The Pakistan Credit Rating Agency Limited

THE PAKISTAN WATER AND POWER DEVELOPMENT AUTHORITY | PRIVATELY PLACED TFCS & SUKUKS

	INITIAL [APRIL-17]
Long-Term	AAA
Outlook	Stable

REPORT CONTENTS

APRIL 2017

Issuer Profile

- WAPDA is a statuory body fully owned by Government of Pakistan and was established through WAPDA Act 1958.
- WAPDA has the primary responsibility to develop Hydel Power Projects
- The entity has a total generation capacity of 6,902MW. It is the largest hydel energy producer in the country.
- WAPDA is in the process of constructing different projects which are to add ~8,298MW by 2024.

Instrument

- WAPDA is in the process of issuing privately placed term finance certificates (TFC) of PKR 10bln and Sukuks of PKR 15bln to partially finance Dasu Hydropower Project (Dasu).
- Total project cost of Dasu is ~486bln which is to be financed from local and external financing. ECC has given approval of upto PKR 144bln as local financing for the project.
- WAPDA will maintain Debt Payment Account (DPA) which will be held under exclusive lien in favor of trustee. Wapda will replinishes the DPA with 1/6th of the upcoming installment.
- Shortfall occurring for three consecutive months will constitute event of default. Government guarantee will be callable by trustee after serving cure period of 45 days.
- The underlying agreements for the finalization of the instruments include GoP guarantee, Trust Deed, and investor Agreement. Further, to follow Islamic structure of Sukuks, Musharaka Agreement, Purchase Undertaking Agreement and Payment Agreement will be signed between the issuer and Sukuk holder.

Governance & Management

- WAPDA is a statutory body under the administrative control of the Federal Government.
- The Authority comprises Chairman, member of each wing (Water, Power, and Finance), and secretary WAPDA.
- In August 2016 Lt. General Muzzamil Hussain replaced Mr. Zafar Mehmood as Chairman WAPDA.
- Mr. Hussain – a retired army professional and a diplomat brings experience of over 3 decades with him to the management of the WAPDA.
- The Ministry of Water & Power provides oversight to WAPDA.
- Highly experienced management team with long term association with WAPDA.

Business and Operational Risk

- Key sources of generation (19 hydel plants) governed by WAPDA HydroElectric (WHE) - the power wing.
- WHE's fleet largely improved only slightly since FY11.
- WHE generation largely remained stable (FY16: 33,151Gwh; FY15: 31,780GWh).
- Tariff determined by NEPRA is based on revenue requirement mainly capturing ROI, and O&M.
- WHE reported revenue of PKR 54,776mln in FY16. However, profitability decreased by 41% YoY on account of reduction in tariff (FY16: PKR 19,929mln; FY15: PKR 33,736mln).

Financial Risk

- WAPDA remains highly dependent on the payment behavior of the sole power purchaser NTDC/CPPA.
- WHE's receivables witnessed a significant decrease (42%) YoY, resultantly receivable days declined to 130 at end-Jun16 (Jun15: 187).
- Despite decreased profitability, WHE’s free cash flow from operation remained strong though declined by 13% YoY (FY16: PKR ~48bln; FY15: PKR ~55bln).
- However, accumulation of new debt in the form of new instruments for Dasu will cause the coverages to deteriote.
- WAPDA has ample cash at its disposal as at end June16 (PKR 46,939mln).

RATING RATIONALE

The Water and Power Development Authority of Pakistan is in the process of issuing debt instruments worth PKR 88bln (TFCs: 35.2bln, Sukuks: 52.8bln). WAPDA intends to utilize this amount to partially finance 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 ~486bln. WAPDA is in the process of procuring land and finalization of the EPC contractors for the project.

The preliminary ratings of TFCs and Sukuks reflects an unconditional and irrevocable guarantee by the Government of Pakistan (GoP). The guarantee will cover 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 shall maintain debt payment account (DPA) under the exclusive lien of the trustee. Within first fifteen days of each month, WHE shall deposit 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 FY16).

