RATING REPORT

Kot Addu Power Company Limited

REPORT DATE:
January 24, 2025
RATING ANALYSTS:
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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A+	A1	A+	A1
Rating Date	*January 24, 2025*		*June 08, 2024*	
Rating Outlook/Rating Watch	Stable		RW - Developing	
Rating Action	Maintained		Maintained	

COMPANY INFORMATION	
Incorporated in 1996	**External Auditors:** M/s. A.F. Ferguson & Co. Chartered Accountants
Public Listed Company	**Acting Chief Executive Officer (CEO):** Mr. Muhammad Rabnawaz Anjum
Key Shareholders (with stake 5% or more):	
The Pakistan & Water Development Authority (WAPDA) – 40.3%	
KAPCO Employees Empowerment Trust – 5.5%	

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

APPLICABLE METHODOLOGY
VIS Entity Rating Criteria: Corporates
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

Kot Addu Power Company Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Kot Addu Power Company Limited was incorporated on April 25, 1996 as a public limited company under the Companies Ordinance, 1984 (now Companies Act, 2017). The Company was listed on April 18, 2005 on Pakistan Stock Exchange Limited. The company has a plant site at Kot Addu, a corporate office located in Lahore and registered office located in Islamabad.

Corporate Profile:

Kot Addu Power Company Limited ("KAPCO" or "the Company") was incorporated on April 25, 1996, as a public limited company under the Companies Ordinance, 1984 (now Companies Act, 2017) and was listed on the Pakistan Stock Exchange Limited (PSX) on April 18, 2005. The Company operates a multi-fuel (gas / RLNG, furnace oil and high-speed diesel) power generation facility in Punjab, comprising 15 generating units with a nameplate capacity of 1,600 Megawatts (MW).

Operational Performance:

Production Capacity and Utilization	FY24A	FY23A
Annual generation capacity (based on 8,760 hours)	11,756,064	11,756,064
Actual energy delivered	-	587,845

As part of the ongoing business challenges faced by the Company, there was no electricity offtake by the Power Purchaser during the year under review. Consequently, the actual energy delivered during this period was nil.

Pending Renewal/Extension of PPA:

The Power Purchase Agreement (PPA) of the Company, originally valid for 25 years, expired on June 26, 2021. Under the Third Amendment to the PPA and Master Agreement (the 'Agreements'), the PPA term was extended by 16 months, concluding on October 24, 2022. The Company's generation license, which expired on September 21, 2021, was renewed by NEPRA for three years, with the Company applying for a further seven-year extension on June 14, 2024.

In October 2022, the Company submitted applications to NEPRA for Reference and Provisional Tariffs and initiated discussions with relevant authorities regarding the renewal or extension of its PPA. The Power Plant has been included till 2026 in the NTDC's approved Indicative Generation Capacity Expansion Plan (IGCEP) 2022-2031. Based on IGCEP and the valid generation license, NEPRA approved a Provisional Tariff on August 4, 2023, for a 500 MW capacity on a take-and-pay basis.

Management has undertaken diversification initiatives, including greenfield solar projects in Sindh and brownfield projects in wind, hydel, and thermal sectors. Key steps include due diligence, securing financing, and rationalizing costs. Surplus funds are invested in meeting expenses during non-operational periods, while readiness for participation in the Competitive Trading Bilateral Contracts Market (CTBCM) is underway.

As of June 30, 2024, receivables from the Power Purchaser total Rs. 10,866 million (backed by a GoP guarantee), and investments in mutual funds amount to Rs. 47,426 million (at book value). Management forecasts sufficient liquidity to meet obligations, ensuring the Company's continuity as a going concern. Accordingly, the financial statements have been prepared on this basis without adjustments for asset realization or liability liquidation.

Given this, while the Company's auditor has highlighted a going-concern issue for the Company based on the delay of its PPA renewal and extension, KAPCO's diversification initiatives, availability of provisional tariff and its inclusion in IGCEP provides support to its evolving business model going forward giving comfort to its business and financial sustainability. Additionally, the Company's role in ensuring reliable operations across the transmission network underscores its strategic importance within the national energy framework. These factors align with management's expectation of securing a PPA renewal, which remains a critical factor for operational continuity.

