RATING REPORT

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

REPORT DATE:
January 01, 2021

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	*Rating Watch Developing*		*Rating Watch Developing*	
Rating Date	*December 31, '20*		*December 31, '19*	

COMPANY INFORMATION	
Incorporated in 2015	**External auditors:** Deloitte & Co., Chartered Accountants
Private Limited Company – Public Sector	**Chairman of the Board:** Mr. Shahryar Arshad Chishti **Acting CEO:** Mr. Dhanpat Kotak
Key Shareholders (with stake 5% or more):	
Government of Pakistan through President of Pakistan – 99.97%	

APPLICABLE METHODOLOGY
VIS Entity Rating Criteria *Corporates (May 2019)* *https://www.vis.com.pk/kc-meth.aspx*

National Power Parks Management Company (Private) Limited

OVERVIEW OF THE INSTITUTION

National Power Parks Management Company (Private) Limited (NPPMCL) was incorporated in 2015 under the companies' ordinance, 1984. NPPMCL is a wholly owned company of Government of Pakistan (GoP) through Pakistan Development Fund Limited (PDFL). The company has established two RLNG-based Combined Cycled power plants at Balloki and Haveli Bahadur Shah, under the Power Generation Policy, 2015.

Profile of Chairman: .Mr. Shahryar Arshad Chishty was appointed Chairman on the Board on 23rd Jan'20. He is the Founder and CEO of AsiaPak Investments that owns Daewoo Pakistan, Thar Coal Block-1 and Habibullah Coastal Power Company. He is a member of Pakistan's CPEC Business Council and the Advisory Council of the Chief Minister of Punjab.

Financial Snapshot

Total Equity: end-FY20: Rs. 166.7b; end-FY19: Rs. 138.8b; end-FY18: Rs. 119.8b

Assets: end-FY20: Rs. 287.8m; end-FY19: Rs. 251.9b; end-FY18: Rs. 211.9b; end-FY17: Rs. 135.8b

RATING RATIONALE

The assigned ratings take into account strong ownership profile of National Power Parks Management Company (Private) Limited (NPPMCL) being wholly owned and controlled by Government of Pakistan (GoP) through its representative Pakistan Development Fund Limited (PDFL). The ratings draw strength from the company's strong business profile with demand risk mitigated under Power Purchase Agreement (PPA) signed with Central Power Purchase Agency (Guarantee) Limited (CPPA). The ratings also draw comfort from obligations of CPPA being guaranteed by the GOP under the Implementation Agreement (IA). Moreover, upholding operational performance in line with agreed performance levels would remain a key-rating driver. Assessment of financial risk profile incorporates sizable revenue generation, improvement in margins and enhanced profitability. Liquidity indicators of the company remained intact, conforming to healthy funds from operations generation and sound debt servicing capacity. In addition, owing to enhanced internal capital generation, the leverage indicators have also exhibited an improving trend. The ratings remain sensitive to completion of privatization process of the project; the same has currently been delayed owing to onslaught of COVID-19 pandemic.

The principal business activity of NPPMCL is power generation, and for that purpose, the company has established two Re-liquefied Natural Gas (RLNG) based Combined Cycle Gas Turbine (CCGT) power plants under the Power Generation Policy, 2015 that offers a guaranteed equity Internal Rate of Return (IRR), cost indexation and pass-through structure. Both power plants attained Commercial Operation Date (COD) in mid-2018.

Rating Drivers

Higher revenue and profits generation owing to full year operations of both power plants:
NPPMCL owns, operates and maintains two combined-cycle gas-fired power plants, namely Haveli Bahadur Shah (HBS) power plant located in district Jhang and Balloki power plant located in district Kasur. HBS power plant having gross electricity generation capacity of 1,230 MW achieved combined cycle commercial operations on May 09, 2018, with a delay of 119 days. As a result of the delay, liquated damages of US$ 58.95m have been invoiced to joint EPC contractor – Power Construction Corporation of China (PCCC) and Qavi Engineers (Pvt) Limited (QEL). Balloki power plant with a gross electricity generation capacity of 1,223 MW achieved combined cycle operations on July 29, 2018, more than six months behind the schedule. Therefore, liquidated damages of US$ 56.2m have been invoiced to the joint EPC contractor – Harbin Electric International Company Limited (HEI) and Habib Rafiq (Pvt.) Ltd (HRL). Both power plants are fully operational and supplying electricity to the national gird. During FY20, HBS power plant was available for 8,453 hrs (FY19: 7,777 hrs) and generated 7,050 GWh (FY19: 7,127.2 GWh) of electricity. On the other hand, Balloki power plant was available for 8,257 hours (FY19: 6,216 hours) and generated 5,912 GWh (FY19: 4,915.1 GWh) of electricity. Net Heat Rate remained above benchmark at 62.45% for HBS and 61.63% in Balloki; the efficiency of both plants is highest globally on RLNG. The total fired hours for HBS and Balloki were recorded at 13,835 and 12,200 hrs during FY20; the same represented an aggregate of two gas turbines (GT) for both plants. As per the management, the total fired hours in FY20 were higher than the preceding year owing to increase in electricity demand because of low RLNG prices; the same contributed to an increase in revenue.

