



The Pakistan Credit Rating Agency Limited

PAKGEN POWER LIMITED

	NEW [DEC-17]	PREVIOUS [JUN-17]
Long-Term	AA	AA
Short-Term	A1+	A1+
Outlook	Stable	Stable

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DECEMBER 2017

Profile & Ownership

- An independent power producer (IPP) under the power policy 1994. The company completed 19 years out of 30 year tenor under the PPA.
- Pakgen Power Limited started commercial operations in Feb-98. It operates a thermal power plant with a gross capacity of 365MW.
- Nishat Group (40%) and City School (17%) are the major sponsors of the company.
- Major Sponsor – Nishat Group – is the biggest conglomerate of the country with interests in textile, cement, power, real estate, banking and insurance.
- Listed on Pakistan Stock Exchange.

Governance & Management

- The board is majority controlled by NG, with a total of seven nominated members including the chairman – Mr. Hassan Mansha, while rest six members are non-executive directors
- The board has formed two committees namely Audit Committee and Human Resource & Remuneration Committee.
- Key management directly reporting to chairman compromising efficacy of the board.
- Mr. Ghazanfar Hussain Mirza is CEO since Aug-14 and has over three decades of experience in business development and corporate management.
- Pakgen has a lean organizational structure with a professional management team.

Business and Operational Risk

- In house O&M activities.
- The Company has entered into a contract for a period of thirty years for purchase of fuel from PSO.
- Thermal efficiency remained below par despite newly carried efficiency programs (Required:38%: Actual:35%). Reduction in delta losses have resulted in an increased net profit in 6MCY17 to PKR 645mln as compare to corresponding year (6MCY16: PKR 99mln)
- Company is also considering to enter in to a solar power energy projects. However, tariff determined by NEPRA for solar energy projects remains a main obstacle.
- Progress on plant's conversion from oil fired to coal have been delayed due to government policy to restrict use of imported coal on certain projects.

Performance

- During 1HCY17, Pakgen generated 190MW of electricity against the comparative period's generation of 188MW. This surge in generation is mainly because of increased demand from NTDC
- Company have disputed the liquidity damages claimed by power purchaser due to forced outages.
- Company's insurance policy covers business interruption loss after 45 days.

Financial Risk

- Receivable days shown an improving trend owing to the resumption of plant operations from Jan-16, leading to an improved net cash cycle at 6MCY17: 240 days. (CY16:255 days, 6MCY16: 353 days).
- The company has procured working capital lines of PKR 10,547mln at end June-17 out of which 90% has been utilized. The unutilized lines provide the company cushion against any unforeseen liquidity requirements.
- During 6MCY17, the Company's interest coverages stood at 4.2x, showing improvement on a YoY basis (6MCY16: 2.6x; FY16: 5.2x).
- In line with the profitability, pre-working capital FCFO of the company has improved (1HCY17: PKR 1,377mln; CY16: PKR 1,953mln; 1HCY16: PKR 776mln) .
- Company's leveraging increased mainly due to significant increase in short term borrowing (6MCY17: 40%; 6MCY16: 34%; CY16: 36.1%)

RATING RATIONALE

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.

KEY RATING DRIVERS

Upholding operational performance in line with agreed performance levels would remain a key rating driver. Accumulation of debt to finance CAPEX of 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.



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Financial Summary

Pakgen Power Limited

BALANCE SHEET	30-Jun-17	31-Dec-16	31-Dec-15	31-Dec-14
	6M	CY16	CY15	CY14
Non-Current Assets	8,968	9,370	10,019	8,463
Investments (Others)	-	1	1	2
Current Assets	18,319	15,748	15,529	12,492
Inventory	1,264	1,157	1,023	1,267
Trade Receivables	14,146	11,635	10,834	8,009
Other Current Assets	2,769	2,366	3,672	1,721
Cash & Bank Balances	140	591	1	1,495
Total Assets	27,287	25,119	25,549	20,957
Debt				
Short-term	9,453	7,249	5,081	5,270
Long-term (Incl. Current Maturity of long-term debt)	1,003	1,226	1,672	-
Other Short term liabilities (inclusive of trade payables)	1,524	1,609	3,535	1,279
Other Long term Liabilities				
Shareholder's Equity	15,308	15,034	15,262	14,408
Total Liabilities & Equity	27,287	25,119	25,549	20,957

INCOME STATEMENT

Turnover	10,510	16,044	6,523	34,923
Gross Profit	1,077	1,316	1,979	1,315
Other Income	5	4	5	19
Financial Charges	(327)	(604)	(321)	(578)
Net Income	645	517	1,598	612

Cashflow Statement

Free Cashflow from Operations (FCFO)	1,377	1,953	2,300	1,660
Net Cash changes in Working Capital	(3,140)	(1,569)	(1,654)	2,745
Net Cash from Operating Activities	(2,058)	(190)	158	3,798
Net Cash from Investing Activities	(7)	(200)	(2,391)	(746)
Net Cash from Financing Activities	1,613	980	739	(1,818)
Net Cash generated during the period	(451)	590	(1,494)	1,234

Ratio Analysis

Performance				
Turnover Growth	42.7%	146.0%	-81.3%	-7.5%
Gross Margin	10.2%	8.2%	30.3%	3.8%
Net Margin	6.1%	3.2%	24.5%	1.8%
ROE	8.5%	3.2%	11.2%	4.2%
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	2.5	1.9	3.0	2.9
Interest Coverage (X) (FCFO/Gross Interest)	4.2	3.2	7.2	2.9
FCFO Pre-WC/Gross interest+CMLTD	2.5	1.9	3.0	2.9
Liquidity				
Short Term Borrowings Coverage (Adjusted Quick Assets/Short Term Debt)	1.5	1.6	2.2	1.6
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	240.2	254.7	609.8	76.9
Capital Structure (Total Debt/Total Debt+Equity)	40.6%	36.1%	30.7%	26.8%

Pakgen Power Limited

Dec-17

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.

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.	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+	Very high credit quality. Very low expectation of credit risk.	
AA	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	
AA-		
A+	High credit quality. Low expectation of credit risk.	
A	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.	
A-		
BBB+	Good credit quality. Currently a low expectation of credit risk.	
BBB	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.	
BBB-		
BB+	Moderate risk. Possibility of credit risk developing.	
BB	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.	
BB-		
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.	
B-		
CCC	Very high credit risk. Substantial credit risk	
CC	“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		
D	Obligations are currently in default.	

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’.

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. 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.

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, the 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, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/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

Pakgen Power Limited
IPP
Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
22-Dec-17	AA	A1+	Stable	Maintain
08-Jun-17	AA	A1+	Stable	Maintain
31-Oct-16	AA	A1+	Stable	Maintain
20-Nov-15	AA	A1+	Negative	Maintain
20-Nov-14	AA	A1+	Stable	Maintain
05-Nov-13	AA	A1+	Stable	Maintain
28-Nov-12	AA	A1+	Stable	Maintain
13-Jan-12	AA	A1+	Stable	Maintain

Related Criteria and Research

Rating Methodology
Sector Research

IPP's Rating Methodology
Power Sector - Viewpoint | Mar-17

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[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](#)

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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

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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

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[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). However, actual transition of rating may not follow the pattern observed in the past