RATING REPORT

FFBL Power Company Limited

REPORT DATE:
December 20, 2023

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	*December 20, 2023*		*October 27, 2022*	
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
Applicable Rating Criteria:
Corporates (May 2023) https://docs.vis.com.pk/docs/CorporateMethodology.pdf
Rating Scale & Definitions https://docs.vis.com.pk/docs/VISRatingScales.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).

Profile of Chairman:

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.

Profile of CEO:

Mr. Arif ur Rehman is the Chief Executive of Fauji Fertilizer Bin Qasim Limited, FFBL Power Company Limited and Fauji Meat Limited.

Corporate Profile

FFBL Power Company Limited (FPCL), a subsidiary of Fauji Fertilizer Bin Qasim Limited (FFBL) with ultimate parent being Fauji Foundation (FF), has been operating a 118 Megawatt (MW) coal-based power plant. The complex started operations on May 19, 2017. 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. FFBL holds 75% shareholding in the company while the remaining 25% shares are owned by the ultimate sponsor.

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 the 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). The reference CPP tariff (May – 2017) with KE was set in Feb'22 at Rs. 5.14/KWh. The revised tariff with KE for October to December in 2023 was set at Rs. 12.11/KWh. NEPRA has granted FPCL a tariff on 'take and pay' basis; however, 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 4/22 as per KE's merit order issued on Dec 06, 2023. Revenue from KE is invoiced monthly in accordance with tariff structure, and late payments are subject to a mark-up. Meanwhile, FPCL's tariff with FFBL is agreed on 'take or pay' basis. For October to December in 2023, revised tariff with FFBL was set to Rs. 17.35/KWh.

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, with 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.

While FPCL has a long-term supply contract with international coal suppliers, the company is aiming to reduce reliance on imported coal, moving forward. The company is permitted to purchase coal from other local and international sources. FPCL procures local coal from multiple sources including but not limited to Sindh Engro Coal Mining Company. Presently, the proportion of local coal is around 30% to 50%. In addition, price risk is mitigated as cost is a pass-through item as per tariff subject to meeting PPA/SSA specified parameters.

Asset base mostly comprises property, plant and equipment and trade debts: Property, plant and equipment decreased slightly on account of depreciation (HY23: Rs. 24.2b; CY22: Rs. 24.7b, CY21: Rs. 25.3b). Trade debts increased to Rs. 12.5b (CY21: Rs. 2.9b) due to minor delays in receipts from power purchasers; though recovered slightly to Rs. 9.2b by end-HY23. Stock in trade stood higher at Rs. 5.0b (CY22: Rs. 2.7b; CY22: Rs. 3.5b) on account of strategic fuel stock inventory building up. Advances, prepayments and other receivables increased to Rs. 1.4b (CY22: Rs. 842.4m; CY21: Rs. 497.5m) by end-HY23 mainly on account of insurance claim receivable for a technical problem in generators amounting to Rs. 633.2m (CY22: nil).

Cash and bank balances declined significantly to Rs. 44.3m (CY21: Rs. 1.3b) following maintenance of low levels of cash balances as per group financial management strategy, moving forward. The company also liquidated its short-term investments (FY21: Rs. 3.5b) by end-FY22. FPCL made equity investment of Rs. 4b in Fauji Foods Limited (FFL) – an associated company – in HY23.

Operating performance: Annual plant availability during CY22 was 91.0%, against 85.0% benchmark as stipulated in PPA. During CY23, the plant availability was impacted by a shutdown from March to August because of a technical hitch as explained above. The resultant loss of capacity revenue is covered under insurance policy. As a result, the plant's availability and actual energy delivered was reported lower during HY23.

	2020	2021	2022	HY22	HY23
Availability (%)	**91.80%**	**92.00%**	**91.00%**	**91.00%**	**64.00%**
Electricity (MW)					
Available Capacity	545,047	543,558	543,558	269,545	269,545
Actual Energy Delivered	590,189	579,100	559,226	271,412	176,315
Capacity Utilization	**108%**	**107%**	**103%**	**101%**	**65%**
Steam (M. Tons)					
Available Capacity	1,493,280	1,489,200	1,489,200	738,480	738,480
Actual Energy Delivered	1,475,256	1,369,156	1,532,467	748,204	565,293
Capacity Utilization	**99%**	**92%**	**103%**	**101%**	**77%**

Profitability: Given revised tariff indexation, net revenue increased to Rs. 30.6b (CY21: Rs. 20.7b) during CY22. Gross margins improved in HY23 on the back of higher contribution of capacity payments in sales as plant availability remained relatively low.

	2020	2021	2022	HY22	HY23
			EPP		
KE Power (MWh)	437,010	434,055	395,747	189,248	139,667
FFBL Power (MWh)	153,179	145,045	163,479	82,164	36,648
FFBL Steam (MT)	1,475,256	1,369,156	1,532,467	748,204	565,293
			CPP		
KE Power (MWh)	437,010	434,055	395,747	189,248	139,667
FFBL Power (MWh)	421,632	420,480	420,480	208,512	178,502
FFBL Steam (MT)	1,856,059	1,850,988	1,850,988	917,887	917,887

Finance cost increased mainly on account of escalation in interest rate (CY22: Rs. 2.6b, CY21: Rs. 1.7b). Despite higher financial charges, net profit proportionately increased to Rs. 2.4b (CY22: Rs. 4.0b; CY21: Rs. 3.6b) during HY23.