Profit After Tax:FY20: 27.9b; FY19: Rs. 19b; FY18: Rs. 3.4b

NPPMCL reported higher revenue of Rs. 162.7b (FY19: Rs. 145.6b) during FY20 comprising net energy purchase price (EPP) of Rs. 123.3b (FY19: Rs. 114.9b) from combined cycle operations and capacity payments (CPP) of Rs. 35.7b (FY19: Rs. 30.7b). In addition, there has been a tariff adjustment of Rs. 3.7b during FY20 owing to indexation of revised tariff determined by NEPRA on 20th May'20. The revised tariff has resulted in increase in fuel cost component of EPP by Rs. 445.9m, variable operations and maintenance decreased by Rs. 2.6b and CPP increased by Rs. 5.9b. This resulted in net increase in revenue of Rs. 3.7b from commercial operations date and has been incorporated in current year revenue. In line with scale of operations, cost of sales increased to Rs. 131.8b (FY19: Rs. 123.0b) during FY20 on account of increased generation; fuel cost of Rs. 115.4b (FY19: Rs. 109.9b), O&M cost of Rs. 7.9b (FY19: Rs. 5.7b) associated with scheduled maintenance and service of both power plants, depreciation charge of Rs. 5.3b (FY19: Rs. 5.3m), insurance expense of Rs. 2.8b (FY19: Rs. 1.8b) and salaries expense of Rs. 235.3m (FY19: Rs. 184.8m) were recorded during the period under review. Further, the gross margin of the company improved to 19.0% (FY19: 15.5%) as a combined impact of increased proportion of CPP in revenue mix on account of improved availability of the plant along with one-time tariff adjustment.

The administrative expenses were recorded higher at Rs. 272.6m (FY19: Rs. 218.5m) during FY20 primarily owing to higher employee related costs; the same was an outcome of annual salary increments and payment of previous dues as the total head count of the company stood lower at 80 (FY19: 92) at end-FY20. Further, NPPMCL reported foreign exchange gain of Rs. 64.8m during FY20 as compared to forex loss of Rs. 344.4m in the preceding year on settlement of transactions with General Electric (Long-term Service Agreement (LTSA) contractor) and insurance payments. Moreover, other income increased sizably to Rs. 9.6b (FY19: Rs. 3.5b) primarily in line with delay payment charges in respect of CPP&EPP invoices sent to CPPA; the delay in payments from CPPA carries a markup at 3M-Kibor plus 2% per annum compounded semi-annually. Further, finance cost increased to Rs. 12.2b in FY20 in comparison to Rs. 6.6b in previous year as a function of increased average benchmark rates.

As per the clause 11.3(b) of part IV of schedule 1 of PPA, corporate income tax payable on generation, sale, exportation or supply of electricity is a pass-through item and claimable from CPPA. Based on minimum tax, total tax provision for FY20 amounted to Rs. 2.9b. However, the company is entitled to claim a tax credit equal to the amount of Rs. 2.2b under section 65D "Tax credit for newly established industrial undertakings". Therefore, the tax liability for the period was Rs. 275.6m, out of which Rs. 149.1m is claimable from CPPA as pass-through item so the tax expense declined to Rs. 126.5m. Resultantly, the company reported higher net profit of Rs. 27.9b (FY19: Rs. 19.0b) with an improved net margin of 17.2% (FY19: 13.0%) during FY20.

