RATING REPORT

FFBL Power Company Limited

REPORT DATE:
March 27, 2025
RATING ANALYST:
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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AA	A1	AA-	A1
Rating Date	*March 27, 2025*		*December 20, 2023*	
Rating Outlook	Stable		Stable	
Rating Action	Upgrade		Reaffirmed	

COMPANY INFORMATION	
Incorporated on June 27, 2014	**External auditors:** M/s AF Ferguson & Co. Chartered Accountants
Public Limited Company	**Chairman of the Board:** Anwar Ali Hyder
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Jahangir Piracha
Fauji Fertilizer Company Limited (FFC) ~75%	
Fauji Foundation (FF) ~25%	

APPLICABLE METHODOLOGY
Applicable Rating Criteria and Rating Scale:
Corporates 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 Company Limited (FFC) which holds 75% shareholding in the Company while the remaining 25% shares are owned by its ultimate parent, Fauji Foundation (FF).

Corporate Profile

FFBL Power Company Limited ('FPCL' or 'the Company') operates a 118 MW coal-fired power plant, which became operational on May 19, 2017. The entity is a subsidiary of Fauji Fertilizer Company Limited (FFC), under the umbrella of Fauji Foundation (FF). FPCL's functions include generating power and steam for FFC's fertilizer complex at Port Qasim and supplying electricity to K-Electric (KE). The plant is located at Port Qasim, Karachi. Shareholding is held by FFC (75%) and Fauji Foundation (25%).

Merger of Fauji Fertilizer Company Limited and Fauji Fertilizer Bin Qasim Limited

Ownership of FPCL was previously held by Fauji Fertilizer Bin Qasim Limited (FFBL). In December 2024, FFBL was merged with FFC, forming a consolidated fertilizer producer in Pakistan. The Lahore High Court's Rawalpindi Bench sanctioned the merger on November 18, 2024, under a Scheme of Arrangement dated September 26, 2024.

The merger was carried out through a share swap arrangement, under which approximately 150.87 million ordinary shares were issued by FFC to FFBL shareholders (excluding FFC) at a ratio of one FFC share for every 4.29 FFBL shares. Following this transaction, FFC's portfolio now includes a 37.5% stake in Pakistan Maroc Phosphore S.A., a 66% stake in Fauji Foods Limited, a 65% shareholding in Askari Bank Limited, and a 75% stake in FPCL.

The Group

Fauji Foundation was established in 1954 and operates as a diversified business group headquartered in Rawalpindi, Pakistan. Structured as a self-sustaining entity, its commercial operations generate revenue that is allocated toward welfare initiatives. Current estimates indicate workforce of around 27,000 employees. The Foundation's portfolio comprises 8 sectors, with operations in fertilizers, cement, energy, food processing, financial services, healthcare, gas exploration, and LPG marketing and distribution.

The group maintains significant industrial interests, including ownership stakes in publicly listed companies on the Pakistan Stock Exchange. Its fertilizer segment is led by Fauji Fertilizer Company Limited, a key manufacturer in the domestic market, while the cement segment operates under Fauji Cement Company Limited. The energy sector includes investments in power generation through entities such as FPCL, Fauji Kabirwala Power, and Foundation Power Company Daharki. Additionally, the group has a presence in food processing through Fauji Foods Limited and in financial services through Askari Bank Limited.

Following a welfare-cum-commercial model, approximately 60% of annual income is allocated to welfare initiatives, benefiting an estimated 9 million individuals, primarily retired military personnel and their families. The Foundation's business

operations have expanded from an initial paid-up capital of Rs 18.2 million, evolving into a diversified industrial and service-based network that supports both financial sustainability and social welfare programs.

Corporate Governance

The board of FPCL comprises 9 members, including 1 executive director (the CEO) and 8 non-executive directors. There are no female directors on the board. The Company has three board committees: the Audit Committee, Human Resource & Remuneration Committee and Technical Committee, responsible for governance oversight in their respective areas. The Company has room for further improvement in its corporate governance framework and may enhance it with an addition of a female representative on the board.

Operational Performance:

The annual capacity factor for CY24 was noted higher with increased demand from its parent FFC during the year. However, the availability factor during the year was slightly lower falling short of the benchmark of 85% in FY24, established in the Power Purchase Agreement (PPA) with K-Electric. The lower availability was due to operational disruptions during CY23-24, primarily caused by the tripping of two steam turbine generators, including one supplying power to auxiliaries at the Port Qasim Power Plant.

