RATING REPORT

FFBL Power Company Limited

REPORT DATE:
October 04, 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 Date	*October 04, 2021*		*October 20, 2020*	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION	
Incorporated on June 27, 2014	**External auditors:** M/s EY Ford Rhodes & 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: Corporate Rating Methodology (August, 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

FFBL Power Company Limited (FPCL)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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 were audited by M/s EY Ford Rhodes & 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.

FFBL Power Company Limited ('FPCL' or 'the Company') was incorporated on June 27, 2014. The Company commenced its commercial operations on May 19, 2017. The principal activity of FPCL is to generate power and steam and supply electricity and steam to its parent company Fauji Fertilizer Bin Qasim (FFBL) for its fertilizer complex and to export power to K-Electric Limited. FPCL has 118 Megawatt (MW) coal-based power plant with a net capacity of 103 MW. FFBL possesses the Company's majority shareholding of 75%, while the remaining 25% shares are owned by ultimate parent, Fauji Foundation (FF).

Project Details

FFBL's project infrastructure is a coal-based power plant with a nameplate capacity of 118MW and net (dependable) capacity of 103MW. It is the only power generating coal fired plant in Pakistan which is capable of producing electricity at two different frequencies i.e 50 & 60 Hz. The plant was built not only to be self-sustaining but also contributing a portion of its generating capacity to national grid via KE. The project was completed in a period of 23 months. The plant was built on non-EPC basis; Engineering, Procurement and Construction Management (EPCM) was executed by FFBL and FPCL project team. The plant has full dual coal converging and crushing system. Project cost was around USD 291.76 million funded through a debt to equity ratio of 72:28. The Company entered into commercial and Islamic long term facilities with banks for debt funding. FPCL got its first disbursement in April 2016. The loan features a term of 10 years and the repayment is made on quarterly basis. The Company has an experienced in-house team for Operations and Maintenance (O&M) of the Plant.

The Company sells electricity to its parent company, FFBL (up to 48MWs), and K-Electric (52 MWs) under a Power Purchase Agreement (PPA), with a tenure of 30 years, starting 2017. The Company also sells steam produced from the facility to FFBL under a Steam Supply Agreement (SSA), also having a tenure of 30 years commencing 2017.

Key rating Drivers

Strong sponsor profile

Assigned ratings continue to draw support from strong sponsor profile. Even though its majority shareholding is directly held by FFBL, the Company is ultimately owned by the Fauji Foundation (FF). FF is one of the largest conglomerate in Pakistan having businesses in diversified sectors.

Low demand risk through long term Power Purchase Agreements (PPAs) while remaining at high position in KE's merit list is considered important

NEPRA has awarded tariff to FPCL on "take and pay basis" (guaranteed payment subject to inclusion in merit order). However, the Company is bound to provide 52MW to KE. FPCL has exposure to offtake risk while being in competition with other coal-based power plants in KE's merit order list. However, the risk has been assessed to be moderate, with the Company maintaining its

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.

position as the most efficient coal plant on KE's merit order list. KE has also provided dispatch guarantee to FPCL under its PPA.

Supply side risk is limited due to long term contract with supplier. Cost pass through mechanism in tariff mitigates price risk

FPCL has the ability to operate on local and imported coal. Further, the Company is in a long term agreement with one of the leading international coal suppliers. According to contract, if the supplier isn't able to supply within a given timeline, FPCL is allowed to procure it from different vendor and the supplier is mandated to bear the price variation. Subject to heat rate and other parameters defined in PPA/SSA, FPCL passes through the cost in its tariff calculation which mitigates the price risk for the Company.

Satisfactory operating performance with sound track record since beginning of operations

The Company is in its 5th year of operations and by far remained compliant with defined parameters mentioned in PPA/SSA in terms of plant availability, capacity and efficiency. During period under review, the average plant availability has remained above 85% which is stipulated in PPA/SSA. Overall, plant availability has witnessed an increase during 2020 and 1H'2021. Moreover, energy delivered by plant has remained above the capacity during the period under review.

Table 1: Plant availability (Year Wise)

	2018	2019	2020	H1'2021
Availability (%)	***89.15%***	***89.59%***	***91.81%***	***87.8%***

Table 2: Capacity Utilization (Year Wise)

	Electricity (MW)				
	2017	**2018**	**2019**	**2020**	**H1'2021**
Available Capacity	414,048	543,558	543,558	543,558	269,545
Actual Energy Delivered	356,751	560,438	577,557	590,189	282,648
Capacity Utilization	***86%***	***103%***	***106%***	***109%***	***105%***
	Steam (M. Tons)				
	2017	**2018**	**2019**	**2020**	**H1'2021**
Available Capacity	1,089,600	1,489,200	1,489200	1,489,200	738,480
Actual Energy Delivered	952,690	1,453,282	1,532,131	1,475,256	584,192
Capacity Utilization	***87%***	***98%***	***103%***	***99%***	***79%***

Liquidity indicators remained adequate as funds generated from operations continued to support smooth working capital cycle and debt repayments

Funds from operations (FFO) remained intact in 2020 and 1H'21 when compared to same period last year mainly on the back of healthy internal cash flow generation and low finance cost. Debt Service Coverage Ratio (DSCR) has improved to 1.85x as at 2020 which we foresee to further improve in 2021 on the back of stable cashflow generation and lower finance cost due to decreasing long term financing and lower effective interest rates.

Declining leverage to improve capitalization indicators

As the Company retires debt liability, in line with the repayment scheduled, the leverage indicators are projected to improve. Gearing and Leverage clocked in at 1.14x and 1.29x as at Jun'21. Overall

	equity continued to grow, which stands at Rs. 14.9b as at Jun'21. Simultaneously, as the Company retires more debt, and in absence of any capital expenditure plans, payout has continued to rise (1H'21: 88%; 2020: 70%, 2019: 55%). As per management, payout ratio will remain around 90% going forward, while gearing is projected to fall to ~0.5x during the rating horizon.

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	**CY18**	**CY19**	**CY20**	**1HCY21**
Paid Up Capital	8,588	8,588	8,588	8,588
Long Term Financing	17,212	15,399	13,544	12,442
Short Term Borrowing	2,087	1,145	1,503	2,348
Total Liabilities	22,498	19,900	19,935	19,254
Total Equity	11,765	13,509	14,652	14,898
INCOME STATEMENT	**CY18**	**CY19**	**CY20**	**1HCY21**
Net Sales	16,245	17,100	16,644	9,043
Profit Before Tax	3,299	4,060	3,991	2,156
Profit After Tax	3,053	3,885	3,808	2,047
RATIO ANALYSIS	**CY18**	**CY19**	**CY20**	**1HCY21**
FFO	4,316	4,956	5,118	2,729
DSCR (x)	1.75	1.76	1.85	1.95
Current Ratio (x)	1.41	1.58	1.39	1.31
Gearing (x)	1.79	1.36	1.17	1.14
Leverage (x)	1.91	1.47	1.36	1.29
Gross Margin (%)	34.1%	40.7%	38.2%	33.8%
Net Margin (%)	34.1%	40.7%	38.2%	33.8%
ROAA (%)	8.9%	11.5%	11.2%	12.3%
ROAE (%)	27.8%	30.7%	27.0%	34.0%

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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Due Diligence Meetings Conducted	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
10/04/2021	AA-	A-1	Stable	Reaffirmed
10/20/2020	AA-	A-1	Stable	Reaffirmed
9/12/2019	AA-	A-1	Stable	Reaffirmed
7/26/2018	AA-	A-1	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Abdul Khaliq	Unit Manager - Finance	September 14, 2021