RATING REPORT

FFBL Power Company Limited

REPORT DATE:
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RATING ANALYSTS:
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RATING DETAILS		
	Entity Rating	
Rating Category	Long-term	Short-term
Entity	AA-	A-1
Rating Outlook	Stable	
Rating Date	*26th July, 2018*	

COMPANY INFORMATION	
Incorporated on June 27th, 2014	**External auditors (2017):** Ferguson & Co. **External auditors (2018):** M/s KPMG Taseer Hadi & Co. Chartered Accountants
Public Limited Company	**Chairman of the Board:** Lt Gen Syed Tariq Nadeem Gillani, HI(M), (Retd)
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Lt Gen Javed Iqbal, HI(M), (Retd)
Fauji Fertilizer Bin Qasim Limited (FFBL)- 75%	
Fauji Foundation (FF)- 25%	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Industrial Corporates (May, 2016) http://www.jcrvis.com.pk/kc-meth.aspx

FFBL Power Company Limited (FPCL)

RATING RATIONALE

FFBL Power Company Limited's (FPCL) 118 Megawatt (MW) (Gross Capacity) coal based power plant is amongst the first coal based projects to be operational in Pakistan and is located within the Fauji Fertilizer Bin Qasim Limited (FFBL) complex at Port Qasim. FCPL was incorporated to support the energy requirements of FFBL as a substitute of natural gas fuel based system. Accordingly, around 20mmscfd fuel gas is being saved The plant was built not only to be self-sustaining but also contribute a portion of its generating capacity to national grid via K-Electric Limited (KE). The plant was constructed on a non-EPC basis at a total cost of $291.7m with debt to equity ratio of 72:28. FPCL commenced commercial operations on May 19, 2017.

The power plant is capable of producing electricity at two frequencies of 50 & 60 Hz. The company has signed separate Power Purchase Agreements (PPA) with KE and FFBL for a period of 30 years. As per the agreements, FPCL is mandated to meet full power requirement of 48MW to FFBL along with 52MW power supply to KE. The Company also sells steam produced from the facility to FFBL under a Steam Supply Agreement (SSA) for a term of 30 years. Operation and Maintenance (O&M) of the project is in house and is being managed by the FPCL team.

Strong Sponsor Profile

The assigned ratings draw support from the strong sponsor profile of the Company with FPCL being a subsidiary of FFBL which holds 75% shareholding in the company while the remaining 25% shares are owned by Fauji Foundation. The ratings also draw comfort from corporate guarantee by FFBL against termination of KE PPA for timely repayment of debt raised by FPCL.

Business Risk

In case of FPCL, since the plant is already operational (one year of satisfactory operations), three major risk that JCR-VIS evaluates while assessing power plants that are operating under an Independent Power Producer structure, namely; Permitting Risk (ability to secure all statutory clearances for constructing and operating a power plant), Funding Risk (ability to timely raise required project funding & adhere to projected capital structure) and Construction Risk (risks associated with timely physical construction of a power plant and connectivity to grid) have been eliminated. Other business risk factors are enlisted below:

- **With no recourse to liquidated damages (no external oversight) given that O&M is managed by an in-house team, operating risk is on the higher side. Comfort is drawn from experience profile of in-house O&M team and track record of compliance with normative parameters stipulated in PPA.**
  In terms of physical operations, power plants operating under an IPP structure are required to attain at least the PPA-stipulated norms for availability and heat rate. The risks related to availability and heat rate generally get mitigated to the extent that they are borne by the Operations and Maintenance (O&M) contractor (through the relevant liquidated damage clauses). Given that O&M is being undertaken by an in-house team, FPCL does not have recourse to liquidated damages in case performance of the plant falls below parameters as specified in the PPA. However, comfort is drawn from experience of senior management members of the in-house O&M team and track record of compliance with both availability and heat rate parameters over the last one year since commercial operations commenced.
- **Strong operating track record during 1st full year of operations:** Performance of the plant has remained compliant with normative parameters as laid down in the PPA with plant availability greater than 92% (against 85% required as per PPA) upon completion of 1st commercial operation year. Efficiency of the plant since inception has been 29.24% in

OVERVIEW OF THE INSTITUTION

FPCL is a subsidiary of Fauji Fertilizer Bin Qasim Limited (FFBL) which holds 75% shareholding in the company while the remaining 25% shares are owned by Fauji Foundation (FF).

FFBL is a public limited company incorporated under Companies Ordinance 1984. It has a modern Granular Urea and Di-Ammonium Phosphate (DAP) fertilizers manufacturing complex, built at a cost of US$ 468m. Over the last few years, FFBL has embarked on an aggressive diversification strategy through expansion in food, power sectors, banking and cement sector.

