The Pakistan Credit Rating Agency Limited

FOUNDATION POWER COMPANY DAHARKI LIMITED

	NEW [OCT-17]	PREVIOUS [MAR-17]
Long-Term	AA-	A+
Short-Term	A1+	A1
Outlook	Stable	Positive
Action	Upgrade	Maintain

REPORT CONTENTS

OCTOBER 2017

Profile &Ownership

- Foundation Power Company Daharki Limited (FPCDL) was established in 2005 as an independent power producer (IPP). The plant commenced operations in May 2011.
- The company is operating a combined cycle power plant on a build-own-operate basis with a net capacity of 180MW.
- FPCDL is majority owned by Daharki Power Holdings Limited (DPHL), which, in turn is owned by Fauji Foundation (FF) (81%) and Asian Development Bank (ADB) (19%).
- During the year, A.F. Ferguson & Co. has been engaged as FPCDL's external auditors. The auditors expressed an unqualified opinion on the audited financial statements of the company for the year ended June 30, 2017.

Governance

- FPCDL has a six member Board, comprising five representatives from FF (including the MD), and one from ADB.
- FF's strong professional profile assists the management in terms of strategic guidance and implementation of strong control framework.
- Lt. Gen. Khalid Nawaz Khan (Retd.) – Managing Director of FF – is the Chairman of the Board since November 2014.
- The board has three committees in place – (i) Audit and Finance Committee, (ii) Technical Committee, and (iii) Human Resource Committee.

Management

- During the year, Maj Gen Wasim Sadiq (Retd) was appointed as the non-executive Director on Board, on behalf of Fauji Foundation representation.
- The management team is experienced and is ably handling the affairs of the company.

Performance Risk

- FPCDL generated a total of 1,264,656 MWH of electricity during FY17 (FY16: 1,211,694 MWH).
- KEPCO, the O&M operator, ensures adherence of the plant to meet minimum performance benchmarks (Availability: Actual: 94.3%; Benchmark: 88%, Efficiency: Actual: 48.8%; Benchmark: 48.8%).
- FPCDL has negotiated the gas supply agreement with Mari Petroleum Company Limited for a period of 25 years.

Financial Risk

- Decline in FPCDL's profitability on the back diminishing sales has deteriorated its free cashflows from operations (FCFO) on annual basis.
- Decline in sales was due to reduced locally extracted gas prices. Though, there is a minimal reduction in (FCFO), which will not impact FPCDL's operations significantly (FY17: PKR 3,206mln; FY16: PKR 3,695 mln; FY15: PKR 3,558 mln).
- FPCDL's working capital requirements have been improved on a YoY despite increasing receivables.
- Increased receivables have been catered by slightly stretched payments to fuel supplier and through short term borrowings reflected a better working capital management.
- The project cost (75%) was financed through a syndicated term finance loan. The loan size, PKR 11,565mln, is priced at 6-month KIBOR + 2.93% p.a., out of which PKR 6,472mln is outstanding as on 30-Jun-17. It is to be repaid in 20 unequal semi-annual installments. Fourteen installments have been made to date as on FY17.
- FPCDL has a moderately leveraged capital structure (FY17: 47%; FY16: 55%; FY15: 63%).
- FPCDL made the last eight semi-annual payments on time without availing benefit of forbearance period, which would reflect strong financial position of the company.

RATING RATIONALE

The ratings reflect strong business profile of FPCDL emanating from the demand risk coverage under Power Purchase Agreement signed between NTDC (through Central Power Purchasing Agency) and the company. Meanwhile, the Implementation Agreement provides sovereign guarantee for cashflows, given adherence to agreed performance benchmarks. The ratings incorporate low operational risk, a result of the performance of KEPCO - the O&M operator. Fuel of the plant is 'low BTU' gas, which is supplied by an associate - Mari Petroleum Company Limited (40% owned by Fauji Foundation). Thus fuel supply risk is considered low. Although there are delays in payments from power purchaser, the company manages the impact by aligning the payments to fuel supplier with its receipts. This keeps working capital needs under check. Short-term borrowing lines are available and mainly used to fund any short-fall in working capital requirements. Moreover, lately FPCDL has been repaying its debt repayments (Principal and Markup) on time without availing benefit of forbearance period. The company's association with Fauji Foundation (FF) provides comfort to the ratings.

