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www.pacra.com**Applicable Criteria**

- Rating Modifiers | Outlook and Rating Watch (Jun 16)
- Sukuk Rating (Jun 16)
- Methodology | Independent Power Producers (IPP) (Jun 16)
- Debt Instrument (Jun 16)

Related Research

- Sector Study | Power Generation (Mar 17)

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PACRA Assigns Preliminary Ratings to Debt Instruments of WAPDA

Rating Type	PPTFC PKR 10bln	Sukuk PKR 15bln
	Current (04-Apr-2017)	Current (04-Apr-2017)
Action	Preliminary	Preliminary
Ratings	AAA	AAA
Outlook	Stable	Stable
Rating Watch	-	-

The Water and Power Development Authority of Pakistan is in the process of issuing debt instruments worth PKR 88bln (TFCs: 35.2bln, Sukuks: 52.8bln) in multiple tranches. WAPDA intends to utilize this amount to partially finance the construction of DASU hydro power project (Dasu). Dasu, once completed would become second largest hydel project in Pakistan. Dasu is a run of the river project on Indus River located in Dasu Kohistan, Khyber Pakhtunkhwa about 345 KM from Islamabad. Project, planned to be started within 2017, will be completed in two stages. Stage 1 (2,160 MW) is expected to complete in five year time with cost of ~486bln. WAPDA is in the process of procuring land and finalization of the EPC contractors for the project.

The preliminary ratings of PPTFCs (Tranche 1: PKR 10bln) and Sukuks (Tranche 1: PKR 15bln) reflects an unconditional and irrevocable guarantee by the Government of Pakistan (GoP). The guarantee will cover the payment of total outstanding amount of the instruments and related profit component. GoP would pay the entire called amount immediately upon receiving a demand notice from the trustee. Additionally, WHE shall maintain debt payment account (DPA) under the exclusive lien of the trustee. Within first fifteen days of each month, WHE shall deposit an amount equal to 1/6th of the upcoming instalment in the DPA. The rating apart from a debt payment and guarantee mechanism recognizes strong cashflows of WAPDA Hydro Electric; The core source of repayment. WAPDA also has strategic importance as the major hydroelectric power supplier to the country (30% in overall electricity generation in FY16).

WAPDA's revenues primarily emanate from WAPDA Hydro Electric (WHE) overlooked by the power wing. WHE receives tariff based revenue from NTDC/CPA against supply of electricity. WAPDA generated 33,151 Gwh electricity in FY16 and it expects to generate additional ~7,000Gwh by completion of new hydel projects in next five years. WAPDA continues to enjoy strong profitability on the back healthy margins. WHE's financial profile draws comfort from strong cash flows. However, it remains dependent on repayment behavior of power purchaser. WHE has debt to equity of 48% with most of the debt is from government in the form of foreign relent loan and development loans. Currently WAPDA has healthy debt coverage of 1.8x as at end Jun16. This is expected to remain largely intact.

Finalization of legal documentation and continued compliance with the predefined covenants of the instrument, including maintenance of DPA would be critical subsequent to the issuance of the debt instruments.

About the Entity

The Pakistan Water and Power Development Authority (WAPDA), WHE was established through an act of parliament in February 1958 (WAPDA Act 1958) for development and maintenance of water and power resources. WHE has 19 projects with total hydel generation capacity of 6,902MW.

About the PPTFC

WAPDA is in the process of issuing privately placed Term Finance Certificates of PKR 10bln. The instrument, having a tenor of 15 years, shall be redeemed in 20 equal semi-annual instalments starting after 66th month of the issue. Profit will be paid semiannually in arrears at 6M Kibor + 145bps.

About the Sukuk

WAPDA is in the process of issuing Sukuks of PKR 15bln for a period of 15 years. The drawdowns will be completed in five years. The instrument shall be redeemed in 20 equal semi-annual instalments starting after 66th month of the issue. Profit will be paid semiannually in arrears at 6M Kibor + 145bps.