FF is an established name and was founded in 1954 under the Charitable Endowments Act 1890 as a Charitable Trust for the welfare of the ex-servicemen and their dependents. Currently it has investments in over 18 industries. More than 80 percent of the group's income goes towards the welfare activities every year.

line with requirements stipulated in the PPA. However, given the smaller size of the plant, efficiency ratio compares less favorably other coal based projects that are projected to come online in Karachi. However the plant will enjoy better merit order as compared to the coal power plants in upcountry which incur significant inland coal transportation cost compares to plants at Karachi / sea coast. Power supplied to KE has been in excess of the 52MW stipulated in the PPA with maximum output clocking in at around 54.6MW.

- **Fuel Supply and Price Risk is limited due to long-term supply contract and cost pass through mechanism built in the tariff.**
  The power plant has the capacity to operate on imported and locally produced coal. Moreover, FPCL has entered into a long-term (7 years) supply contract with one of the leading international coal suppliers. As per the agreement, if for any reason the supplier is unable to supply the required quantity of coal within the stipulated time frame, than FPCL will be allowed to buy coal from any alternate source and the differential in price (delta) will be compensated by the supplier. Coal price risk exposure is largely mitigated in the case of FPCL since the cost is a pass-through item as per the tariff subject to achieving the PPA stipulated parameters of heat rate and availability.
- **Demand Risk has been assessed to be limited due to relatively high position in KE's merit order along with dispatch guarantees from KE and firm commitment for off-take from FFBL.**
  NEPRA has awarded FPCL tariff based on 'take and pay basis' (dispatch would depend on economic merit order with no guaranteed payment) as opposed to tariff based on 'take or pay basis' (guaranteed payment on long-term basis if capacity is made available) generally awarded to other grid based power producers. This exposes FPCL to off-take risk only in case other KE Grid coal power plants with higher efficiency that come online are higher in the economic merit order. However, demand Risk has been assessed to be limited due to relatively high position in KE's merit order along with dispatch guarantees from KE and firm commitment for off-take from FFBL.

Financial Risk

- **Liquidity profile is supported by healthy cash flows and strong debt servicing ability. Favorable working capital cycle and limited exposure to circular debt (with timely repayments by both FFBL and KE) also support assessment of liquidity profile of FPCL.**
  During 2017, Funds from operations (FFO) amounted to Rs. 1.2b (for 7 months of operations) due to operations commencing during the same year. FFO amounted to Rs. 968m in 1Q18 with growth being primarily a function of lower finance cost and decline in income tax paid. Full year FFO for 2018 is projected at Rs. 3.8b (2019: Rs. 4.3b; 2020: Rs. 4.6b) while debt payment for the period is Rs. 1.53b (2019: Rs. 1.7b; 2020: Rs. 1.85b) indicating strong debt servicing ability. Even after sensitizing for 2% lower efficiency and 2% decline in plant availability, cushion for debt servicing remains significant. On average, cash is collected in 45 days while the company enjoys extended period for payment of coal procured. Even after accounting for coal inventory, working capital cycle of FPCL is favorable. Timely collection of receivables is in contrast to most IPPs where circular debt and resulting delay in cash collection is a significant drag on liquidity profile. At end-1Q18, liquid assets carried on balance sheet amounted to Rs. 1.9b.
- **Leverage indicators are currently high vis-à-vis benchmark for the assigned ratings but are projected to decline with debt repayments and increase in equity base. In line with group policy, dividend payout expected to remain sizeable.**
  Paid-up capital of the FPCL amounted to Rs. 8.6b at end-1Q18 while net equity increased to Rs. 10.9b owing to higher accumulated profits. In line with group policy, dividend payout of FPCL is expected to remain on the higher side with excess cash after debt repayment planned to be distributed. Debt carried on balance sheet at end-1Q18 amounted to Rs. 20.1b translating into a gearing ratio of 1.8(x). Going forward, gearing levels are

expected to decline and reach 1.2(x) by end-2020 with repayment of debt and increase in equity base.

Adequate Corporate Governance Infrastructure
Overall corporate governance framework is supported by adequate board oversight and experienced and professional management team. Infrastructure and management of IT of the company is outsourced to FFBL. All modules of SAP are planned to go live in 3QCY18.

ISSUE/ISSUER RATING SCALE & DEFINITION — Appendix I

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 II
Name of Rated Entity	FFBL Power Company Limited
Sector	Power
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
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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Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
7/26/2018	AA-	A-1	Stable	Initial