



The Pakistan Credit Rating Agency Limited

# THE PAKISTAN WATER AND POWER DEVELOPMENT AUTHORITY | PPTFC - 1 | SEP13

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NOVEMBER 2017

**Issuer Profile**

- WAPDA has issued privately placed term finance certificates (TFC) of PKR 9,327m in 2013 to partially finance Neelum Jhelum Hydro Power Project.
- WAPDA is a statutory 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**

- Cashflows received via WAPDA Hydroelectric wing from single customer - NTDC/CPPA - utilized to pay TFC markup and installments.
- Profit on the PPTFC is paid semi-annually at 6MK + 1.75% and at 6MK + 1% if paid within 15 days of due date.
- WAPDA maintains Debt Payment Account (DPA) which is held under exclusive lien in favor of trustee. Wapda replenishes the DPA with 1/6th of the upcoming installment.
- The underlying agreements for the finalization of the TFC include GoP guarantee, Trust Deed, and TFC investor Agreement.

**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 (Retd.) 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 Resources 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 declined by 7% on the back of lower water availability (FY17: 30,797Gwh; FY16: 33,151GWh).
- Tariff determined by NEPRA is based on revenue requirement mainly capturing ROI, O&M and Hydel Levies
- WHE reported revenue of PKR 34,882m in 6MFY16. Profitability improved on the back of adjustment in tariff (6MFY17: 18,861; FY16: PKR 19,929m; FY15: PKR 33,736m).

**Financial Risk**

- WAPDA remains highly dependent on the payment behavior of the sole power purchaser NTDC/CPPA.
- WHE's receivables witnessed a significant increase (61%) in first six months of FY17, resultantly receivable days increased to 164 at end-Dec16 (Jun16, 130 days Jun15: 187days).
- Indicative of improved profitability, WHE's free cash flow from operation improved during 6MFY17 (6MFY17: PKR~34bn; FY16: PKR ~48bn; FY15: PKR ~55bn). Consequently, WAPDA's debt coverages improved strong (6MFY17: 5x, FY16:1.8x, FY15:2.1x)
- WAPDA capital structure remained moderately leveraged (6MFY17: 44.8%, FY16:48.7%, FY15:42.8%).

**PPTFC Repayments**

- WAPDA has made 8 interest payments and 6 principal repayments as at end-Sep17.
- Rebate of .75% has been availed on each of the 8 payments of PPTFC that have fallen due till end-Sep17.

**RATING RATIONALE**

The rating of PPTFCs reflects an unconditional and irrevocable guarantee by the Government of Pakistan (GoP). The guarantee covers the payment of total outstanding amount of the PPTFCs and related profit component. GoP would pay the entire called amount immediately upon receiving a demand notice from the trustee. The rating apart from a debt payment and guarantee mechanism recognizes WAPDA's strategic importance as the major hydroelectric power supplier to the country (30% in overall electricity generation in FY17). WAPDA generated 30,797Gwh electricity in FY17 and it expects to generate additional ~7,000Gwh by completion of new hydel projects in next five years. WAPDA's revenues primarily emanate from WAPDA Hydro Electric (WHE) overlooked by the power wing. WHE receives tariff based revenue from CPPA-G against supply of electricity. On standalone basis, tariff increase during FY17 resulted in improved business margins. Thus overall performance of WHE strengthened further. However, consistent delays by the sole power purchaser have led to constrained cashflow management. For FY18 WAPDA's tariff petition inclusive of financial servicing of new debt facilities is under approval of NEPRA after which cashflows will further improve.

**KEY RATING DRIVER**

WHE's financial profile draws comfort from strong cashflows. However, it remains dependent on repayment behavior of power purchaser. Timely approval of tariff allowed by regulator going forward would remain important for cashflows of WHE. Continued compliance with the predefined covenants of PPTFC, including maintenance of DPA would remain critical.

*Financials (Summary)*
**The Pakistan Credit Rating Agency Limited**
**WAPDA Hydroelectric**
**BALANCE SHEET**

	<b>31-Dec-16</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>	<b>30-Jun-14</b>
	<i>6M</i>	<i>Annual</i>	<i>Annual</i>	<i>PKR mln</i> <i>Annual</i>
<i>Non-Current Assets</i>	1,143,973	1,120,241	1,069,378	292,359
<i>Investments</i>	5,500	-	19	-
<i>Cash and Bank Balances</i>	30,668	46,940	55,777	27,149
<i>Inventories</i>	5,680	5,583	3,993	3,644
<i>Trade Receivables</i>	31,380	19,477	34,879	17,806
<i>Other Current Assets</i>	15,571	27,619	2,106	4,760
<b>Total Assets</b>	1,232,772	1,219,860	1,166,152	345,718
<i>Current Liabilities</i>	19,928	16,789	16,821	17,196
<i>Long Term Borrowings (Including Current Maturities)</i>	176,919	185,511	137,715	101,351
<i>Other Non Current Liabilities</i>	38,794	37,557	32,528	28,753
<i>Shareholders' Equity</i>	997,132	980,003	979,088	198,419
<b>Total Liabilities &amp; Equity</b>	1,232,772	1,219,860	1,166,152	345,718

