



The Pakistan Credit Rating Agency Limited

# HUB POWER COMPANY LIMITED

	<b>NEW [APR-16]</b>	<b>PREVIOUS [JUN-15]</b>
Long-Term	AA+	AA+
Short-Term	A1+	A1+
Outlook	Stable	Stable

---

<b>REPORT CONTENTS</b>
1. RATING ANALYSES
2. FINANCIAL INFORMATION
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

---

## Profile & Ownership

- The Hub Power Company Limited (HUBCO) was incorporated in Pakistan on August 1, 1991 as a public limited company.
- The consolidated generation capacity has reached 1601MW subsequent to setup of 225MW power plant at Narowal, and addition of 84MW New Bong Hydro Power Project.
- The Hub plant commenced commercial operations in March 1997.
- Hubco is majorly owned by Dawood Group (16.9%) out of which the major proportion lies with DH Corporation (14.9%). Other major shareholders are ABL (9.7%), Fauji Foundation (8.5%) and NBP (5%). Remaining (60%) holdings is wide spread among Financial Institutions, Joint Stock Companies and Individuals.

## Governance

- Overall control of the company vests in the fifteen-member board of directors (BoD), including the CEO – the only executive director on the board.
- The BoD comprises twelve elected directors, including four representatives of Dawood Group (DG).
- The board provides strategic guidance to the management while giving due challenge to management decision making.

## Management

- The management's role in an IPP is confined largely to financial matters and regulatory interaction. In light of this, HUBCO has a lean organizational structure.
- Mr. Khalid Mansoor, the CEO of the company carries 35 years of experience in Energy & Petrochemical Sectors. He is assisted by a team of experience professionals having relevant skills and expertise.

## Performance Risk

- Hubco's profitability is a function of its availability, capacity utilization and plant efficiency.  
The company's generation declined during FY15 due to ongoing major overhaul and maintenance work on the plants (FY15: 6,810GWh; FY14: 7,087GWh)
- Despite operating at a lower load factor (FY15: 65%; FY14: 67%), the company's profitability improved – a facet of lower efficiency losses and savings in O&M costs as compared to same period last year.
- Narowal plant operated at an optimal efficiency and has been meeting the availability requirement consistently. However, the plant's load factor declined considerably by ~19% YoY in 6MFY16.
- Laraib plant has generated 290Gwh (6MFY15: 239GWh) of electricity in 6MFY16 at an average load factor of 78% (6MFY15: 64%)

## Financial Risk

- Continued lag of payments by WAPDA led Hubco's receivables to reach PKR 74,578mln at end-Dec15 (Jun15: PKR 72,683mln; Dec14: PKR 93,692mln), out of which ~71% are over-due by more than 90 days.
- Receivable days surged upwards (6MFY15: 284; 6MFY14: 218) despite a reduction in receivables attributable to lower the top-line YoY (Dec15: PKR 47,901mln; Dec14: PKR 78,320mln) due to reduced fuel price.
- To bridge the working capital requirements, the company has to finance through a mix of commercial credit and short term borrowings (STB – 1HFY16: PKR 14,700mln, FY15: PKR 10,963mln). The overdue amount to PSO stands at PKR 55,003mln at end-Dec15.
- Hubco arranged working capital lines of PKR 28,985mln at end-Dec15 to meet its working capital requirements. These lines are utilized up to 51%.
- The coverages of the company witnessed deterioration (Post-Working Capital FCFO/Interest + Current Maturity + Uncovered STB: 1HFY16: 1.8x; FY15: 2.3x; 1HFY15: 2.9x) due to decline in free cashflows and increasing working capital needs.

## RATING RATIONALE

Hub Power Company Limited (Hubco) is one of the largest power producers in the country. The company maintains a healthy financial profile. To further streamline the operations, the company is in process of demerging Narowal plant. Related assets and liabilities (including debt and working capital) would be transferred to the new entity. This would improve oversight and support financial discipline.

Hubco is in the process of setting up a (2x660MW) coal fired power station at its existing Hub site. This project is being developed under a joint venture with China Power International Holdings (CPIH). A separate JV company has been setup (China Power Hub Generation Company - CPHGC) to undertake this project jointly by CPIH and Hubco. Hubco's equity portion (26%) amounting to ~USD 130mln would be funded through debt and financial close is expected by end-Dec16. Although this would increase leveraging, matching repayments with project returns should help manage the pressure on financial risk profile. Meanwhile, comfort is drawn from approaching long-term debt maturity of Hubco plant (within FY16) and stable free cashflows.

## KEY RATING DRIVERS

The cash flow streams of Hubco's plants are guaranteed by GoP under the Power Purchase Agreement (PPA), subject to adherence to agreed upon performance benchmarks; this provides comfort to the ratings. Meanwhile, any significant increase in receivables, as a result of rising circular debt may negatively impact the ratings.