KEY RATING DRIVERS

Sustained good financial discipline and upholding strong operational performance in line with agreed performance levels remain important. Accumulation of circular debt would pose threat to the company's ability to continue with this practice. However, the management ably supported by sponosrs remains committed to sustain improvement in management of commercial obligations and timely debt repayments. Material cushion in un-utilized lines provide comfort.

Foundation Power Company Daharki Limited *PKR in mln*

BALANCE SHEET	30-Jun-17	30-Jun-16	30-Jun-15
	Annual	Annual	Annual
Non-Current Assets	**13,669**	**14,178**	**14,843**
Current Assets	**5,594**	**5,379**	**7,137**
Inventory	34	37	41
Trade Receivables	4,925	4,169	5,799
Other Current Assets	375	585	278
Cash & Bank Balances	261	588	1,019
Total Assets	**19,263**	**19,557**	**21,980**
Debt	**6,506**	**8,223**	**9,263**
Short-term	50	457	463
Long-term (Inlc. Current Maturity of long-term debt)	6,456	7,766	8,800
Other Short term liabilities (inclusive of trade payables)	5,375	4,664	7,143
Other Long term Liabilities	63	43	38
Shareholder's Equity	**7,320**	**6,627**	**5,535**
Total Liabilities & Equity	**19,263**	**19,557**	**21,980**
INCOME STATEMENT			
Turnover	**10,259**	**11,235**	**11,866**
Gross Profit	2,612	3,118	2,981
Other Income	53	63	70
Financial Charges	(818)	(1,019)	(1,939)
Net Income	**1,689**	**1,990**	**942**
Cashflow Statement			
Free Cashflow from Operations (FCFO)	3,206	3,695	3,558
Net Cash changes in Working Capital	49	(1,227)	19
Net Cash from Operating Activities	2,555	1,544	1,822
Net Cash from InvestingActivities	(157)	(24)	147
Net Cash from Financing Activities	(2,726)	(1,951)	(1,741)
Net Cash generated during the period	(328)	(431)	229
Ratio Analysis			
Performance			
Turnover Growth	-8.7%	-5.3%	14.9%
Gross Margin	25.5%	27.8%	25.1%
Net Margin	16.5%	17.7%	7.9%
ROE	23.1%	30.0%	17.0%
Coverages			
FCFO Pre-WC/Gross interest+CMLTD	1.3	1.6	1.0
FCFO Post-WC/Gross interest+CMLTD	1.3	1.1	1.0
Liquidity			
Net Cash Cycle	-14.0	-16.8	-58.4
Capital Structure			
Net Debt/Net Debt+Equity	47.1%	55.4%	62.6%

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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.	**A1+:** The highest capacity for timely repayment.
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.	**A1:**. A strong capacity for timely repayment.
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.	**A2:** A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	**A3:** An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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.	**B:** The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	**C:** An inadequate capacity to ensure timely repayment.
D	Obligations are currently in default.	

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.

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Regulatory and Supplementary Disclosure

Rated Entity

Name of Rated Entity	Foundation power Company Daharki Limited
Sector	Independent Power Producer
Type of Relationship	Solicited

Purpose of the Rating: Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
16-Oct-17	AA-	A1+	Stable	Upgrade
24-Mar-17	A+	A1	Positive	Maintain
24-Mar-16	A+	A1	Stable	Maintain
08-Apr-15	A+	A1	Stable	Maintain
14-Apr-14	A+	A1	Stable	Maintain
23-Apr-13	A+	A1	Stable	Maintain
03-Dec-12	A+	A1	Stable	Downgrade

Related Criteria and Research: IPP's Viewpoint - Mar17

Methodology: IPP's Rating Methodology

Rating Analysts

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Rating Team Statement

Rating Procedure
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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

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