Key Rating Drivers:

Business Risk Profile

Industry Risk: Non-Renewable Power Production; Medium to Low

The business risk profile for Pakistan's non-renewable power production sector is assessed as medium to low, considering factors such as cyclicality of demand, regulatory environment, and capital intensity.

Demand for electricity in Pakistan exhibits low cyclicality due to its essential nature, with consistent consumption across residential, commercial, and industrial sectors. This stability is supported by population growth and urbanization, ensuring a steady requirement for power generation.

The sector operates under a highly regulated framework, with entities like the NEPRA overseeing tariffs, licensing, and compliance. Regulatory decisions significantly impact operational dynamics and profitability, necessitating adherence to established guidelines.

Non-renewable power production is capital-intensive, requiring substantial investment in infrastructure, technology, and maintenance. The presence of established public and private entities creates significant barriers to entry, limiting competition and ensuring market stability.

Power Purchase Agreement, Diversification and Strategic Importance

The Company's operational profile is supported by adjustments to its business model in response to evolving regulatory and contractual dynamics. Following the expiry of the PPA on June 26, 2021, the agreement was extended for 16 months under the Third Amendment to the PPA and Master Agreement, concluding on October 24, 2022. The generation license, which expired on September 21, 2021, was renewed by NEPRA for three years, with a further seven-year extension application submitted on June 14, 2024.

Operational continuity is reinforced by the inclusion of the power plant in NTDC's IGCEP 2022–2031 and the subsequent approval of a provisional tariff by NEPRA on August 4, 2023, for 500 MW on a take-and-pay basis. Management has undertaken diversification into renewable and conventional energy projects, along with investments in mutual funds amounting to Rs. 47,426 million as of June 30, 2024, to mitigate continuity concerns.

Moreover, the Company's strategic importance within Pakistan's power sector is highlighted by its role in maintaining grid stability and supporting regional energy requirements. Infrastructure capabilities, including a power distribution support switchyard and black start functionality, underscore its operational significance within the national transmission network.

While the auditor has emphasized going-concern risks, management's confidence in securing a PPA renewal, along with the Company's inclusion in the CTBCM and diversification initiatives, supports the sustainability of operations. The Company's critical role in the energy framework remains a key factor in its long-term outlook.

Strong Sponsor

KAPCO benefits from substantial government backing, primarily through WAPDA, which holds a significant ownership stake of approximately 40.3% in the company. This strong government affiliation enhances KAPCO's credit profile by providing financial stability and facilitating favorable long-term agreements, therefore reaffirming management expectations of achieving a renewal/extension of its PPA in favorable terms.

Financial Risk Profile

Profitability

KAPCO recorded a net profit of PKR 4.3 billion in FY24 from its significant investments (FY23: PKR 4.0 billion), despite the absence of revenue from CPPA pending finalization of revised tariff undertake and pay arrangement. Profitability was supported by investment income and interest earned on delayed payments from CPPA-G. The same trend was maintained in 1QFY25.

Going forward, the Company expects revenues based on the anticipated approval of the final tariff, its inclusion in NTDC's IGCEP 2022–2031, and NEPRA's provisional tariff approval for 500 MW on a take-and-pay basis. Additionally, the Company plans to diversify through greenfield and brownfield projects, with a particular emphasis on renewable energy.

Capitalization

The Company's capitalization profile is characterized by nil long-term debt and is supported by a large equity base. KAPCO, until recently, only carried a minute amount of short-term debt on its balance sheet to offset its government backed trade debts by CCPA-G. The entirety of the amount has been paid in recent months, as per the management, as all outstanding trade debt has been received, nullifying its short-term debt borrowings as well. The gearing of the Company was reported at 0.01 (FY24: 0.16x, FY23: 0.34) in 1QFY25, while leverage was reported at 0.16 (FY24: 0.32, FY23: 0.54) during the period.

Liquidity

KAPCO's liquidity profile is characterized by significant amount of short-term investments as well as cash and cash equivalents, providing cushion to assigned ratings. The current ratio of the Company is therefore healthy at 7.31x (FY24: 4.37x, FY23: 3.01x) in 1QFY25.

