764	11,201	13,204
Sponsor's loan	3,184	3,184	3,034	2,315
Trade Payables	1,033	1,251	1,725	1,447
Other Long term Liabilities	1,687	1,645	1,659	1,177
Shareholder's Equity	9,680	9,388	8,310	7,076
Total Liabilities & Equity	27,276	27,001	28,799	28,015
INCOME STATEMENT				
Turnover	3,062	12,956	16,919	10,011
Gross Profit	686	2,817	3,757	1,554
Other Income	-	2	9	13
Financial Charges	(337)	(1,571)	(2,396)	(2,194)
Net Income / (Loss)	2,663	1,078	1,234	(748)
Cashflow Statement				
Free Cashflow from Operations (FCFO)	822	3,421	4,384	2,154
Net Cash changes in Working Capital	(630)	458	(1,085)	(40)
Net Cash from Operating Activities	(153)	3,421	4,384	2,154
Net Cash from Investing Activities	0	(21)	(67)	(1,042)
Net Cash from Financing Activities	159	(2,407)	(1,237)	(1,415)
Net Cash generated during the period	6	(115)	102	(2,524)
Ratio Analysis				
Performance				
Turnover Growth	-15.1%	-23.4%	82.4%	29.1%
Gross Margin	22.4%	21.7%	22.2%	15.5%
Net Margin	20.5%	20.3%	21.4%	14.3%
ROE	12.1%	11.2%	14.8%	-21.1%
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.1	1.0	0.9	0.5
Interest Coverage (X) (FCFO/Gross Interest)	2.4	2.2	1.8	1.0
FCFO Pre-WC/Gross interest+CMLTD	1.1	1.0	0.9	0.5
Liquidity				
Short Term Borrowings Coverage (Adjusted Quick Assets/Shc	1.4	1.4	1.5	1.3
Net Cash Cycle (Inventory Days + Receivable Days - Payable)	82.1	57.9	49.2	129.3
Capital Structure (Total Debt/Total Debt+Equity)	54.7%	55.1%	62.9%	69.3%

Halmore Power Generation Company Limited

Mar-17



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		SHORT TERM RATINGS
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
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.	

<p>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.</p>	<p>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’.</p>	<p>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.</p>	<p>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.</p>
--	---	--	---

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.



Name of Rated Entity	Halmore Power Generation Company Limited
Sector	IPP
Type of Relationship	Solicited
Purpose of the Rating	Independent Risk Assessment
Related Criteria and Research	
Rating Methodology	IPP's Rating Methodology
Sector Research	Power Generation - Viewpoint Mar-17
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 None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's written consent. PACRA reports and ratings constitute opinions, not recommendations to buy or to sell
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