



The Pakistan Credit Rating Agency Limited

# HALMORE POWER GENERATION COMPANY LIMITED

|            | <b>NEW<br/>[OCT-17]</b> | <b>PREVIOUS<br/>[MAR-17]</b> |
|------------|-------------------------|------------------------------|
| Long-Term  | A+                      | A                            |
| Short-Term | A1                      | A1                           |
| Outlook    | Stable                  | Stable                       |
| Action     | Upgrade                 | Initial                      |

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|--|
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OCTOBER 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 decreased by 65% (FY17: 552GWH, FY16: 915GWH); a facit of lower electricity demand from the power purchaser.
- Despite lower generation, Net profit remained strong (9MFY17: 793mln; FY16: PKR 1,078mln; FY15: PKR 1,234mln).
- The plant has contracted efficiency of 51% for gas and 47% for HSD. During 9MFY17 HPGCL on average managed to meet efficiency targets.

## **Financial Risk**

- During 9MFY17 receivable days increased on the back of delayed payments from power purchaser (9MFY17: 138 days; FY16: 98 days; FY15 91 days) resultantly cash cycle days increased (9MFY17: 121 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 unutilized up to 93%.
- The company's debt service coverage improved owing to decrease in interest rates (9MFY17: 1.0x; FY16 1.0x; FY15 0.9x).
- HPGCL financed the project with total debt of PKR 14,683mln payable in 40 installments. HPGCL has repaid 27 installments till end Sep17.
- 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 runs a 225MW power plant. The company operates in the regulated power sector. It enjoys sovereign guarantee against receivables from power purchaser - CPPA-G - 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 behavior of the power purchaser. In recent periods, availability of primary fuel was challenging; however operational performance remained healthy. The company's cash cycle witnessed a surge on account of delayed capacity payments by CPPA-G. Halmore funds its working capital requirements mainly through short term borrowing. Halmore has total long term debt of PKR 7,418mln as at end-Mar17 payable till December 2020. The company avails forbearance period while meeting its financial obligations; nevertheless, the repayment behavior has improved providing major comfort to rating upgrade.

## **KEY RATING DRIVERS**

Upholding operational performance in line with agreed performance levels would remain a key rating driver. 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

### Halmore Power Generation Company Limited

#### BALANCE SHEET

|  | 31-Mar-17     | 30-Jun-16     | 30-Jun-15     | 30-Jun-14     |
|--|---------------|---------------|---------------|---------------|
|  | 9M            | Annual        | Annual        | Annual        |
| <b>Non-Current Assets</b>                            | <b>18,922</b> | <b>19,487</b> | <b>20,246</b> | <b>20,928</b> |
| <b>Investments (Others)</b>                          | -             | -             | -             | -             |
| <b>Current Assets</b>                                | <b>7,650</b>  | <b>7,514</b>  | <b>8,553</b>  | <b>7,087</b>  |
| Inventory  | 188           | 140           | 230           | 99            |
| Trade Receivables                                    | 6,583         | 6,703         | 7,578         | 6,049         |
| Other Current Assets                                 | 851           | 597           | 557           | 851           |
| Cash & Bank Balances                                 | 27            | 75            | 190           | 87            |
| <b>Total Assets</b>                                  | <b>26,573</b> | <b>27,001</b> | <b>28,799</b> | <b>28,015</b> |
| <b>Debt</b>  |               |               |               |               |
| Short-term   | 4,143         | 2,770         | 2,870         | 2,794         |
| Long-term (Incl. Current Maturity of long-term debt) | <b>7,418</b>  | <b>8,764</b>  | <b>11,201</b> | <b>13,204</b> |
| Sponsor's loan                                       | <b>3,184</b>  | <b>3,184</b>  | <b>3,034</b>  | <b>2,315</b>  |
| Trade Payables                                       | 492           | 1,251         | 1,725         | 1,447         |
| Other Long term Liabilities                          | 1,705         | 1,645         | 1,659         | 1,177         |
| <b>Shareholder's Equity</b>                          | <b>9,630</b>  | <b>9,388</b>  | <b>8,310</b>  | <b>7,076</b>  |
| <b>Total Liabilities &amp; Equity</b>                | <b>26,573</b> | <b>27,001</b> | <b>28,799</b> | <b>28,015</b> |

#### INCOME STATEMENT

|                            |              |               |               |               |
|----------------------------|--------------|---------------|---------------|---------------|
| <b>Turnover</b>            | <b>6,635</b> | <b>12,956</b> | <b>16,919</b> | <b>10,011</b> |
| Gross Profit               | 1,901        | 2,817         | 3,757         | 1,554         |
| Other Income               | -            | 2             | 9             | 13            |
| Financial Charges          | (952)        | (1,571)       | (2,396)       | (2,194)       |
| <b>Net Income / (Loss)</b> | <b>793</b>   | <b>1,078</b>  | <b>1,234</b>  | <b>(748)</b>  |