Growth in assets mainly emanated from higher trade receivables while case of Take or Pay dispute with SNGPL is now with London Court of International Arbitration (LCIA): Total asset base of the company augmented to Rs. 287.9b at end-FY20 (FY19: Rs. 251.9b) primarily owing to increase in receivables of Rs. 94.7b (FY19: 65.3b); the same is partially in sync with higher electricity delivered to national grid however the proportion of receivable to total revenue stood higher at 58% during FY20 as compared to 44.8% in preceding year. The trade debts are receivables from CPPA, a related party, are secured by sovereign guarantee under IA and are considered good. NPPMCL for securing its obligations to financiers as per the agreement of SBLC and working capital facility has assigned by way of charge to the Security Trustee all energy payments receivable from CPPA. As per the power purchase agreement, CPPA shall clear NPPMCL's invoice within 25 days for the energy payments and within 30 days for capacity payments. However, in case of delay in payment, a mark-up equivalent to 3M KIBOR plus 2% will be charged to CPPA. Moreover, the "Suspension" clause of the PPA agreement has given NPPMCL a right to suspend its plant operations if the receivable amount from CPPA at any given point in time remains overdue for 60 days or more, while continuing to receive capacity payments for the suspension period as well. According to the management, CPPA takes on average 40~50 days to clear energy payments and a bit longer for capacity payments. Out of the total receivables, 23.2b are neither overdue nor impaired; meanwhile the remaining Rs. 63.2b are overdue but not impaired. Overdue receivables included Rs. 30.6b (FY19: Rs. 31.5b) overdue up to 3 months, Rs. 7.3b (FY19:Rs. 8.1b) overdue for 3 to 6 months and Rs. 25.3b (FY19: Rs. 5.9b) overdue more than 6 months. Although the proportion of receivable overdue for more than six months has increased sizably during the period under review; however the same is periodically inherent in the power sector due to circular debt escalation. On the other hand, the delay in receivable poses no credit risk for the company owing to sovereign guarantee attached.

The operating fixed assets declined slightly during FY20 on account of depreciation charge. Long-term deposits and prepayments stood higher Rs. 17.7b by end-FY20 (FY19: Rs. 12.0b), mainly comprising escrow account deposits and prepaid O&M mobilization cost. In line with the terms of the GSA agreement, NPPMCL has opened two RLNG escrow accounts with the National Bank of Pakistan (NBP) in which an amount equivalent to one-month of RLNG supply is being maintained for each power plant. NPPMCL held Rs. 17.1 (FY19: Rs. 11.4b) in RLNG escrow accounts at end-FY20; the amount comprises Rs. 7.7b (FY19: Rs. 5.7b) for HBS and Rs. 9.4b (FY19: Rs. 5.7b) for Balloki plant. NPPMCL earned Rs. 1.1b (FY19: Rs. 585.om) in interest income on escrow accounts and that amount was adjusted with the trade receivables from CPPA, as per the contract terms. The O&M mobilization cost amounted to Rs. 522.7m at end-FY20 (FY19: Rs. 580.3) that represents unamortized mobilization fee of Rs. 208.5m (FY19: Rs. 231.5m) related to O&M contactor of HBS power plant (SEPCO-III) and Rs. 314.3m (FY19: 348.7m) related to O&M contactor of Balloki power plant (TNB). These amounts are being amortized over 12-year term of both the contracts. Both the O&M contractors have been providing satisfactory operations, maintenance, and repair services, and hence, no performance security deposits were encashed during the year.

Advances, prepayments, and other receivables stood slightly higher at end-FY20, mainly comprising other receivables amounting to Rs. 10.4b (FY19: Rs. 11.0b). Other receivables pertained to payable from SNGPL related to forced encashment of disputed Take or Pay (ToP) invoices for the period of November 2017 to April 2018.

The company entered into a Gas supply Agreements (GSAs) for supply RLNG with SNGPL for its plants located at HBS, district Jhang and Balloki district Kasur on 29th Oct'16. Under clause 3.6 of the respective GSAs, NPPMCL should take and if not taken, pay for unutilized gas on account of ToP arrangements. If the company does not fully utilize the ToP quantity, it can request SNGPL to divert any utilized quantity to other power plants. In case the power plants refuse, or SNGPL due to technical constraints or other reasons is unable to supply the unutilized quantity to other power plants, it can divert the quantity to any of its customers. The amounts recovered from these customers, after deduction of any additional charges incurred by SNGPL in arranging the sale is required to be paid to NPPMCL.

