



Date

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Analysts

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Applicable Criteria

- PACRA_Methodology_IPP_FY19 (Jun 19)
- PACRA_Crtieria_LT ST Relationship_FY19 (Jun 19)
- PACRA_Criteria_Rating Modifiers_FY19 (Jun 19)

Related Research

- Sector Study | Power (Jan 19)

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PACRA Maintains Long Term Rating of PakGen Power Limited

Rating Type	Entity	
	Current (02-Oct-2019)	Previous (18-Apr-2019)
Action	Maintain	Maintain
Long Term	AA	AA
Short Term	A1	A1+
Outlook	Stable	Stable
Rating Watch	-	-

The ratings reflect the regulated structure of Pakgen Power Limited (Pakgen Power) business; whereby revenues and cash flows are guaranteed by the sovereign government given adherence to agreed operational parameters. A risk of any decrease in efficiency factor against required benchmark would be borne by the Company itself given the fact, Pakgen Power is managing its operations and maintenance (O&M) in-house. Topline of the company has decreased, on the back of lower power generation during the period demanded by power purchaser amid to better energy mix. Receivable days has increased during 1HYCY19 owing to the delay in timely receipt of receivables. Settlement of overdue receivables is crucial. The company's financial profile, though adequate, is highly dependent on the behavior of the power purchaser. Pakgen Power has been paying dividend which in times of need is an internal source of liquidity available. Pakgen Power repaid its long term project debt in 2010. However, Company has a moderately leveraged capital structure, current borrowings reflects the need to bridge the working capital requirements. Because of the mounting receivables and consequent funding thereof from banking lines, available working capital lines are almost fully utilized as at end-June19, warranting management's immediate attention. The management is harnessing internal resources for working capital funding and if need be may be resorting to external lines.

Company has cancelled its plan of converting the Pakgen Power plant from oil fired to coal fired boiler, owing to the government policy to restrict use of imported coal on certain projects. Upholding operational performance in line with agreed performance levels would remain a key rating driver. Meanwhile, any significant increase in overdue receivables, as a result of rising circular debt, coupled with insufficient available working capital financing, in turn weakening in financial risk profile 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 9 years under the PPA (ending in Feb-2028). The Company has entered into a contract for a period of thirty years for purchase of fuel from PSO. Pakgen Power's O&M activities are handled by an in house team trained under the expertise of AES, former O&M operator. This team is involved in O&M activities since the plant's COD and hence carries significant experience. Pakgen Power is listed on Pakistan Stock Exchange. The major shareholders of the company are Nishat Group (40.09%) and City Schools (Private) Limited (17.33%). Majority of the board members are nominated by Nishat Group and are group Executives. Mr. Ghazanfar Hussain Mirza is the Chairman of Board of the company. He possesses around four decades of experience in business development, corporate management in an engineering, technical and multinational environment. Mr. Hassan Mansha, heading the Nishat Group's interest in power sector, is the CEO of the board.

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.