Liquidity: Given higher profitability, FFO increased to Rs. 3.0b (HY22: Rs. 2.4b; CY22: Rs. 5.8b, CY21: Rs. 4.9b) in HY23. FFO to total debt coverage weakened slightly due to higher borrowing at end-HY23. DSCR remained range bound at 1.74x (HY22: 1.68x; CY22: 1.73x, CY21: 1.73x) at end-HY23. Current ratio remained adequate at 1.30x (CY22: 1.37x; CY21: 1.19x) at end-HY23. Aging profile of trade debts remained manageable with receivables mostly emanated from FFBL.

Aging profile of trade debts as at Jun'23	
By status	
Not yet due	39.2%
31-60 days	6.2%
61-150 days	46.2%
151-365 days	8.0%
Beyond 1 year	0.4%
By client	
KE	24.45%
FFBL	74.54%
Others	1.01%

Capitalization: The project cost was funded with a debt-to-equity ratio of 72:28. The company entered into long-term facilities with banks and received first payment in April 2016; loan features a term of 10 years and is repaid in quarterly installments. The company's equity base increased to Rs. 20.5b (CY22: Rs. 19.6b; CY21: Rs. 15.5b) by end-HY23. Gearing ratio improved to 0.88x (CY21: 1.26x) by end-CY22 and increased slightly to 1.02x by end-HY23. Going forward, FPCL's leverage indicators are projected to decline on account of repayment of long-term financing along with expansion in equity base.

FFBL Power Company Limited (FPCL)

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**CY20**	**CY21**	**CY22**	**HY23**
PPE (Inc. Intangible Assets)	26,224.2	25,291.1	24,685.4	24,173.1
Long-Term Investment	-	-	-	4,000.0
Stores And Spares	571.2	597.7	727.5	778.2
Stock In Trade	907.7	3,506.3	2,718.6	5,003.4
Trade Debts	2,215.6	2,925.8	12,487.7	9,170.8
Advances, Prepayments and Other Receivables	416.7	497.6	842.4	1,428.8
Income Tax Refundable	346.0	380.8	332.3	314.7
Short-Term Investments	1,500.6	3,501.3	-	-
Cash And Bank Balances	2,404.8	1,291.3	45.3	18.5
Total Assets	**34,586.7**	**37,992.0**	**41,839.2**	**44,887.5**
Long-Term Financing (Inc. Current Portion)	15,666.6	13,581.4	11,326.9	13,768.9
Short-Term Financing	1,503.3	6,046.1	5,860.1	7,130.8
Total Financing	**17,169.9**	**19,627.5**	**17,187.1**	**20,899.7**
Deferred Liabilities	391.3	501.5	700.4	813.8
Trade And Other Payables	2,373.8	2,322.2	4,355.7	2,666.0
Total Liabilities	**19,935.0**	**22,451.2**	**22,243.2**	**24,379.4**
Paid-Up Capital	8,587.5	8,587.5	8,587.5	8,587.5
Equity	**14,651.8**	**15,540.9**	**19,596.1**	**20,508.1**
INCOME STATEMENT	**CY20**	**CY21**	**CY22**	**HY23**
Net Sales	16,643.7	20,722.1	30,650.8	13,840.4
Gross Profit	6,365.7	5,891.8	7,543.8	5,080.2
Finance Cost	1,998.6	1,697.5	2,625.6	2,120.5
Profit Before Tax	3,991.0	3,828.4	4,421.5	2,650.3
Profit After Tax	**3,807.7**	**3,636.4**	**4,058.3**	**2,412.0**
RATIO ANALYSIS	**CY20**	**CY21**	**CY22**	**HY23**
Gross Margin	38.2%	28.4%	24.6%	36.7%
Net Margin	22.9%	17.5%	13.2%	17.4%
ROAA	11.2%	10.0%	10.2%	*14.2%**
ROAE	27.0%	24.1%	23.1%	*36.1%**
Current Ratio (x)	1.39	1.19	1.37	1.30
FFO	5,118.3	4,877.8	5,833.0	3,037.3
FFO to Long-Term Debt (x)	0.33	0.36	0.51	0.44*
FFO to Total Debt (x)	0.30	0.25	0.34	0.29*
DSCR (x)	1.85	1.73	1.73	1.74*
Gearing (x)	1.17	1.26	0.88	1.02
Leverage (x)	1.36	1.44	1.14	1.19

Annualized*

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	FFBL Power Company Limited
Sector	Power
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see 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.
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Due Diligence Meeting Conducted	see below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
12/20/2023	AA-	A-1	Stable	Reaffirmed
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

Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Moazzam Siddique	Deputy Manager Finance	November 06, 2023