



## The Pakistan Credit Rating Agency Limited

### Rating Report

#### Engro PowerGen Thar (Pvt.) Limited

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##### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Apr-2019	A	A1	Stable	Maintain	-
27-Dec-2018	A	A1	Stable	Maintain	-
27-Jun-2018	A	A1	Stable	Maintain	-
22-Dec-2017	A	A1	Stable	Maintain	-
21-Jun-2017	A	A1	Stable	Maintain	-
30-Dec-2016	A	A1	Stable	Initial	-

##### Rating Rationale and Key Rating Drivers

Engro Powergen Limited (EPL) along with China Machinery & Engineering Corporation (CMEC) is setting up first Thar coal based (2 x 330 MW) power plant (Complex) - Engro Powergen Thar (Pvt.) Limited (EPTL). The project achieved financial close (FC) in Apr-16 and the project's contracted COD is in Oct-19. However, management is aiming for COD in Jun-19 on a best efforts basis. RCOD is Jun-19 as per PPA and delay LDs will apply if this date is exceeded. Nevertheless, in case of any delays, LDs will be paid through shareholders' ROE. The primary fuel is Thar Coal; however, the plant can accommodate imported coal. A 30-year coal supply agreement is signed with Sindh Engro Coal Mining Company (SECMC), which is constructing a coal mine in Thar Block-II. The mine's contracted COD is Oct-19, though the management is targeting COD by June-19. As of Feb-19, the actual progress is 99.15% based on the shorter 38-month schedule. The company has successfully tested and synchronized its first unit in March-19 and the second unit in April-19 whereby power plant has successfully been connected to and provided electricity to the grid. However, various reliability and performance related tests need to be performed before RCOD. The financial strength and experience in the energy chain of the sponsoring companies – EEL and CMEC – is positive to the ratings. The onshore EPC contract is with CERIECO and offshore EPC contract is with CMEC. Comfort is drawn from the experience of these contractors and the involvement of Pakistan and Chinese governments, as this project comes under CPEC. The ratings incorporate material completion of multiple affiliated infrastructure projects needed for the successful commissioning of the Complex. Once completed, the Company's main challenge would be to keep the plant operational. Offtake agreement is with NTDC, which will, upon plant's availability as per contract, provide capacity payments even if no purchase order is placed. The Government of Pakistan has given payment guarantee against dues from NTDC. The business risk of the company is mitigated as the company has successfully produced electricity on the specifications of Thar coal, which is being used for the first time. Furthermore, the use of CFB Boiler by the Company largely covers the risk of varying lignite quality.

The management's ability to effectively manage EPC risks provides comfort. Ensuring timely commissioning of the project would remain critical, which, once achieved, would be ratings positive. Moreover, the timely completion of the affiliated infrastructure projects needed to make the plant operational and the viability of Thar Coal is critical. External factors such as any adverse changes in the regulatory framework or material delay in achieving CoD may impact the ratings.

##### Disclosure

<b>Name of Rated Entity</b>	Engro PowerGen Thar (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Criteria   Rating Modifier(Jun-18),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-18),Methodology   IPP (Jun-18)
<b>Related Research</b>	Sector Study   Power(Jan-19)
<b>Rating Analysts</b>	Hamza Ghalib   hamza.ghalib@pacra.com   +92-42-35869504



## ENGRO POWERGEN THAR (PRIVATE) LIMITED PROFILE

Incorporated	2014
Major business lines	Independent Power Producer
Legal status	Public Limited
Expected COD	June 2019
Nameplate Capacity	2*330 MW
Primary Fuel	Coal
Plant Location	Thar, Sindh
Head Office	Karachi

## INDUSTRY SNAPSHOT

- Pakistan total power generation is increasing on the back of new power projects under CPEC
- Pakistan's energy mix is shifting towards Gas/RLNG and coal from Furnace Oil and other expensive sources
- Gas fired power plants have lowest per unit cost among all fossil fuel power plants.
- Going forward, cheap renewable electricity will be a challenge to the viability of Thermal power plants.

## OWNERSHIP

- EPTL's majority ordinary shares are owned by Engro Powergen Limited (EPL) (50.1%) and China Machinery Engineering Company (CMEC) (35%)
- The remaining stake is owned by Habib Bank Limited (HBL) (9.5%) and Liberty Mills Limited (LML) (5.4%). In addition to ordinary shares, \$85mln preference shares are all subscribed by CMEC.

## GOVERNANCE

- BoD comprises nine members including the CEO; five represent EPL, three CMEC, and one HBL.
- Mr. Ahsan Zafar Syed is the Chairman of the Board.
- The diverse experience of the Board Members over different industries is a comforting factor.

## MANAGEMENT

- Mr. Ahsan Zafar Syed, CEO of EPTL, He has ample experience in engineering, procurement & construction management, and project management. He was previously engaged with EPTL as Chief Operating Officer.
- Mr. Ahsan is accompanied by a lean but efficient management team.