Till date, SNGPL has invoiced NPPMCL an amount of Rs. 14.7b (FY19: Rs. 12.4b) in respect of ToP. As per SNGPL, the invoiced amount represents the amount payable by the company on account of ToP under GSA, net of amounts recovered by SNGPL from other consumers to whom gas was supplied. The company disputed SNGPL invoices for ToP claim. Despite the disagreement over ToP invoices, SNGPL partially recovered the amounts by encashment of SBLC of NPPMCL during June'18 for a net amount of Rs. 10.4b, which along with deposit in escrow accounts, was furnished as a security deposit equal to one-fourth of the maximum gas allocation under the GSA agreement. The amount of Rs. 10.4b encashed by SNGPL was recorded as receivable from SNGPL and subsequent invoices and revisions amounting to Rs. 4.4b have not been recorded in financial statements. Out of the total Rs. 4.4b, Rs. 1.3b is on account of revisions made in invoices for the period to CoD whereas Rs. 3.0b pertains to period after CoD. NPPMCL disputed the ToP invoices raised by SNGPL, being unjustified and contrary to the requirements of GSAs, through its correspondence and filed a constitution petition before the Honorable Lahore High Court (LHC). LHC on 22nd June'18 directed that

NPPMCL will make timely payment of the gas delivered for ensuring RLNG supplies which should not be suspended by SNGPL subject to such timely payments and maintaining minimum of 15 days gas supply deposit. Under the GSA, the company notified SNGPL regarding referral of dispute to an expert of the GSAs and the expert was mutually agreed on 29th Oct'18 after negotiation with SNGPL. The expert issued his recommendations on 14th Sep'19 in favor of SNGPL. Unless the parties agree otherwise in writing at the time of selection of expert, the determination of expert is not binding. Since no such agreement has been made, the matter has been referred for arbitration in accordance with the rules of LCIA on 11th Oct'19 under GSAs. Based on the opinion of its legal advisor, the management believes that NPPMCL has an arguable case in its favor considering all the facts and circumstances of the dispute and demand is liable to be declared as contrary to GSA and the applicable law.

Stock in trade largely remained at prior year's level mainly pertaining to high-speed diesel; NPPMCL is required to maintain HSD stock as a backup fuel equivalent to 7 days of operations at 60% load factor for both power plants. Tax refund due from the government increased due to higher sales tax receivable of Rs. 6.2b (FY19: Rs. 5.3b) at end-FY20. Refund application for recovery of Rs. 2.5b sales tax related to construction period is being reviewed by the FBR. Meanwhile, another refund application amounting to Rs. 1.1b is also filed after year end-FY20 while filing sales tax return for month of Aug'20. Cash and bank balance were reported higher owing to increased liquidity held in saving accounts amounting to Rs.3.7b (FY19: Rs. 1.1b) at end-FY20. These saving accounts carry an interest charge of 6.5% to 11.3%. Two fuel cost accounts are maintained with a commercial bank in pursuance of the SBLCs and working capital facility arrangements for procurement of RLNG/HSD. As per the agreement, lien has been marked on the fuel cost accounts in favor of security trustee who has the right of setoff, transfer and appropriation over all amounts standing to the credit of fuel accounts. The balance of the fuel accounts was Rs. 3.3b (FY19: Rs. 1.1b) at end-FY20.

Adequate capacity to discharge net liabilities to EPC contractors: Trade and other payables decreased to Rs. 28.5b by end-FY20 (FY19: Rs. 30.2b) owing to reduced payable of Rs. 2.2b to SNGPL as compared to Rs. 4.1b in the preceding year. Payables to PCCC-QEL against the completion of HBS project also stood at Rs.9.8b at end-FY20 (FY19: Rs. 11.9b), whereas the amount receivable from PCCC-QEL against liquidated damages stood at Rs. 9.5b (FY19: Rs. 9.0b) (invoiced but not recorded in the accounts), and thereby, the effective net amount payable to PCCC-QEL reduced to only around Rs. 300.0m (FY19:Rs. 2.9b) at end-FY20. Similarly, payables to HEI-HRL against the completion of Balloki project amounted to Rs. 9.4b(FY19: Rs. 9.2b) at end-FY20, whereas liquidated damages receivable at the period end were Rs. 8.7b (FY19: Rs. 8.5b) (invoiced but not recorded in the accounts). Therefore, the effective net amount payable to HEI-HRL was around Rs. 0.7b(FY19: Rs. 0.7b). Payables to WPPF increased to amounted to Rs. 2.5b (FY19: Rs. 1.1b) at en-FY20 in line with change in regulation concerning the same.

