RATING REPORT

Kot Addu Power Company Limited

REPORT DATE:
November 23, 2015

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	AA+	A-1+	AA+	A-1+
Rating Outlook	Stable		Stable	
Rating Date	11/20/2015		*12/29/2014*	

COMPANY INFORMATION

Incorporated in 1996	External auditors: A.F. Ferguson & Co.
Public Limited Company	Chairman of the Board: Mr. Zafar Mahmood
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Aftab Mahmood Butt
WAPDA–40.25%	
KAPCO Employees Empowerment Trust–5.5%	
Allied Bank Limited–10.0%	
United Bank Limited–9.0%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *http://www.jcrvis.com.pk/images/IndustrialCorp.pdf*

Kot Addu Power Company Limited

OVERVIEW OF THE INSTITUTION

KAPCO owns, operates and maintains a multi fuel fired power plant in District Muzaffargarh, Punjab with a nameplate capacity of 1,600MW and dependable capacity of 1,342MW. The company is listed at Karachi, Lahore and Islamabad Stock Exchanges. Financial statements for FY15 have been audited by A. F. Ferguson & Co. – Chartered Accountants

RATING RATIONALE

Ratings assigned to Kot Addu Power Company Limited (KAPCO) take into account its low business risk and leading position of the Independent Power Producer (IPP) sector. KAPCO is the second largest IPP, in terms of electricity generation, with a nameplate capacity of 1600MW. Under the 25 year Power Purchase Agreement (PPA) with Water and Power Development Authority (WAPDA), the company sells electricity to the sole off-taker while payments from WAPDA are guaranteed by Government of Pakistan.

While Government has taken various measures to control the rising circular debt, reliance on expensive fuels for electricity generation, high line losses and low recovery ratio remains some of the chronic issues faced by the power sector. Meanwhile, lower oil prices and Government's increased focus on reducing the cost of energy generation bodes well for further outlook of the power sector.

Financial performance of the company has depicted an upward trend with net profit increasing by a Compound Annual Growth Rate (CAGR) of 14% in the last five years. During FY15, revenue declined to Rs. 101.5b (FY14: Rs. 113.2b) on account of lower fuel cost component of Energy Purchase Price (EPP) as oil prices have continued to remain depressed. Gross margins improved to 14.9% during FY15 (FY14: 10.8%) as repair and overhauls cost normalized following a major overhaul in the previous year. Moreover, improved thermal efficiency also positively reflected on the gross margin. With improved gross margins offsetting the impact of lower revenues and higher finance cost, profit after tax increased to Rs. 9.8b during FY15 (FY14: Rs. 7.7b).

At end-1QFY16, around 86% of the trade debts were classified as overdue. Trade debts are being financed by short term bank borrowings and delay in payments to PSO, KAPCO's fuel supplier. Quantum of utilization of short term borrowings is contingent upon payments from WAPDA.

While profitability improved, Funds from Operations (FFO) declined on account of higher finance and taxation cost. Cashflows of the company continue to remain stressed; comfort can be drawn from the availability of short term credit lines which may be utilized to address any unforeseen liquidity calls. Moreover, coverages depict adequate capacity to services debt obligations. Lower short term borrowing positively reflected on the leverage ratios of the company.

The company plans to setup a 660 MW coal based project at Bhikki, District Sheikupura. The location of the plant was changed from Bhikki to Muzaffargarh, Punjab on account of coal transportation and logistics issues. Project cost is estimated at US$ 1 billion and will be funded through a debt to equity of 75:25. The company is also in process of participating in the prequalification process for solicited sites in Khyber Pakhtunkhwa for private sector hydel projects.

Liquidated Damages (LDs) invoices raised by WAPDA to the company on account of low electricity dispatched than contracted under the PPA continues to be an outstanding issue. LDs invoiced to company increased to Rs. 27.9b by end-1QFY16 (FY15: Rs. 22.9b; FY14: Rs. 20.6b). However, no provision against LDs has been made. As per management, the reason for low electricity dispatch was owing to the company's inability to procure fuel as payments from WAPDA were delayed. The company has been in litigation against these claims.

Kot Addu Power Company Limited **Appendix I**

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**30-Jun-14**	**30-Jun-15**	**30-Sept-15**
Fixed Assets	15,994	14,894	14,383
Stock-in-Trade	4,128	3,539	2,803
Trade Debts	66,088	71,069	68,878
Cash & Bank Balances	3,330	675	511
Total Assets	95,352	96,262	93,118
Trade and Other Payables	25,504	29,034	25,912
Long Term Debt *(*incl. current maturity)*	2,404	1,552	1,545
Short Term Debt	37,054	32,872	30,739
Total Equity	26,788	29,729	31,836
INCOME STATEMENT	**30-Jun-14**	**30-Jun-15**	**30-Sept-15**
Net Sales	113,206	101,481	21,988
Gross Profit	12,204	15,146	3,061
Operating Profit	15,880	21,036	3,855
Profit After Tax	7,730	9,799	2,107
RATIO ANALYSIS	**30-Jun-14**	**30-Jun-15**	**30-Sept-15**
Gross Margin (%)	10.8%	14.9%	13.9%
Net Working Capital	15,931	18,895	21,518
FFO to Total Debt (x)	0.24	0.26	0.28
FFO to Long Term Debt (x)	3.98	5.70	5.85
Debt Servicing Coverage Ratio (x)	2.01	1.79	3.81
ROAA (%)	9.8%	10.2%	8.9%
ROAE (%)	30%	34.7%	27.4%

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES Appendix III

Name of Rated Entity	Kot Addu Power Company Limited (KAPCO)
Sector	Power Companies
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
11/20/2015	AA+	A-1+	Stable	Reaffirmed
12/29/2014	AA+	A-1+	Stable	Reaffirmed
9/20/2013	AA+	A-1+	Stable	Reaffirmed
5/3/2012	AA+	A-1+	Stable	Reaffirmed
2/21/2011	AA+	A-1+	Stable	Reaffirmed

Instrument Structure	N/A
Statement by the Rating Team	JCR-VIS, 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(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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