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**Applicable Criteria**

- Methodology | Correlation between long-term and short-term rating scale (Jun 17)
- Methodology | Criteria Modifiers (Jun 17)
- Methodology | Independent Power Producers (IPP) (May 17)

**Related Research**

- Sector Study | Power Generation (Mar 17)

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**PACRA Maintains Entity Ratings of PakGen Power Limited**

Rating Type	Entity	
	Current (22-Dec-2017)	Previous (08-Jun-2017)
<b>Action</b>	Maintain	Maintain
<b>Long Term</b>	AA	AA
<b>Short Term</b>	A1+	A1+
<b>Outlook</b>	Stable	Stable
<b>Rating Watch</b>	-	-

The ratings reflect the regulated structure of Pakgen's business; Whereby revenues and cash flows are guaranteed by the sovereign government given adherence to agreed operational parameters. Pakgen's plant, after closure of almost eleven months, had resumed normal operations in January 2016. The company's loss of profit and cost of replacement of transformer was covered under insurance policy thus protecting the company from loss. Insurance claims have been settled completely by Dec 2016. During 6MCY17, trade receivables of the company largely remained at the same level in comparison to same period last year. The company's financial profile, though adequate, is highly dependent on the behavior of the power purchaser. The Company has been consistent in paying dividends. Pakgen Power repaid its long term project debt in 2010. However, current borrowings reflects the need to bridge the working capital requirements. Moreover, Company's profitability has increased because of reduction in delta losses.

Conversion of plant from oil fired to coal and participation in planned investment by parent Nishat Group to set up a new 660MW coal power plant are in process. However, the progress has been slowed down due to the government restriction on use of imported coal to certain projects only.

Upholding operational performance in line with agreed performance levels would remain a key rating driver. Accumulation of debt to finance CAPEX - the coal conversion project and/or fresh investment in new power project – may impact financial risk profile of the company. Meanwhile, any significant increase in overdue receivables, as a result of rising circular debt, may negatively impact the ratings.

**About the Entity**

Pakgen Power Limited was established for electricity generation under the power policy 1994 as an Independent Power Producer (IPP). The plant, with a total project cost of USD 347mln, is located at Mehmood Kot, near Muzaffargarh (Punjab) and has an installed capacity of 365MW. The PPA has a remaining contractual life of 11 years under the PPA (ending in 2028). The Company has entered into a contract for a period of thirty years for purchase of fuel from PSO. Pakgen is listed on Pakistan Stock Exchange.

The major shareholders of the company are Nishat Group (40%) and City Schools (Private) Limited (17%). Majority of the board members are nominated by Nishat Group and are group Executives. Mr. Hassan Mansha, heading the Nishat Group's interest in power sector, is the Chairman of the board. Mr. Ghazanfar Hussain Mirza, CEO of the company possesses around four decades of experience in business development, corporate management in an engineering, technical and multinational environment. Mr. Khalid Qadeer, the Director Finance has over four decades of experience, supported by the competent management team.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA 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.