The Pakistan Credit Rating Agency Limited

PKR mln

The Hub Power Company Limited

BALANCE SHEET	31-Dec-15 6M	30-Jun-15 Annual	30-Jun-14 Annual	30-Jun-13 Annual
<b>Non-Current Assets</b>	<b>37,926</b>	<b>38,840</b>	<b>41,319</b>	<b>43,585</b>
Investments (Others)	5,217	4,918	4,674	4,674
<b>Current Assets</b>	<b>85,072</b>	<b>82,191</b>	<b>89,439</b>	<b>51,054</b>
Inventory	5,847	5,580	3,988	5,822
Trade Receivables	74,578	72,683	79,897	24,807
Other Current Assets	4,293	3,444	2,878	3,356
Cash & Bank Balances	354	484	2,676	17,069
<b>Total Assets</b>	<b>128,215</b>	<b>125,949</b>	<b>135,432</b>	<b>99,313</b>
<b>Debt</b>	<b>35,372</b>	<b>33,498</b>	<b>40,435</b>	<b>30,443</b>
Short-term	14,700	10,963	16,878	4,527
Long-term (Incl. Current Maturity of long-term debt)	20,672	22,535	23,557	25,916
Other Short term liabilities (inclusive of trade payables)	63,061	60,816	63,952	36,260
Other Long term Liabilities	-	-	-	-
<b>Shareholder's Equity</b>	<b>29,782</b>	<b>31,635</b>	<b>31,045</b>	<b>32,610</b>
<b>Total Liabilities &amp; Equity</b>	<b>128,215</b>	<b>125,949</b>	<b>135,432</b>	<b>99,313</b>
<b>INCOME STATEMENT</b>	<b>31-Dec-15</b>	<b>30-Jun-15</b>	<b>30-Jun-14</b>	<b>30-Jun-13</b>
<b>Turnover</b>	<b>47,901</b>	<b>131,484</b>	<b>161,807</b>	<b>165,862</b>
Gross Profit	7,012	14,391	11,737	16,318
Other Income	29	1,527	80	26
Financial Charges	(1,620)	(4,538)	(4,605)	(6,548)
<b>Net Income</b>	<b>4,522</b>	<b>9,853</b>	<b>6,549</b>	<b>9,388</b>
<b>Cashflow Statement</b>	<b>31-Dec-15</b>	<b>30-Jun-15</b>	<b>30-Jun-14</b>	<b>30-Jun-13</b>
Free Cashflow from Operations (FCFO)	7,534	17,440	13,676	18,481
Net Cash changes in Working Capital	(657)	2,265	(24,970)	29,669
Net Cash from Operating Activities	5,211	14,958	(15,908)	41,573
Net Cash from Investing Activities	(820)	(888)	(330)	(190)
Net Cash from Financing Activities	(4,521)	(16,262)	1,845	(24,811)
Net Cash generated during the period	(130)	(2,192)	(14,393)	16,572
<b>Ratio Analysis</b>	<b>31-Dec-15</b>	<b>30-Jun-15</b>	<b>30-Jun-14</b>	<b>30-Jun-13</b>
<b>Performance</b>				
Turnover Growth	-38.8%	-18.7%	-2.4%	-5.1%
Gross Margin	14.6%	10.9%	7.3%	9.8%
Net Margin	9.4%	7.5%	4.0%	5.7%
ROE	30.6%	30.0%	24.3%	37.2%
<b>Coverages</b>				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.9	2.0	1.7	2.4
Interest Coverage (X) (FCFO/Gross Interest)	4.6	3.8	3.0	2.8
FCFO post WC / Gross Interest +CMLTD	1.8	2.3	-1.4	4.2
<b>Liquidity</b>				
Short Term Borrowings Coverage (Net Adjusted Quick Assets/Short Term Borrowings)	1.2	1.6	1.3	-0.7
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	40.1	33.1	40.1	-6.9
<b>Capital Structure</b> (Total Debt/Total Debt+Equity)	54.3%	51.4%	56.6%	48.3%

The Hub Power Company Limited

Apr-16

www.pacra.com



## 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
<b>AAA</b>  <b>AA+</b> <b>AA</b> <b>AA-</b>  <b>A+</b> <b>A</b> <b>A-</b>	<p><b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.</p> <p><b>Very high credit quality.</b> 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.</p> <p><b>High credit quality.</b> 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.</p>	<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>BBB+</b> <b>BBB</b> <b>BBB-</b>	<p><b>Good credit quality.</b> 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.</p>	
<b>BB+</b> <b>BB</b> <b>BB-</b>	<p><b>Moderate risk.</b> 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.</p>	
<b>B+</b> <b>B</b> <b>B-</b>	<p><b>High credit risk.</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.</p>	
<b>CCC</b> <b>CC</b> <b>C</b>	<p><b>Very high credit risk.</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.</p>	
<b>D</b>	<p>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.

### 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.

**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**  
**Sector**  
**Type of Relationship**  
**Purpose of the Rating**

Hub Power Company Limited  
 IPP  
 Solicited  
 Independent Risk Assessment

**Rating History**

Dissemination Date	Long Term	Short Term	Outlook	Action
29-Jun-15	AA+	A1+	Stable	Maintain
27-Jun-14	AA+	A1+	Stable	Maintain
15-May-13	AA+	A1+	Stable	Maintain
15-May-12	AA+	A1+	Stable	Maintain
15-Apr-11	AA+	A1+	Stable	Maintain

**Related Criteria and Research**

Rating Methodology  
 Sector Research

IPP's Rating Methodology  
 Power Sector - Vivewirepoint | Feb-16

**Rating Analysts**

Abdul Sami  
[abdul.sami@pacra.com](mailto:abdul.sami@pacra.com)  
 (92-42-35869504)

Aisha Khalid  
[aisha@pacra.com](mailto:aisha@pacra.com)  
 (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](http://www.pacra.com)). However, actual transition of rating may not follow the pattern observed in the past