Table 1 Capacity and Production

Capacity and Production	FY23	FY24
Electricity		
Installed capacity-MW	639,480	641,232
Annual energy delivered-MW	410,235	483,620
Actual capacity factor	64.15%	75.42%
Steam		
Installed capacity-MT	1,752,000	1,756,800
Actual steam delivered-MT	1,312,031	1,529,226
Actual capacity factor	74.88%	87.04%

Key Rating Drivers

Business Risk Profile

Sector Risk: Non-Renewable Power Generation – Medium to Low

The non-renewable power sector in Pakistan, presents a medium-to-low business risk profile. The sector benefits from stable electricity demand, high barriers to entry, and long-term power purchase agreements (PPAs) that mitigate exposure to short-term demand fluctuations for independent power producers (IPPs). However, regulatory oversight, high capital intensity, and financial constraints arising from circular debt remain key risk factors.

Electricity demand in Pakistan remains relatively inelastic, with long-term growth supported by population expansion and urbanization. Although recent economic contractions have impacted industrial consumption, residential and commercial demand has remained stable. The sector is characterized by low cyclicality risk, with guaranteed offtake agreements providing insulation against short-term fluctuations. However, the recent revision or termination of certain PPAs, particularly those near expiration, has introduced additional risk for some IPPs. Furthermore, the underutilization of existing capacity, with capacity factors averaging approximately 40%, has contributed to inefficiencies, leading to higher consumer tariffs, and

exacerbating circular debt concerns. The non-renewable segment also faces substitution risk as the government prioritizes an increased share of renewable energy in the overall generation mix. IPPs without guaranteed offtake agreements now operate in a competitive market, where older non-renewable plants often rank lower on the merit order list. Structural constraints, including transmission limitations, have resulted in excess generation capacity that cannot be fully utilized.

Regulatory risk remains significant, given the government's direct involvement in tariff-setting, capacity payments, and policy direction. Circular debt, which had accumulated to approximately PKR 2.384 trillion as of December 2024, has resulted in liquidity challenges for power producers due to delayed payments. Nevertheless, FPCL is not exposed to the circular debt problem as it has two direct PPAs with its parent and K-Electric to provide them with energy. The capital-intensive nature of the sector, combined with exposure to interest rate fluctuations, presents persistent financing challenges.

In the near term, coal-based generation is expected to play a central role in meeting incremental electricity demand, particularly amid elevated LNG prices. However, Pakistan's long-term energy strategy targets a gradual shift toward renewables, with a goal of 30% electricity generation from renewable sources (excluding hydro) by 2030. While non-renewable generation will continue to be necessary for grid stability, its overall share in the energy mix is expected to decline. The sector's risk profile will remain contingent on regulatory consistency, the resolution of circular debt, and the financial viability of existing power plants.

Sponsor support

Fauji Foundation (FF), a prominent conglomerate in Pakistan with a presence across multiple business sectors, continues to support the assigned ratings. The recent merger between Fauji Fertilizer Bin Qasim Limited (FFBL) and Fauji Fertilizer Company Limited (FFC) has resulted in a revised ownership structure, placing the Company under the direct control of a stronger sponsor.

Power Purchase Agreement

Ratings are supported by 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 supplies electricity to FFC (formerly FFBL), its parent company, (up to 48 MW) and K-Electric (52 MW) under 30-year Power Purchase Agreements (PPAs). Additionally, the Company supplies steam to FFC (formerly FFBL) under a 30-year Steam Supply Agreement (SSA). The reference capacity purchase price (CPP) tariff for K-Electric, initially set in May 2017, was revised in February 2022 to Rs. 5.14/kWh. For January 2025, the updated CPP tariff for K-Electric was set at Rs. 10.52/kWh, while the Energy Purchase Price (EPP) stood at Rs. 18.72/kWh. NEPRA has approved a "take-and-pay" tariff structure for FPCL; however, FPCL is obligated to supply 52 MW to K-Electric in exchange for the dispatch guarantee. The Company faces off-take risk due to competition with other power plants in K-Electric's merit order. Nonetheless, this risk remains moderate, as FPCL continues to maintain a favorable position, ranking 4th out of 22 in K-Electric's merit order as of January 22, 2025. Revenue from K-Electric is invoiced monthly under the agreed tariff structure, with late payments subject to a mark-up. In contrast, the tariff agreement with FFC (formerly FFBL) follows a "take-or-pay" arrangement. For

January 2025, the revised tariff components with FFC (formerly FFBL) were set at Rs. 15.78/kWh as CPP and Rs. 21.05/kWh as EPP.

Supply-Side Risk

The Company previously maintained a long-term supply agreement with a coal supplier, with an option for extension. However, the management decided not to extend the contract and procure coal at spot rates from the international market. This approach may enhance exposure to supply risks.