WAPDA's revenues primarily emanate from WAPDA Hydro Electric (WHE) overlooked by the power wing. WHE receives tariff based revenue from NTDC/CPPA against supply of electricity. WAPDA generated ~33,151 Gwh electricity in FY16 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 healthy margins. WHE's financial profile draws comfort from strong cash flows. However, it remains dependent on repayment behavior of power purchaser. WHE has debt to equity of 48% with most of the debt is from government in the form of foreign relent loan and development loans. Currently WAPDA has healthy debt coverage of 1.8x as at end Jun16. This is expected to remain largely intact.

KEY RATING DRIVER

Finalization of legal documentation and continued compliance with the predefined covenants of the instrument, including maintenance of DPA would be critical subsequent to the issuance of the debt instruments.

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WAPDA Hydroelectric

BALANCE SHEET	30-Jun-16	30-Jun-15	30-Jun-14	30-Jun-13
PKR mln	Annual	Annual	Annual	Annual
Non-Current Assets	1,120,241	1,069,378	292,359	268,836
Investments	-	19	-	261
Cash and Bank Balances	46,940	55,777	27,149	3,755
Inventories	5,583	3,993	3,644	2,896
Trade Receivables	19,477	34,879	17,806	6,338
Other Current Assets	27,619	2,106	4,760	29,549
Total Assets	1,219,860	1,166,152	345,718	311,635
Current Liabilities	16,789	16,821	17,196	19,909
Long Term Borrowings (Including Current Maturities)	185,511	137,715	101,351	69,964
Other Non Current Liabilities	37,557	32,528	28,753	27,650
Shareholders' Equity	980,003	979,088	198,419	194,112
Total Liabilities & Equity	1,219,860	1,166,152	345,718	311,635

PROFIT & LOSS ACCOUNT	30-Jun-16	30-Jun-15	30-Jun-14	30-Jun-13
Turnover	54,776	61,002	52,091	42,893
Gross Profit	25,313	40,079	32,913	24,869
Other Income	2,232	3,441	521	501
Financial Charges	(6,306)	(8,354)	(3,930)	(4,115)
Net Income	19,929	33,736	21,451	14,223

CASHFLOW STATEMENT	30-Jun-16	30-Jun-15	30-Jun-14	30-Jun-13
EBITDA	49,808	56,157 *	39,382	30,953
Free Cashflow from Operations (FCFO)	47,790	54,746 *	39,382	30,953
Net Cash provided by operating activities	51,069	27,616 *	42,643	38,263
Net Cash available from investing activities	(66,304)	(25,785) *	(31,331)	(18,803)
Cashflow from financing activities	6,398	26,796	12,082	(20,729)

RATIO ANALYSIS	30-Jun-16	30-Jun-15	30-Jun-14	30-Jun-13
Gross Margin	46.2%	65.7%	63.2%	58.0%
Pre-Tax Profit Margin	36.4%	55.3%	41.2%	33.2%
Net Profit Margin	36.4%	55.3%	41.2%	33.2%
Net Cash Cycle (Days)	94.0	176.4	95.3	30.5
Interest Coverage (X)	7.6	6.6	10.0	7.5
Debt Service Coverage	1.8	2.1	3.9	3.1
Debt Payback (X)	3.9	2.5	2.6	2.3
Capital Structure	48.7%	42.8%	38.9%	26.5%

** WAPDA Hydroelectric's assets were revalued on 30th June 2016. Their revaluation effect is excluded from cashflows for comparability across the periods*

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

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 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.

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 surveill the opinion due to lack of requisite information

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Regulatory and Supplementary Disclosure

Name of Issuer	The Pakistan Water and Power Development Authority
Name of Issue	The Pakistan Water and Power Development Authority | Privately Placed TFC & Sukuks
Sector	Power
Type of Relationship	Solicited
Purpose of the Rating	Independent Risk Assessment
Related Criteria and Research	
Rating Methodology	IPPs Rating Methodology
Sector Research	Power Generation - Viewpoint | Feb-17
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Rating Team Statement

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