RATING REPORT

FFBL Power Company Limited

REPORT DATE:
October 20, 2020

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	*October 20, 2020*		*September 12, 2019*	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION	
Incorporated on June 27, 2014	**External auditors:** M/s KPMG Taseer Hadi & Co. Chartered Accountants
Public Limited Company	**Chairman of the Board:** Waqar Ahmed Malik
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Sarfaraz Ahmed Rehman
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)

RATING RATIONALE

FFBL Power Company Limited (FPCL) has been operating a 118 Megawatt (MW) coal based power plant with net capacity of 103 MW for more than 3 years. The plant is situated in Fauji Fertilizer Bin Qasim Limited (FFBL) complex at Port Qasim.

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). FF has a diversified investment portfolio and strong sponsor profile.

Long-term (30 years) Power Purchase Agreements (PPAs) with KE and FFBL

As per agreements, the company is mandated to sell 48MW of electricity to FFBL and 52MW to KE. Moreover, agreement with KE is currently being discussed for further addition of 8MW. FPCL also sells steam produced from the facility to FFBL under a separate Steam Supply Agreement (SSA) of 30 years tenor.

Despite take and pay arrangement with KE, relatively high position in KE's merit order and dispatch guarantees from KE (as built in PPA) mitigates the demand risk.

FPCL has 'take and pay' (dispatch depends on economic merit order with no guaranteed payment) arrangement with KE as opposed to 'take or pay' (guaranteed payment on long-term basis if capacity is made available) enjoyed by other power producers. However low cost of power generation compared to other existing KE plants, limits demand risk and support revenues. Given the FFBL's reliance on FPCL for energy requirements for smooth and continuous running of plant along with guaranteed off-take support business risk profile.

Presence of long-term supply contract with international coal supplier mitigates 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 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.

Operations and maintenance of the plant is being managed by an experienced in-house team

The Company has an experienced in-house O&M team which has now demonstrated track record of compliance with both availability and heat rate parameters since the plant commenced operations.

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 CY19 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.

However, 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.

Operating performance depicted improvement in terms of capacity utilization and heat rate
FPCL has demonstrated a sound track record of successfully running plant operations for more than three years with average plant availability, capacity factor and efficiency remaining compliant to normative parameters laid down in PPA. Moreover, maintenance related capex (thermal coating of boiler) in the outgoing year facilitated in reduction in downtime, thus improving plant availability and capacity utilization. Power supplied to KE has been in excess of the 52MW stipulated in the PPA.

Table 1: Plant Availability (Year-wise)

Year	Plant Availability - Actual (Min. 85% availability as stipulated in PPA)
2018	89.15%
2019	89.59%
1H20	85.19%

Table 2: Capacity Utilization (Year-wise)

Electricity (MW)			
	2019	**2018**	**2017**
Available Capacity	543,558	543,558	414,048
Actual energy delivered	577,557	560,438	356,751
Capacity utilization	**106%**	**103%**	**86%**
Steam (M. Tons)			
	2019	**2018**	**2017**
Available Capacity	1,489,200	1,489,200	1,089,600
Actual steam delivered	1,532,131	1,453,282	952,690
Capacity utilization	**103%**	**98%**	**87%**

Capital expenditure incurred has increased on a timeline basis and comprises maintenance capex. In absolute terms, capex incurred amounted to Rs. 571m (2019: Rs. 664m; 2018: Rs. 122m) during 1H20.

Overall liquidity profile remains strong on the back of healthy cash flow generation and sound debt coverage metrics; recent increase in receivables if not arrested may impact free cash flows
Funds from operations (FFO) increased to Rs. 5.0b (2018: Rs. 4.3b) in 2019 on the back of significant jump in gross margins which translated into improved profitability profile. Increase in margins is attributable to rupee devaluation, higher benchmark rates (KIBOR) and inflation adjustment in tariff. Nonetheless, build-up of sizeable receivables (particularly from FFBL) may impact free cash flows given sizeable debt repayments and dividend payouts. Overall coverages have depicted improvement with debt servicing coverage ratio being reported at 1.88x at end-HY20. Going forward, cash flow coverages in terms of FFO/long-term debt are expected to improve given continued debt repayments.

Capitalization indicators improved due to continued reduction in leverage indicators

Profile of CEO & Chairman of the Group

Mr. Waqar Ahmed Malik had a career spanning over 27 years with fortune 500 companies. He has vast experience in managing functional teams as well as leading large and complex manufacturing based operations as well as M&A activities. He took over as MD Fauji Foundation in 2020 along with Chairman of the Boards of Directors of group companies.

Mr. Sarfaraz Ahmed Rehman is the Chief Executive of Fauji Fertilizer Bin Qasim Limited, FFBL Foods Company Limited, FFBL Power Company Limited, Fauji Foods Limited and Fauji Meat Limited. He is a chartered accountant by qualification 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 Fauji Fresh n Freeze.

Total equity of the company has increased to Rs. 15.6b (2019: Rs. 13.5b; 2018: Rs. 11.8b) at end-HY20 owing to internal capital generation. Dividend payout ratio stood higher at 55% (2018: 49%) in 2019, amounting Rs. 2.1b. Total debt carried on the balance sheet has decreased on a timeline basis to Rs. 16.5b (2019: Rs. 18.4b 2018: Rs. 21.0b) at end-HY20 due to debt repayments. Given growth in equity base and reduction in debt levels, leverage indicators have improved on a timeline basis. Gearing and leverage ratios were reported at 1.06x (CY19: 1.36x; CY18: 1.79x) and 1.18x (CY19: 1.47x; CY18: 1.91x) respectively at end-HCY20.

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	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
10/20/2020	AA-	A-1	Stable	Reaffirmed
9/12/2019	AA-	A-1	Stable	Reaffirmed
7/26/2018	AA-	A-1	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.
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	Meeting Date
1. Mr. Shahid Saud	CFO	September 29, 2020