The EPC contract requires NPPMCL to retain payments to EPC contractors at the rate of 7% of each invoice value, capped at 5% of the total contract price. Out of total money retained, 50% is payable after the facility takeover certificate is issued and remaining 50% upon the completion of punch list period. The amount of retention money stood lower at Rs. 5.4b by end-FY20 (FY19: Rs. 6.4b), out of which Rs. 1.3b (FY19: Rs. 2.1b) is payable to PCCC-QEL and Rs. 4.1b (FY19: Rs. 4.3b) is payable to HEI-HRL. In the Finance Bill 2018, the GoP announced to levy withholding tax on non-resident companies under section 152 of the Tax Ordinance 2001. This was also applicable on PCCC and HEI, however, this tax can be avoided in case of exemption certificates from the tax authorities. Given the cash flows position and mobilization of long-term debt, NPPMCL has adequate capacity to discharge its net liabilities to the EPC contracts.

Sound liquidity profile; the same has been a function of increase in scale of operations and healthy cash flows generation: Liquidity position of the company is supported by healthy cash flows generation. In line with increased demand of electricity leading to improved scale of operations and higher profits, funds from operations (FFO) increased to Rs.25.4b (FY19: Rs. 22.5b) during FY20. With higher cash FFO to total debt improved to 0.33x by end-FY20 (FY19: 0.32x). The debt service coverage was still sizable at at 3.9x at end-FY20; however the same has declined from 7.2x at end-FY19 owing to increase in interest cost paid both on short-term and long term financing along with increase in average benchmark rates during the review period. The current ratio stood higher at 1.55x (FY19: 1.12x) as the impact of higher trade receivables along with reclassification of short-term funding to long-term debt.

Paid-up capital of the company stood at Rs. 55.5b at end-FY20 (FY19: Rs. 53.0b) with the issuance of ordinary shares to PDFL during the year. The remaining share deposit money of Rs. 61.0b (FY19: 63.5b) is yet to be converted into ordinary shares. Total equity of the company accumulated to Rs. 166.7b (FY19: Rs. 138.8b) owing to substantial internal capital generation. During FY18, NPPMCL received a borrowing facility of Rs. 32.7b from PDFL for a period of 24 months from the date of disbursement and the markup on the loan was fixed at 3M-Kibor +1% per annum from the date of commercial operations of each plant subject to quarterly review of Kibor as fixed by SBP. On 30th June'19, the loan was classified as short-term but later in Oct'19 after year end-FY19 the loan was classified as long-term loan as PDFL rescheduled the facility to tenor of 10 years starting from CODs of respective projects. Accrued markup of long-term loan amounted to Rs. 8.3b at end-FY20 (FY19: Rs. 5.3b) and Rs. 1.3b (FY19: Rs. 908m) on short-term borrowings. In line with formal conversion of short-term funds to long-term lending, the outstanding balance of short-term borrowings decreased to Rs. 29.6b (FY19: Rs. 69.9b) at end-FY20. The unutilized working capital finance facility amounted to Rs. 13.2b (FY19: Rs. 5.7b) at end-FY20. Total debt stood at Rs. 77.4b at end-FY19 (FY19: Rs. 69.9b). With the augmentation of equity base, gearing ratio and debt leverage improved to 0.46x (FY19: 0.50x) and 0.73x (FY19: FY19: Rs. 0.81x) at end-FY20. NPPMCL has arranged project financing from the Bank of Punjab (BoP) led consortium of banks, and signed Musharaka facility agreements of Rs. 18.4b for HBS power plant and Rs. 19.6b for Balloki power plant to discharge its liabilities, mainly for the settlement of EPC payments, IDC and to cover the shortfall in LNG escrow account. The facility is repayable in 38 equal quarterly installments and markup rate is 3-month KIBOR plus 0.9%.

Privatization of NPPMCL is being expedited, though post-privatization risk mitigation plan is still under consideration

During its meeting held on November 08, 2019, the Economic Coordination Committee (ECC) of the Cabinet directed the Privatization Commission (PC) to expedite the privatization of NPPMCL. On November 17, 2019, PC floated an invitation seeking expression of interest (EOI) from interested parties to acquire up to 100% of the equity stake with management control in either i) NPPMCL (in case both power plants will be acquired by the same investor) or ii) two companies each of which will own one of the power plants (in case different investors will acquire the power plants). The last date for submission of EOI was December 23, 2019. As per the ministry of Privatization in July'20 NPPMCL had unprecedented interest and 12 out of the total 23 parties were prequalified for bidding, which was previously scheduled to take place in mid-April'20 this year, but due to pandemic and international travel advisory restrictions, the timeline was modified accordingly. The high profile local and international potential investors including Qatar Investment Authority, EDRA, GPSC, Jera and KAPCO, Atlas Power, Asma Capital, Nebras Power among others showed interest in the said transaction. Owing to onslaught of pandemic, no final timeline for formal privatization has yet been disclosed by the government.

