

## Date

30-Sep-22

## Analyst

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## Applicable Criteria

- Methodology | Correlation Between Long-term & Short-term Rating Scales | Jun-22
- Methodology | Rating Modifiers | Jun-22
- Methodology | Independent Power Producer Rating | Jun-22

## Related Research

- Sector Study | Power | Jan-22

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## PACRA Maintains Entity Ratings of PakGen Power Limited

Rating Type	Entity	
	Current (30-Sep-22 )	Previous (30-Sep-21 )
<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 Power Limited (Pakgen Power or the Company) 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, coupled with capacity utilization has slightly improved, owing to demand from power purchaser. Further the ratings take comfort from master agreement signed with the GoP leading to improved liquidity indicators as a sizeable amount of outstanding trade receivables were received during the rating review period. Consequently, the margins have trended downwards in line with tariff discounts given by the company to the power purchaser, albeit are considered to be adequate. Going forward, mounting receivables remains a cause of concern, and leverage indicators may increase slightly, owing to higher utilization of short-term funding to meet working capital requirements. During 6MCY22 the Company has dispatched 821,210 MWH of electricity as compared with 314,591 MWH dispatched during the corresponding period of the previous year. The profitability of the Company during 6MCY22 clocked to PKR 1,395mln (6MCY21 PKR: 1,126mln). The major reason of lower profitability in previous period was non-issuance of Capacity Purchase Price invoices amounting to Rs.2.428 billion started from 05-05-21 to 30-06-21(156 days) pursuant to PPA Amendment Agreement signed, accordingly Liquidated Damages under the PPA, imposed on the Company for this period have been waived by the CPPA-G . As per the agreement the shutdown period of the Complex on account of non-availability of fuel has been treated as Other Force Majeure Event (OFME) and Term of the PPA has been extended by 156 days. The Company has started issuing CPP invoices from 8 October, 2021. Moreover, the Company is entitled to send CPP invoices for these 156 days at the end of the PPA Term at the applicable indexations (i.e. USD and USCPI applicable for last agreement year). The long term project debt was completely paid off in 2010; thus, company's debt position mainly reflects current borrowings secured to bridge the working capital requirements and maintenance of projects.

Upholding operational performance in line with agreed performance levels would remain a key rating driver. Further timely payment from the Power purchaser as per agreement remained imperative.

## 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 approx. 6 years under the PPA. Pakgen Power is listed on Pakistan Stock Exchange. The major shareholder of the company is Nishat Group (57.57%) directly through individuals and related parties. Majority of the board members are nominated by Nishat Group and are group Executives. Mr. Arif Bashir 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 Company.

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.