Kot Addu Power Company Limited Appendix I

Financial Summary

Balance Sheet (PKR Millions)	FY23A	FY24A	1QFY25M
Property, plant and equipment	1,931.24	1,929.05	1,929.05
Stock-in-trade	11,565.47	9,836.47	9,436.47
Trade debts	26,611.39	10,866.07	1,909.29
Short-term Investments	50,101.54	47,425.90	49,678.31
Cash & Bank Balances	1,919.78	2,784.29	1,327.45
Other Assets	9,718.74	8,709.47	8,777.84
Total Assets	101,848.16	81,551.25	73,058.41
Creditors	419.37	18.91	0.00
Long-term Debt (incl. current portion)	0.00	0.00	0.00
Short-Term Borrowings	22,153.72	9,944.19	500.00
Total Debt	22,153.72	9,944.19	500.00
Other Liabilities	13,191.35	9,626.73	9,434.77
Total Liabilities	35,764.44	19,589.83	9,934.77
Paid up Capital	8,802.53	8,802.53	8,802.53
Revenue Reserve	56,836.74	52,714.45	53,876.66
Equity (excl. Revaluation Surplus)	66,083.72	61,961.43	63,123.64

Income Statement (PKR Millions)	FY23A	FY24A	1QFY25M
Net Sales	25,435.31	0.00	0.00
Gross Profit	2,062.24	0.00	0.00
Operating Profit	13,072.20	9,318.96	1,269.60
Finance Costs	6,252.90	3,779.77	205.50
Profit Before Tax	6,819.30	5,539.19	1,064.10
Profit After Tax	3,958.75	4,313.62	1,162.20

Ratio Analysis	FY23A	FY24A	1QFY25M
Gross Margin (%)	8.11%	N/A	N/A
Operating Margin (%)	51.39%	N/A	N/A
Net Margin (%)	15.56%	N/A	N/A
Funds from Operation (FFO) (PKR Millions)	-7,895.13	-8,231.91	-1,262.22
FFO to Total Debt* (%)	N/A	N/A	N/A
FFO to Long Term Debt* (%)	N/A	N/A	N/A
Gearing (x)	0.34	0.16	0.01
Leverage (x)	0.54	0.32	0.16
Debt Servicing Coverage Ratio* (x)	N/A	N/A	N/A
Current Ratio (x)	3.01	4.37	7.31
(Stock in trade + trade debts) / STD (x)	1.90	2.48	30.59
Return on Average Assets* (%)	3.32%	4.70%	6.01%
Return on Average Equity* (%)	5.88%	6.74%	7.43%
Cash Conversion Cycle (days)	772.62	0.00	0.00

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Kot Addu Power Company Limited
Sector	Power
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see table below

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Rating Watch	Rating Action
RATING TYPE: ENTITY				
24-Jan-25	**A+**	**A1**	**Stable**	**Maintained**
08-Jan-24	A+	A1	RW – Dev	Downgrade
12-Jan-23	AA	A1	Stable	Downgrade
09-Dec-21	AA+	A1+	RW – Dev	Maintained
14-Dec-20	AA+	A1+	RW - Dev	Maintained
02-Dec-19	AA+	A1+	Stable	Reaffirmed
31-Dec-18	AA+	A1+	Stable	Reaffirmed
18-Dec-17	AA+	A1+	Stable	Reaffirmed
28-Oct-16	AA+	A1+	Stable	Reaffirmed
20-Oct-15	AA+	A1+	Stable	Reaffirmed
29-Dec-14	AA+	A1+	Stable	Reaffirmed
20-Sep-13	AA+	A1+	Stable	Reaffirmed
03-May-12	AA+	A1+	Stable	Reaffirmed
21-Jan11	AA+	A1+	Stable	Initial

Instrument Structure	N/A
Statement by the Rating Team	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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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Muhammad Rabnawaz Anjum	Acting Chief Executive Officer	January 09, 2024
Mr. Nabeel Ahmed	Treasury Head	