# RATING REPORT

# National Power Parks Management Company (Private) Limited (NPPMCL)

**REPORT DATE:**
October 23rd, 2017

**RATING ANALYSTS:**

Waqas Munir, FRM
waqas.munir@jcrvis.com.pk

Hamza Rizwan
Hamza.rizwan@jcrvis.com.pk

## RATING DETAILS

| | Rating | |
|---|---|---|
| **Rating Category** | **Long-term** | **Short-term** |
| **Entity** | AA+ | A-1+ |
| **Rating Outlook** | Stable | |
| ***Outlook Date*** | *October'23rd 2017* | |

## COMPANY INFORMATION

| | |
|---|---|
| **Incorporated in 2015** | **External auditors:** A. F. Ferguson & Co., Chartered Accountants |
| **Private Limited Company** | **Chairman:** Mr. Arif Saeed |
| **Key Shareholders (with stake 5% or more):** | **Chief Executive Officer:** Mr. Rashid Mahmood<br>**Chief Financial Officer: Mr.** Sajjad Ahmad |
| Mr. Muhammad Younus Dagha,<br>Secretary, Ministry of Water & Power – 33.33% | |
| Mr. Omer Rasul,<br>Add. Secretary, Ministry of Water & Power – 33.33% | |
| Mr. Zafar Abbas,<br>Joint Secretary, Ministry of Water & Power – 33.33% | |

## APPLICABLE METHODOLOGY(IES)

**JCR-VIS Entity Rating Criteria** *Industrial Corporate (May 2016)*
**http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf**

# National Power Parks Management Company (Private) Limited

| OVERVIEW OF THE INSTITUTION | RATING RATIONALE |
|---|---|

National Power Parks Management Company (Private) Limited (NPPMCL) was incorporated in 2015 under the companies' ordinance, 1984. It is a wholly owned company of Government of Pakistan (GoP) through representatives of Ministry of Water and Power. The company is in the process of setting up two Combined Cycle Gas Turbine (CCGT) power plants of 1275.5MW & 1276.7MW (ISO)at Balloki & Haveli Bahadur Shah, under GoP power generation policy 2015.

The ratings assigned to National Power Parks Management Company (Private) Limited (NPPMCL) take into account its strong ownership profile with the company being wholly owned by Government of Pakistan (GoP) through representatives of Ministry of Water and Power. NPPMCL is currently in the advance stage of setting up two Re-liquefied Natural Gas (RLNG) based Combined Cycle Gas Turbine (CCGT) power plants. The project is established under the Power Generation Policy, 2015 which offers a guaranteed equity Internal Rate of Return (IRR), cost indexation and pass-through structure in line with other IPPs projects in Pakistan. Power generated shall be sold to Central Power Purchase Agency (Guarantee) Limited (CPPA) under a Power Purchase Agreement (PPA) and the obligations of CPPA are guaranteed by the Government of Pakistan under the Implementation Agreement. Combined cycle operations of both the plants are expected to be achieved in January, 2018.

**Material Contracts:**

**EPC:** NPPMCL has signed an agreement for Engineering, Procurement & Construction (EPC) with a joint venture of Harbin Electric International Company Limited (HEI) and Habib Rafiq (Pvt) Ltd (HRL) for Balloki plant while for the Haveli Bahadur Shah (HBS) power plant, EPC agreement is inplace with a joint venture of Power Construction Corporation of China and Qavi engineers limited. EPC contracts was awarded to contractors through International Competitive Bidding (ICB) process and follows a transparent method of procurements. EPC companies carry satisfactory track record in their respective fields. The obligations of EPC contractor are adequately covered through a performance guarantee. In case of Balloki plant, EPC contractor has also arranged a parent guarantee. Moreover, liquidated damages will be imposed on the EPC contractor in the event performance benchmarks are not met pertaining to net power output and net heat rate.

**PPA:** A Power Purchase Agreement (PPA) has been signed between CPPA and NPPMCL for both plants. The "Suspension" clause in the PPA entitles NPPMCL to suspend its plant operations in case the receivable amount from CPPA at any point of time remains outstanding for 90 days or more, while continue to receive capacity payments during the suspension period. This provision further insulates the Company from circular debt risk.

**GSA:** Gas supply agreement (GSA) has been signed with SNGPL which will ensure the availability of RLNG on both plant sites. Fuel prices are regulated by OGRA and will be notified on a periodic basis. There is a Gas diversion clause which enables the company to divert the gas to other IPP's if not needed by NPPMCL.

**Project Cost and Financing:** As per NEPRA tariff determination, Balloki plant cost is estimated at USD 798.2m while HBS estimated cost is USD 853.8m; financing for both projects was arranged with a debt to equity of 70:30 and Equity investment for both plants was injected by GoP. Debt financing of both plants was arranged through Public Sector Development Programme (PSDP). However, the same has been converted in to GoP equity as of 30$^{th}$ June 2017. IRR for Balloki and HBS is 16.0%with a payback period of 8 years 9 months and 8 years 7 months, respectively.

**Management team and Governance:** Board of directors comprises senior Government officials and experienced professionals from private sector. The management team is spearheaded by Mr. Rashid Mahmood. Mr. Rashid is a civil servant in GoP with over 20 years of experience in developing provincial policies and developmental programs. He is further supported by a management team of seasoned professional.

## ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure 6

**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** | **Annexure 7** |
|---|---|
| **Name of Rated Entity** | **National Power Parks Management Company (Private) Limited (NPPMCL)** |
| **Sector** | Power |
| **Type of Relationship** | Solicited |
| **Purpose of Rating** | Entity Rating |
| **Rating History** | |
| **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. |
| **Probability of Default** | JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default. |
| **Disclaimer** | Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2017 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS. |

Rating History:

| Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
|---|---|---|---|---|
| 23/10/2017 | AA+ | A-1+ | Stable | Initial |