RATING REPORT

FFBL Power Company Limited

REPORT DATE:
October 27, 2022

RATING ANALYST:
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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	AA-	A-1	AA-	A-1
Rating Date	*October 27, 2022*		*October 04, 2021*	
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:** Arif ur 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.

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

Corporate Profile

FFBL Power Company Limited (FPCL), a subsidiary of Fauji Fertilizer Bin Qasim Limited with ultimate parent being Fauji Foundation, has been operating a 118 Megawatt (MW) coal-based power plant for half a decade. FPCL's primary activity is to generate power and steam for the parent company's fertilizer complex and to export power to K-Electric (KE). The plant is situated at Port Qasim, Karachi.

Key Rating Drivers

Strong sponsor strength and experienced management team.

The ultimate sponsor, Fauji Foundation (FF), one of the biggest conglomerates in Pakistan with sizeable financial strength and presence in diversified business sectors, continues to provide support to the assigned ratings.

Ratings are supported by presence of 30-year PPAs with the parent company and KE, which will expire in 2047, while maintaining a high position on KE's merit list is considered important for off-take risk.

FPCL sells electricity to its parent company, FFBL (up to 48MWs), and KE (52MW) under 30-year PPAs. The Company also sells steam generated at the facility to FFBL under a 30-year Steam Supply Agreement (SSA).

NEPRA has granted FPCL a tariff on 'take and pay' basis (guaranteed payment subject to inclusion in merit order); however, as stipulated in PPA, the company is obliged to provide 52MW to KE in return for the dispatch guarantee. FPCL is exposed to off-take risk as it competes with other power plants on KE's merit order list. The risk, however, is deemed moderate given that FPCL has consistently maintained its position in the merit order at 6/29 as per KE's merit order issued in Sept'22. Revenue from KE is invoiced monthly in accordance with tariff structure, and late payments are subject to a mark-up.

Operations and maintenance (O&M) of the plant is being managed by an experienced in-house team.

FPCL has an experienced in-house O&M team, which has demonstrated a track record of compliance with PPA/SSA parameters in terms of plant availability, capacity, and efficiency. However, given that O&M is performed by an in-house team, there is no recourse to liquidated damages in case plant's performance falls below the parameters specified in PPA.

Supply side risk is limited

FPCL has a long-term supply contract with one of the world's largest coal suppliers; contract is reviewed every three years. If the supplier is unable to supply within a specified time frame, the company is permitted to purchase coal from various international sources (South African and Indonesian). FPCL can also procure coal from local vendors (Thar *industries. More than 80 percent of the group's income goes towards the welfare activities every year.*

Profile of CEO & Chairman of the Group

Mr. Waqar Ahmed Malik had a career spanning over 28 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. Ari f ur Rehman is the Chief Executive of Fauji Fertilizer Bin Qasim Limited, FFBL Power Company Limited and Fauji Meat Limited.

and Afghan). During 9M'22, around 2% to 3% of coal was procured from local industry, with the remainder coming from foreign markets. In addition, price risk is mitigated as cost is a pass-through item as per tariff subject to meeting PPA/SSA specified parameters.

Satisfactory operating track record since beginning of operations.

Performance of the plant has remained satisfactory since commercial operations. Average plant availability has remained in excess of the 85%, as stipulated in PPA.

Table 1: Plant Availability & Capacity Utilization (Year Wise)

	2018	2019	2020	2021	1H'22
Availability (%)	***89.2%***	***89.6%***	***91.8%***	**92.0%**	***91.0%***
Electricity (MW)					
Available Capacity	543,558	543,558	543,558	543,558	269,545
Actual Energy Delivered	560,438	577,557	590,189	579,100	271,421
Capacity Utilization	***103%***	***106%***	***109%***	***106%***	***101%***
Steam (M. Tons)					
Available Capacity	1,489,200	1,489200	1,489,200	1,489,200	738,480
Actual Energy Delivered	1,453,282	1,532,131	1,475,256	1,369,156	748,204
Capacity Utilization	***98%***	***103%***	***99%***	***92%***	***101%***