**PROFIT & LOSS ACCOUNT**

	<b>31-Dec-16</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>	<b>30-Jun-14</b>
<i>Turnover</i>	34,882	54,776	61,002	52,091
<i>Gross Profit</i>	20,470	25,313	40,079	32,913
<i>Other Income</i>	1,987	2,232	3,441	521
<i>Financial Charges</i>	(3,188)	(6,306)	(8,354)	(3,930)
<b>Net Income</b>	18,861	19,929	33,736	21,451

**CASHFLOW STATEMENT**

	<b>31-Dec-16</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>	<b>30-Jun-14</b>
<i>EBITDA</i>	33,058	49,808	56,157 *	39,382
<i>Free Cashflow from Operations (FCFO)</i>	32,175	47,790	54,746 *	39,382
<i>Net Cash provided by operating activities</i>	30,492	51,069	27,616 *	42,643
<i>Net Cash available from investing activities</i>	(36,745)	(66,304)	(25,785) *	(31,331)
<i>Cashflow from financing activities</i>	(10,019)	6,398	26,796	12,082

**RATIO ANALYSIS**

	<b>31-Dec-16</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>	<b>30-Jun-14</b>
<i>Gross Margin</i>	58.7%	46.2%	65.7%	63.2%
<i>Pre-Tax Profit Margin</i>	54.1%	36.4%	55.3%	41.2%
<i>Net Profit Margin</i>	54.1%	36.4%	55.3%	41.2%
<i>Net Cash Cycle (Days)</i>	125.7	94.0	176.4	95.3
<i>Interest Coverage (X)</i>	10.1	7.6	6.6	10.0
<i>Debt Service Coverage</i>	5.0	1.8	2.1	3.9
<i>Debt Payback (X)</i>	5.5	3.9	2.5	2.6
<i>Capital Structure</i>	44.8%	48.7%	42.8%	38.9%

\* WAPDA Hydroelectric's assets were revalued on 30th June 2015. 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.

<b>LONG TERM RATINGS</b>		<b>SHORT TERM RATINGS</b>
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. 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.	

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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><b>Rating Watch</b> 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.</p>	<p><b>Suspension</b> 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.</p>	<p><b>Withdrawn</b> 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</p>
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## Regulatory and Supplementary Disclosure

**Name of Issuer**  
**Name of Issue**  
**Sector**  
**Type of Relationship**

The Pakistan Water and Power Development Authority  
 The Pakistan Water and Power Development Authority | Privately Placed TFC - Sep 13  
 Power  
 Solicited

**Purpose of the Rating**

Independent Risk Assessment

**Rating History**

Dissemination Date	Long Term	Short Term	Outlook	Action
31-Dec-16	AAA	-	Stable	Maintain
9-Jan-16	AAA	-	Stable	Maintain
09-Jan-15	AAA	-	Stable	Maintain
26-Sep-13	AAA	-	Stable	Initial

**Instrument Details**

Nature of Instrument	Size of Issue (PKR mln)	Tenor (yrs)	Security	Trustee
PPTFC	9,327	8	Government of Pakistan Guarantee Backed	Pak Brunei Investment Bank

**Related Criteria and Research**

Rating Methodology  
 Sector Research

IPPs Rating Methodology  
 Power Generation - Viewpoint | Mar-17

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[Rating Team Statement](#)

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

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## Regulatory and Supplementary Disclosure

### Repayment Schedule PPTFC

SUKUK Amount (PKR '000)	9,327,000
Period (years)	8
Repayment	Semi-annually
Pricing	6 K + 1.75%

#	Date		Principal Repaid	Profit Payments		Cumulative amount to be paid	Balance as at end of period
				Interest	Rebate (75bps)		
0	27-Sep-13		-				9,327,000
1	27-Mar-14	181	-	519,407	(34,689)	484,718	9,327,000
2	27-Sep-14	184	-	559,048	(35,264)	523,784	9,327,000
3	27-Mar-15	181	666,214	551,783	(34,689)	1,183,308	8,660,786
4	27-Sep-15	184	666,214	390,319	(32,745)	1,023,788	7,994,571
5	27-Mar-16	182	666,214	331,949	(29,816)	968,348	7,328,357
6	27-Sep-16	184	666,214	298,789	(27,632)	937,372	6,662,143
7	27-Mar-17	181	666,214	257,688	(24,778)	899,125	5,995,929
8	27-Sep-17	184	666,214	235,763	(22,670)	879,308	5,329,714
9	27-Mar-18	181	666,214	206,150	(19,822)	852,543	4,663,500
10	27-Sep-18	184	666,214	183,371	(17,632)	831,954	3,997,286
11	27-Mar-19	181	666,214	154,613	(14,867)	805,960	3,331,071
12	27-Sep-19	184	666,214	130,980	(12,594)	784,600	2,664,857
13	27-Mar-20	182	666,214	103,645	(10,222)	759,637	1,998,643
14	27-Sep-20	184	666,214	78,588	(7,751)	737,051	1,332,429
15	27-Mar-21	181	666,214	51,538	(4,956)	712,796	666,214
16	27-Sep-21	184	666,214	26,196	(2,519)	689,891	-
<b>Total</b>			<b>9,327,000</b>	<b>4,079,826</b>	<b>(332,642)</b>	<b>13,074,183</b>	<b>-</b>