#### Cashflow Statement

|                                      |       |         |         |         |
|--------------------------------------|-------|---------|---------|---------|
| Free Cashflow from Operations (FCFO) | 2,334 | 3,421   | 4,384   | 2,154   |
| Net Cash changes in Working Capital  | (882) | 458     | (1,085) | (40)    |
| Net Cash from Operating Activities   | 489   | 3,421   | 4,384   | 2,154   |
| Net Cash from Investing Activities   | (26)  | (21)    | (67)    | (1,042) |
| Net Cash from Financing Activities   | (510) | (2,407) | (1,237) | (1,415) |
| Net Cash generated during the period | (47)  | (115)   | 102     | (2,524) |

#### Ratio Analysis

##### Performance

|                 |        |        |       |        |
|-----------------|--------|--------|-------|--------|
| Turnover Growth | -34.8% | -23.4% | 82.4% | 29.1%  |
| Gross Margin    | 28.6%  | 21.7%  | 22.2% | 15.5%  |
| Net Margin      | 26.3%  | 20.3%  | 21.4% | 14.3%  |
| ROE             | 10.9%  | 11.2%  | 14.8% | -21.1% |

##### Coverages

|   |     |     |     |     |
|---|-----|-----|-----|-----|
| Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD) | 1.0 | 1.0 | 0.9 | 0.5 |
| Interest Coverage (X) (FCFO/Gross Interest)           | 2.5 | 2.2 | 1.8 | 1.0 |
| FCFO Pre-WC/Gross interest+CMLTD                      | 1.0 | 1.0 | 0.9 | 0.5 |

##### Liquidity

|  |       |      |      |       |
|--|-------|------|------|-------|
| Short Term Borrowings Coverage (Adjusted Quick Assets/Short Term Debt) | 1.2   | 1.4  | 1.5  | 1.3   |
| Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)       | 120.9 | 57.9 | 49.2 | 129.3 |

##### Capital Structure (Total Debt/Total Debt+Equity)

|  |       |       |       |       |
|--|-------|-------|-------|-------|
|  | 54.6% | 55.1% | 62.9% | 69.3% |
|--|-------|-------|-------|-------|

### Halmore Power Generation Company Limited

Oct-17

## 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.

| <b>LONG TERM RATINGS</b> |   | <b>SHORT TERM RATINGS</b>   |
|--------------------------|---|---|
| <b>AAA</b>               | <b>Highest credit quality.</b> Lowest expectation of credit risk.<br>Indicate exceptionally strong capacity for timely payment of financial commitments.  | <p><b>A1+:</b> The highest capacity for timely repayment.</p> <p><b>A1:</b> A strong capacity for timely repayment.</p> <p><b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>C:</b> An inadequate capacity to ensure timely repayment.</p> |
| <b>AA+</b>               | <b>Very high credit quality.</b> Very low expectation of credit risk.   |   |
| <b>AA</b>                | Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.   |   |
| <b>AA-</b>               |   |   |
| <b>A+</b>                | <b>High credit quality.</b> Low expectation of credit risk.   |   |
| <b>A</b>                 | 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.  |   |
| <b>A-</b>                |   |   |
| <b>BBB+</b>              | <b>Good credit quality.</b> Currently a low expectation of credit risk.   |   |
| <b>BBB</b>               | 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.   |   |
| <b>BBB-</b>              |   |   |
| <b>BB+</b>               | <b>Moderate risk.</b> Possibility of credit risk developing.  |   |
| <b>BB</b>                | 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>BB-</b>               |   |   |
| <b>B+</b>                | <b>High credit risk.</b>  |   |
| <b>B</b>                 | 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.   |   |
| <b>B-</b>                |   |   |
| <b>CCC</b>               | <b>Very high credit risk.</b> Substantial credit risk   |   |
| <b>CC</b>                | “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. |   |
| <b>C</b>                 |   |   |
| <b>D</b>                 | Obligations are currently in default.   |   |

**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.

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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.

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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 surveil the opinion due to lack of requisite information

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**Name of Rated Entity**  
**Sector**  
**Type of Relationship**

Halmore Power Generation Company Limited  
 IPP  
 Solicited

**Purpose of the Rating**

Independent Risk Assessment

**Rating History**

| Dissemination Date | Long Term | Short Term | Outlook | Action   |
|--------------------|-----------|------------|---------|----------|
| 7-Mar-17           | A         | A1         | Stable  | Maintain |

**Related Criteria and Research**

Rating Methodology  
 Sector Research

IPP's Rating Methodology  
 Power Generation - Viewpoint | Mar-17

**Rating Analysts**

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[Rating Team Statement](#)

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[Probability of Default \(PD\)](#)

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