

RATING REPORT

KotAddu Power Company Limited

REPORT DATE:

December 18, 2017

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AA+	A-1+	AA+	A-1+
Rating Outlook	Stable		Stable	
Rating Date	12/18/2017		11/28/2016	

COMPANY INFORMATION

Incorporated in 1996	External Auditors: Deloitte Yousuf Adil, Chartered Accountants
Public Limited Company	Chairman: Lt. General (R) Muzammil Hussain
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Aftab Mehmood Butt
WAPDA- 40.3%	
Allied Bank Limited- 10.0%	
United Bank Limited- 9.0%	
KAPCO Employees Empowerment Trust- 5.5%	

APPLICABLE METHODOLOGY(IES)

Rating Methodology: Industrial Corporate (May 2016)

<http://www.jcrvis.com.pk/kc-meth.aspx>

KotAddu Power Company Limited (KAPCO)

OVERVIEW OF THE INSTITUTION RATING RATIONALE

KAPCO owns, operates and maintains a multi-fuel fired power plant in District, Muzaffargarh, Punjab with a nameplate capacity of 1600MW and dependable capacity of 1342MW. The Company is listed on Pakistan Stock Exchange (PSX). Financial statements for FY17 have been audited by A.F. Ferguson & Co. – Chartered Accountants. For FY18, Deloitte Yousaf Adil – Chartered Accountants have been appointed as external auditors

Profile of Chairman

Lt. General Muzammil Hussain (Retd.) is a reputed army person and has served on the army for 31 years. He has been appointed chairman of Pakistan Water & Power Development Authority (WAPDA).

Profile of CEO

Management team is headed by Mr. Aftab Mahmood Butt who is the Chief Executive Officer. Mr Aftab is a chartered accountant and previously served on the board of Central Power Purchasing Limited & Lahore Stock Exchange Limited.

Financial Summary

Assets: 1QFY18: Rs. 112.9b, FY16: Rs. 116.0b
Equity: 1QFY18: Rs. 34.7b, FY16: Rs. 32.5b
PAT: 1QFY18: Rs. 2.2b, FY16: Rs. 9.4b

The ratings take into account KAPCO's strong business profile emanating from its strategic importance in local power sector. While re-emergence of sizeable intercorporate debt poses challenge to financial profile, comfort can be drawn from the company's ability to partly finance its receivables from payables. The company has a distinct advantage of having sovereign as the major shareholder, power purchaser and supplier. The ratings also incorporate government guaranteed cash flow stream under the agreement upon meeting certain performance benchmarks.

Rating Drivers

Profitability: Net sales of the company increased in FY17 on account of higher power dispatch. Gross margins however decreased mainly on account of two major overhauls and relatively lower thermal efficiency during the year. With higher average borrowings, finance cost increased during FY17. The company has also charged-off development cost of Rs. 221.7m incurred on the coal expansion project. With higher average receivable balance from WAPDA related to intercorporate debt, interest on late payment from the sole purchaser stood higher at Rs. 4.8b (FY16: 3.9b) in FY17. Accounting for taxation, the company reported higher net profit during the year.

Liquidity and Cash flows: The receivables of the company increased to Rs. 90.3b (FY17: Rs. 89.9b; FY15: Rs. 69.4b) by end-1QFY18 with 88.7% of receivables classified as overdue. As majority of asset base of the company is tied up in receivables, liquidity position of the company continues to remain stressed. Funds from Operations (FFO) of the company increased to Rs. 11.4b (FY16: Rs. 10.0b) in FY17. Debt service coverage ratio reflects strong capacity of the company to meet timely debt obligations.

Liquidation Damages: WAPDA has raised invoices for liquidated damages to the company amounting Rs. 27.9b at end-FY17. The company rejects these claims on the premise that its failure to dispatch electricity was due to WAPDA's nonpayment of dues. In this regard, the company has initiated dispute resolution procedures specified in the PPA. The company has not booked any provision for these liquidated damages.

Funding & Capitalization: Modest growth has been witnessed in equity base as the company pays regular cash dividend to its shareholders. With higher short-term borrowings and payables, gearing and debt leverage increased to 1.43x & 2.57x (FY16: 1.36x & 1.98x), respectively by end-FY17. To partly finance trade debt, the company increased its payables to PSO (a related party) that stood higher at Rs. 16.9b (FY16: Rs. 671m) by end-FY17.

Expansion Plans: The company has been planning to establish a coal based power plant. However, the ultimate outcome of the coal project is not certain as the government has changed its policy with respect to construction of new power projects on imported fuel (including imported coal). Keeping in view the expiry of its PPA in 2021, KAPCO is considering various investment options to establish stable income stream, going forward.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

KotAddu Power Company Limited

Appendix 1

FINANCIAL SUMMARY		(Amounts in PKR Millions)			
<u>BALANCE SHEET</u>	30-Sep-17	30-Jun-17	30-Jun-16	30-Jun-15	
Fixed Assets	10,497	11,047	12,756	14,894	
Stock in Trade	3,705	5,914	3,135	3,539	
Trade Debts	90,328	89,987	69,377	71,069	
Cash & Bank Balances	614	629	597	675	
Total Assets	112,979	111,601	92,210	96,262	
Trade and Other Payables	37,449	34,749	16,397	29,034	
Long Term Debt (*incl. current maturity)	496	475	1,003	1,552	
Short Term Debt	38,307	46,133	41,346	32,872	
Total Equity	34,684	32,503	30,955	29,729	
<u>INCOME STATEMENT</u>	30-Sep-17	30-Jun-17	30-Jun-16	30-Jun-15	
Revenue	21,571	81,846	64,178	101,481	
Gross Profit	3,443	14,180	13,408	15,146	
Operating Profit	4,714	18,498	16,920	21,036	
Profit After Tax	2,181	9,447	9,071	9,799	
<u>RATIO ANALYSIS</u>	30-Sep-17	30-Jun-17	30-Jun-16	30-Jun-15	
Gross Margin (%)	16.0	17.3	20.9	14.9	
Net Working Capital	26,309	23,659	21,142	18,896	
FFO to Total Debt (x)	0.35	0.25	0.24	0.26	
FFO to Long Term Debt (x)	27.3	24.0	10.0	5.7	
Debt Servicing Coverage Ratio (x)	4.5	3.5	3.7	1.8	
ROAA (%)	7.6	9.1	9.6	10.2	
ROAE (%)	26.0	29.8	29.9	34.6	

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix 2

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

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

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.

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 3	
Name of Rated Entity	KotAddu 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
	12/18/2017	AA+	A-1+	Stable	Reaffirmed
	11/28/2016	AA+	A-1+	Stable	Reaffirmed
	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
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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