RATING REPORT

FFBL Power Company Limited

REPORT DATE:
September 13, 2019

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 Date	*September 12, 2019*		*July 26, 2018*	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Initial	

COMPANY INFORMATION	
Incorporated on June 27, 2014	**External auditors:** 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.vis.com.pk/kc-meth.aspx

FFBL Power Company Limited (FPCL)

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 its ultimate parent, Fauji Foundation (FF).

Financial Statements of the company for CY18 were audited by M/s KPMG Taseer Hadi & Co. Chartered Accountants. Auditors belong to category 'A' on the approved list of auditors published by the State Bank of Pakistan (SBP).

Sponsors' Profile

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.

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.

RATING RATIONALE

Incorporated in 2014, FFBL Power Company Limited (FPCL) operates a 118 Megawatt (MW) (Net Capacity: 103 MW) coal based power project located within Fauji Fertilizer Bin Qasim Limited (FFBL) complex at Port Qasim. The plant was set up on non-EPC basis at a total cost of USD $291m, funded in a debt equity ratio of 72:28. The plant has been operational since May 2017. While the company fulfills overall energy requirements of the parent entity (FFBL), remaining portion of its generating capacity is added to national grid via K-Electric (KE).

FPCL has long-term (30 years) Power Purchase Agreements (PPA) in place with KE and FFBL. The company, as per agreements, is mandated to sell 48MW of electricity to FFBL and 52MW 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.

Key rating Drivers

Strong sponsor strength

Assigned ratings continue to draw comfort from strong sponsor profile. The Company is a subsidiary of Fauji Fertilizer Bin Qasim Limited (FFBL) and its ultimate holding company is Fauji Foundation (FF).

Sound track record since commencement of operations in May 2017

The company has completed more than two years of successful operations with average plant availability, capacity factor and efficiency remaining compliant with normative parameters as laid down in the PPA. During the period under review, month-wise average plant availability has remained mostly around 100% (against 85% as stipulated in PPA) except for selected few months when the plant is closed for scheduled maintenance. Plant availability for the year ended CY-2017, CY-2018 and HCY-2019 is presented in the table below:

Table 1: Plant Availability (Year-wise)

Sr.no	Year	Plant Availability (PPA/SSA)	Plant Availability (Actual)
1	2017	85%	95.96%
2	2018	85%	89.15%
3	2019 (HY)	85%	89.38%

Efficiency of the plant since inception has been around 29% in line with requirements stipulated in the PPA. Power supplied to KE has been in excess of the 52MW stipulated in the PPA with maximum output clocking in at around 54.6MW. Capacity utilization of electricity has remained over 100% during 2018 and in the ongoing year while capacity utilization of the steam segment is dependent on steam demand from FFBL.

Profile of CEO & Chairman of the Group

Lt General Syed Tariq Nadeem Gilani (Retd) was commissioned in Pakistan Army in 1979 with the coveted President's Gold Medal. His assignments include command of a brigade, division and a Corps. In recognition of his meritorious services, he was awarded Hilal-e-Imtiaz (Military). He retired from Pakistan Army in 2015 and took over as MD Fauji Foundation in 2018 along with Chairman of the Boards of Directors of group companies.

Lt Gen Javed Iqbal (Retd), is the Chief Executive and Managing Director of Fauji Fertilizer Bin Qasim Limited, FFBL Foods Limited, FFBL Power Company Limited, Fauji Foods Limited and Fauji Meat Limited. He joined Pakistan Army in 1980. Besides being Director and Chairman of Management Committee of Pakistan Maroc Phosphore (PMP) Morocco, he is also on the Board of Foundation Wind Energy-I Limited, Foundation Wind Energy-II (Pvt) Limited, Askari Bank Limited and Chairman of Human Resource and Remuneration Committee of Askari Bank.

Table 2: Capacity Utilization (Year-wise)

Electricity (MW)			
	HCY19	**2018**	**2017**
Available Capacity	269,545	543,558	414,048
Actual energy delivered	283,712	560,438	356,751
Capacity utilization	105%	103%	86%
Steam (M. Tons)			
	HCY19	**2018**	**2017**
Available Capacity	738,480	1,489,200	1,089,600
Actual steam delivered	677,220	1,453,282	952,690
Capacity utilization	92%	98%	87%

Given O&M being managed by an in-house team and no recourse to liquidated damages (no external oversight), operational 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.