Financial Risk Profile

In FY24, FPCL achieved growth in net sales, driven by tariff adjustments implemented during the period as well as slightly higher demand from its parent. Despite revenue increase, the Company's gross margin was slightly lower at 26.14% (FY23: 28.66%), due delayed fuel cost adjustment into the tariff. However, FPCL demonstrated improved operating margin of 34.87% (FY23: 30.91%) in FY24, supported by realization of insurance claim for STG 1 & 2 as well as STG stators. The improvement in operating margins as well as lower finance cost also supported the bottom-line and net margins during the year. Net margins were reported at 25.43% (FY23: 14.32%) in FY24 which is also supported by the share of profit from FFL with holding of 15.87% (FY23: 15.87%) in FY24.

During FY24, FPCL fully repaid its long-term financial obligations, resulting in no long-term debt on its statement of financial position as of year-end. Although short-term borrowings increased; however, the overall debt level declined significantly. Consequently, gearing and leverage ratios decreased to 0.26x (FY23: 0.86x) and 0.37x (FY23: 0.96x), respectively. Given sufficient cash balances, the leverage ratios were even further lower on a net debt basis. The early repayment of long-term debt was part of a group-wide strategic initiative undertaken by the parent company, FFC, to reduce financial liabilities in response to elevated interest rates.

The reduction in debt and associated financial costs, coupled with improved FFO, resulted in improved coverages, as reflected in a higher Debt Service Coverage Ratio (DSCR) of 4.39x (FY23: 1.29x) in FY24. Despite an improvement in profitability and coverage metrics, the liquidity in terms of current ratio contracted slightly to 1.15x (FY23: 1.20x).

Financial Summary

Balance Sheet (PKR Millions)	FY22A	FY23A	FY24A
Property, plant and equipment	24,670.73	24,241.24	23,482.40
Intangible Assets	14.68	2.40	6.34
Long-term Investments	-	4,086.00	3,738.00
Stock-in-trade	2,718.64	2,488.77	2,132.12
Trade debts	12,487.71	4,615.41	3,765.63
Cash & Bank Balances	45.29	2,869.99	2,355.78
Other Assets	1,902.20	1,967.68	2,404.33
Total Assets	41,839.25	40,271.49	37,884.60
Creditors	3,114.59	194.76	1,001.99
Long-term Debt (incl. current portion)	11,326.93	12,187.38	0.00
Short-Term Borrowings	5,860.13	5,536.84	7,063.67
Total Debt	17,187.06	17,724.22	7,063.67
Other Liabilities	1,941.49	1,759.96	2,173.39
Total Liabilities	22,243.14	19,678.94	10,239.04
Paid up Capital	8,587.50	8,587.50	8,587.50
Revenue Reserve	11,008.58	12,005.06	19,510.12
Other Equity (excl. Revaluation Surplus)	0.00	0.00	-452.06
Equity (excl. Revaluation Surplus)	19,596.08	20,592.56	27,645.56

Income Statement (PKR Millions)	FY22A	FY23A	FY24A
Net Sales	30,650.82	28,057.48	29,506.82
Gross Profit	7,543.82	8,040.35	7,712.57
Operating Profit	7,047.12	8,673.42	10,289.70
Finance Costs	2,625.62	4,213.77	2,509.26
Profit Before Tax	4,421.50	4,459.66	7,780.43
Profit After Tax	4,058.31	4,018.65	7,503.54

Ratio Analysis	FY22A	FY23A	FY24A
Gross Margin (%)	24.61%	28.66%	26.14%
Operating Margin (%)	22.99%	30.91%	34.87%
Net Margin (%)	13.24%	14.32%	25.43%
Funds from Operation (FFO) (PKR Millions)	5,875.63	5,544.46	8,574.02
FFO to Total Debt* (%)	34.19%	31.28%	121.38%
FFO to Long Term Debt* (%)	51.87%	45.49%	
Gearing (x)	0.88	0.86	0.26
Leverage (x)	1.14	0.96	0.37
Debt Servicing Coverage Ratio* (x)	1.70	1.29	4.39
Current Ratio (x)	1.37	1.20	1.15
(Stock in trade + trade debts) / STD (x)	2.72	1.48	0.99
Return on Average Assets* (%)	10.17%	9.79%	19.20%
Return on Average Equity* (%)	23.10%	20.00%	31.11%
Cash Conversion Cycle (days)	103.18	128.55	70.29

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

FFBL Power Company Limited (FPCL)

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

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
03/27/2025	AA	A1	Stable	Upgrade
12/20/2023	AA-	A1	Stable	Reaffirmed
10/27/2022	AA-	A1	Stable	Reaffirmed
10/04/2021	AA-	A1	Stable	Reaffirmed
10/20/2020	AA-	A1	Stable	Reaffirmed
9/12/2019	AA-	A1	Stable	Reaffirmed
7/26/2018	AA-	A1	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.
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Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Shahid Saud Ul Hassan	CFO	February 19, 2025