Profitability margins trend

Net sales revenue increased significantly in 2021 and in the ongoing year, owing to rising fuel prices and a significant rupee depreciation over the review period. Due to unique power tariff models with fixed bottom line in form of ROE gross profit margin fell when higher denominator number (swelled up sales number) was seen vis-à-vis fixed PKR numerator of profit (depicting ROE component of tariff). Administrative overheads remained largely consistent with previous year levels while financial charges decreased; bottom line has remained stable.

Table 2: Energy Dispatched (in terms of units)

	2020	2021	1H'22
EPP			
KE Power (MWh)	437,010	434,055	189,248
FFBL Power (MWh)	153,179	145,045	82,164
FFBL Steam (MT)	1,475,256	1,369,156	748,204
CPP			
KE Power (MWh)	437,010	434,055	189,248
FFBL Power (MWh)	421,632	420,480	208,512
FFBL Steam (MT)	1,856,059	1,850,988	917,887

Liquidity metrics remain strong, with positive cash flow generation for debt servicing.

Funds from operations has largely remained intact since 2018 mainly on the back of healthy internal cash flow generation and declining finance cost. Given the sizeable cash flow generation, debt coverage metrics have also remained strong. On the other hand, trade debts have depicted an increasing trend on a timeline basis and amounted to Rs. 5.5b at end-June'22; of which ~54% pertains to KE and the remaining to parent company. As per aging profile, ~90% of total receivables are outstanding for less than 60 days.

Despite growth in equity base, leverage indicators have remained at similar levels

	due to higher utilization of running finance facility for coal procurement. The project cost was funded with a debt-to-equity ratio of 72:28. For debt financing, the company entered into commercial and Islamic long-term facilities with banks and received first payment in April 2016; loan features a term of 10 years and is repaid in quarterly instalments. Net equity continues to rise as a result of sustained profitability, while payout has also increased (2021: 75%; 2020: 70%; 2019: 55%). Leverage indicators have remained at similar levels due to higher utilization of running finance facility for coal procurement.

FINANCIAL SUMMARY					*(amounts in PKR millions)*
BALANCE SHEET	**2018**	**2019**	**2020**	**2021**	**June'22**
Paid Up Capital	8,588	8,588	8,588	8,588	8,588
Long Term Financing	18,932	17,259	15,667	13,581	12,476
Short Term Borrowing	2,087	1,145	1,503	6,046	5,265
Total Liabilities	22,498	19,900	19,935	22,451	19,621
Total Equity	11,765	13,509	14,652	15,541	17,155
INCOME STATEMENT					
Net Sales	16,245	17,100	16,644	20,722	13,160
Profit Before Tax	3,299	4,060	3,991	3,828	1,751
Profit After Tax	3,053	3,885	3,808	3,636	1,613
RATIO ANALYSIS					
FFO	4,316	4,956	5,118	4,878	2,380
DSCR (x)	1.75	1.76	1.85	1.73	1.68
Current Ratio (x)	1.41	1.58	1.39	1.19	1.30
Gearing (x)	1.79	1.36	1.17	1.26	1.03
Leverage (x)	1.91	1.47	1.36	1.44	1.14
Gross Margin (%)	34.1%	40.7%	38.2%	28.4%	24.1%
Net Margin (%)	18.8%	22.7%	22.9%	17.5%	12.3%
ROAA (%)	8.9%	11.5%	11.2%	10.0%	10.1%
ROAE (%)	27.8%	30.7%	27.0%	24.1%	26.6%

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**
	10/27/2022	AA-	A-1	Stable	Reaffirmed
	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
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 Meeting Conducted	**Name**	**Designation**	**Date**		
	Mr. Moazzam Siddique	Deputy Manager Finance	September 30, 2022		