Corporate governance

The Board of Directors (BoD) comprises government officials and experienced professionals from the private sector. Mr. Shahryar Arshad Chishty was appointed Chairman on the Board on 23rd Jan'20. He is the Founder and CEO of AsiaPak Investments that owns Daewoo Pakistan, Thar Coal Block-1 and Habibullah Coastal Power Company. He is a member of Pakistan's CPEC Business Council and the Advisory Council of the Chief Minister of Punjab.

He is also Chairman of the state owned Lahore Electric Supply Company and is on the Board of Directors of Multan Electric Power Company, Faisalabad Electric Supply Company, Gujranwala Electric Power Company and Islamabad Electric Supply Company. There are five independents directors, three non-executive directors and one executive director. NPPMCL has formed four Board level committees, including Audit Committee, HR & Remuneration Committee, Procurement Committee, and Risk Committee. Mr. Dhanpat Kotak is currently the acting CEO, having more than 30 years of experience. Deloitte & Co., Chartered Accountants have been appointed for the statutory audit of financial statements for FY20.

National Power Parks Management Company (Private) Limited Annexure I

Financial Statement (*Amount in Billions)*

BALANCE SHEET	FY17	FY18	FY19	FY20
Operating Fixed Assets	0.8	75.3	149.5	144.5
Capital Work in Progress	99.2	64.7	0.2	0.01
Long-term Deposits and Prepayments	11.7	12.3	12.0	17.7
Stock In trade	-	1.9	3.1	3.0
Trade Debts	-	29.0	65.3	94.7
Advances, Prepayments & other Receivables	1.7	11.5	13.4	14.9
Tax Refunds Due From Government	2.5	4.1	5.7	6.9
Cash & Bank Balances	19.9	13.2	2.7	5.2
Total Assets	**135.8**	**211.9**	**251.9**	**287.8**
Trade and Other Payables	11.5	16.8	30.2	28.5
Retention Money	5.0	6.8	6.4	5.4
Short Term Borrowings	1.6	32.6	69.9	29.6
Long Term Finances *(Inc. current matu.)*	-	32.8	-	47.9
Other Liabilities	1.3	3.2	6.6	9.7
Total Liabilities	**19.4**	**92.2**	**113.1**	**121.1**
Tier-1 & Total	116.3	119.8	138.8	166.7
Paid-up Capital	**0.0001**	**0.0001**	**53.0**	**55.5**
INCOME STATEMENT	FY17	FY18	FY19	FY20
Net Sales	-	30.3	145.6	162.7
Gross Profit	-	3.1	22.6	30.9
Operating Profit	(0.1)	4.2	25.5	40.3
Profit Before Tax	(0.1)	3.4	19.0	28.1
Profit After Tax	(0.2)	3.4	19.0	27.9
FFO	(2.1)	2.4	22.5	25.4
RATIO ANALYSIS	FY17	FY18	FY19	FY20
Gross Margin (%)	-	10.2	15.5	19.0
Net Margin (%)	-	11.3	13.0	17.2
FFO to Long-Term Debt	-	0.07	-	0.53
FFO to Total Debt	-	0.04	0.32	0.33
Debt Servicing Coverage Ratio (x)	-	5.8	7.2	3.9
Gearing (x)	0.01	0.55	0.50	0.46
Debt Leverage (x)	0.17	0.77	0.81	0.73
Current Ratio	1.24	1.00	1.12	1.55

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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 III

Name of Rated Entity	**National Power Parks Management Company (Private) Limited (NPPMCL)**
Sector	Power
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
30/12/2020	AA+	A-1+	Rating Watch Developing	Reaffirmed
31/12/2019	AA+	A-1+	Rating Watch Developing	Maintained
31/12/2018	AA+	A-1+	Stable	Reaffirmed
24/10/2017	AA+	A-1+	Stable	Initial

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Probability of Default	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.
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Due Diligence Meetings Conducted	

Name	Designation	Date
Mr. Tariq Mehmood	Manager Budget & Accounts	11-Dec-2020
Mr. Sajjad Ahmed	CFO	11-Dec-2020