Generally, operational risks in power projects related to availability and heat rate are borne by Operations and Maintenance (O&M) contractors through relevant liquidity damage clauses specified in O&M agreements. Given that O&M is being undertaken by an in-house team in FPCL, it has no recourse to liquidated damages in case plant's performance falls below parameters stipulated in PPA. However, comfort is drawn from experience of senior management members of in-house O&M team and track record of compliance with both availability and heat rate parameters since the plant commenced operations.

Presence of long-term supply contract with international coal supplier mitigates the fuel supply risk while price risk is considered limited due to cost pass through mechanism built in the tariff.

The company has seven years long-term supply contract in place with a globally renowned coal supplier. This long-term contract along with two-month reserves of coal supply mitigates the fuel supply risk of the company. Moreover, as per agreement, if supplier is unable to supply the required quantity of coal within stipulated time frame, it will be liable to compensate the price differential in case the company meets its coal requirement from alternate sources. Coal price risk exposure is also largely mitigated since the cost is a pass-through item as per the tariff subject to achieving the PPA stipulated parameters of heat rate and availability.

Despite take and pay arrangement, relatively high position in KE's merit order and dispatch guarantees from KE built in PPA mitigates off-take risk.

FPCL tariff is 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, in result, exposes the company to off-take risk in case other power plants with higher economic merit order come online. In order to mitigate the same, management signed a 10 year agreement with KE (irrespective of FPCL falling in Merit Order) whereby for initial five years KE is obligated to purchase 100% of the 85% available capacity while 75% of the available capacity for the remaining years. Moreover, given the FFBL's reliance on FPCL for energy requirements for smooth and continuous running of plant along with guaranteed off-take, demand risk is considered limited.

Liquidity profile of the company remains strong on the back of healthy cash flows & timely receivable collection and sound debt coverage metrics.

Funds from operations (FFO) amounted to Rs. 2.4b (CY18: Rs. 4.3b) during HCY19. Increase in FFO was attributable to higher revenues owing to full year operations and higher capacity factor resulting in considerable improvement in net profitability. The same is projected to increase further during CY19 on the back of improved margins during ongoing year due to significant rupee devaluation. Annual debt repayment in 2019 is projected at around Rs. 1.7b, translating into an annualized debt service coverage ratio of 1.76x (CY18: 1.75x) during HCY19, indicating strong debt servicing ability. FFO to total debt was reported at 0.26x (CY18: 0.21x) during HCY19. Liquidity profile is supported by timely collection of receivables which is in contrast to most IPPs where circular debt and resulting delay in cash collection is a significant drag on liquidity profile. Going forward, given the projected improvement in profitability, cash flows are expected to remain strong for future debt repayments.

Despite sizeable projected dividend payout, capitalization indicators are expected to continue to improve over the rating horizon due to debt repayments and growth in equity base.

FPCL's net equity has increased to Rs. 13.5b (CY18: Rs. 11.8b; CY17: Rs. 10.2b) at end-HCY19 owing to higher accumulated profits. The company declared dividend to the tune Rs. 1.5b during 2018 and the management expects payout levels to remain elevated over the rating horizon. As at end-June 2019, total debt carried on the balance sheet was long term in nature and amounted to Rs. 18.1b (CY18: Rs. 21.0b). Gearing and leverage ratios were reported at 1.34x (CY18: 1.79x; CY17: 2.13x) and 1.45x (CY18: 1.91x; CY17: 2.39x) respectively at end-HCY19. Despite sizeable projected dividend payout, capitalization indicators are expected to continue to improve over the rating horizon due to debt repayments and growth in equity base.

ISSUE/ISSUER RATING SCALE & DEFINITION Appendix I

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 — 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	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	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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
9/12/2019	AA-	A-1	Stable	Reaffirmed
7/26/2018	AA-	A-1	Stable	Initial