## COMPLETION RISK

- EPTL has signed an Onshore EPC agreement with China East Resource Import & Export Co. (CERIECO) and an offshore agreement with CMEC.
- CERIECO, established in 1993 is a Chinese state-owned company. It specializes in EPC contracts and engineering consulting services.
- CMEC, since 1978, provides engineering consulting, project design, financing solutions, and plant logistic services locally and internationally.
- The company has successfully tested and synchronized its first unit in March-19 while second unit in April-19 where power plant has successfully been connected to, and provided electricity at some capacity, to the grid. However, continuous electricity is not being supplying to grid. After first synchronization, tuning of the boilers is underway where both the units will be tested at different load levels. After tuning, a Reliability Run Test of the power plant will be conducted in which the power plant will have to operate at full load for seven days, as per the instructions of the Power Purchaser
- The RCOD of the Complex is scheduled by June-2019 while contracted COD is planned by Oct-2019. In case of any delays, LDs will be paid through shareholders' ROE.
- Coal Supply Agreement has been signed with Sindh Engro Coal Mining Company (SECMC) and the mine's contracted COD is Oct-2019.
- The successful commissioning and operations of the Complex, in addition to its own completion, is dependent on mine's COD and other affiliated infrastructure projects which are materially completed.
- Other affiliated infrastructure projects are; Effluent Disposal Scheme, Transmission Line, Road Network, & Airport. These projects have completed in first quarter 2019.
- As of Feb'19, the actual progress is 99.15%, based on the shorter 38-month schedule.
- EPTL has attained reasonable insurance cover for material damage, third party liability, and delay in startup affecting the profits. Additionally, Marine, Terrorism, and Excess Third Party Liability Insurances are also held.

## PERFORMANCE

- EPTL has signed O&M Contract with Engro Power Services Holding (EPSH) for a 10-year period.
- Contracted availability and efficiency is 85% and 37% respectively.
- The ROE provided to EPTL on use of Thar coal is 30.65% & 24.5% on imported coal.

## FINANCIAL RISK

- Debt financing constitutes 75% of the project cost; \$831mln.
- USD facility of \$621mln and local facility of \$210mln have a 14-year door to door tenure and are to be paid in 20 semi-annual payments over a period of 10 years after COD. The USD facility is at LIBOR + 4.2% and local at KIBOR + 3.5%.
- The yearly debt and mine capacity payments can be made at 67% availability (8 months of availability).

## Engro Powergen Thar (Pvt.) Limited

## BALANCE SHEET

	31-Dec-18	31-Dec-17	31-Dec-16	31-Dec-15
	CY18	CY17	CY16	CY15
<b>Non-Current Assets</b>	<b>104,221</b>	<b>56,985</b>	<b>31,497</b>	<b>1,576</b>
Investments (Others)	-	-	-	-
<b>Current Assets</b>	<b>4,718</b>	<b>3,870</b>	<b>1,336</b>	<b>294</b>
Trade Receivables	-	-	-	-
Other Current Assets	215	124	55	6
Cash & Bank Balances	4,502	3,746	1,282	288
<b>TOTAL ASSETS</b>	<b>108,939</b>	<b>60,855</b>	<b>32,833</b>	<b>1,870</b>
<b>Debt</b>	<b>82,345</b>	<b>38,634</b>	<b>14,440</b>	<b>-</b>
Short-term	-	-	-	-
Long-term (Inlc. Current Maturity of long-term debt)	82,345	38,634	14,440	-
Other Short term liabilities (inclusive of trade payables)	2,514	1,162	2,165	91
Other Long term Liabilities	-	-	-	-
<b>Shareholder's Equity</b>	<b>24,080</b>	<b>21,059</b>	<b>16,228</b>	<b>1,778</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>108,939</b>	<b>60,855</b>	<b>32,833</b>	<b>1,870</b>

## INCOME STATEMENT

Admin Expenses	(38)	(25)	(36)	(14)
Other Income	-	-	21	10
Financial Charges	-	-	(0)	-
Taxation	(1)	(0)	(1)	(0)
<b>Net Income</b>	<b>(39)</b>	<b>(25)</b>	<b>(16)</b>	<b>(4)</b>

## Cashflow Statement

Free Cashflow from Operations (FCFO)	(72)	(57)	(19)	(13)
Net Cash changes in Working Capital	335	(1,355)	1,810	77
Net Cash from Operating Activities	263	(1,413)	1,792	64
Net Cash from InvestingActivities	(34,395)	(25,004)	(22,950)	(462)
Net Cash from Financing Activities	33,668	28,883	22,145	565
Net Cash generated during the period	(467)	2,464	994	171

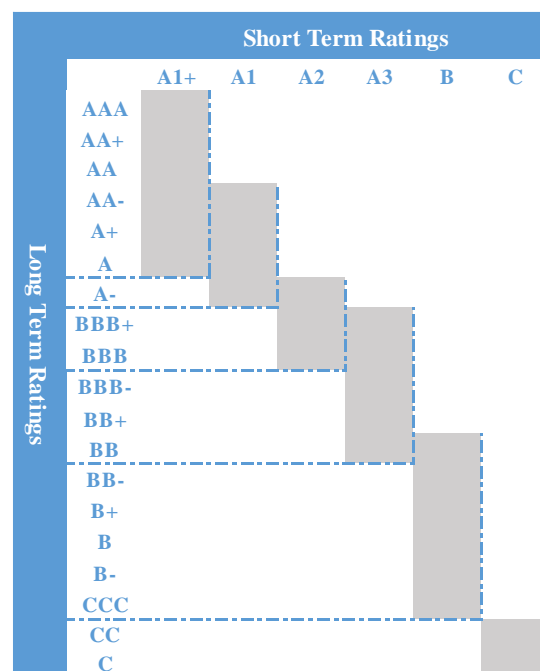
## Ratio Analysis

<b>Capital Structure</b> (Total Debt/Total Debt+Equity)	77.3%	64.7%	47.0%	0.0%
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## Credit Rating Scale & Definitions

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings		Short Term Ratings	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	<b>B</b>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	<b>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.		
<b>D</b>	Obligations are currently in default.		



<b>Outlook (Stable, Positive, Negative, Developing)</b> Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.	<b>Rating Watch</b> Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.	<b>Suspension</b> It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.	<b>Withdrawn</b> A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.	<b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.
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- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

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