



The Pakistan Credit Rating Agency Limited

FOUNDATION POWER COMPANY DAHARKI LIMITED

	NEW [MAR-17]	PREVIOUS [MAR-16]
Long-Term	A+	A+
Short-Term	A1	A1
Outlook	Positive	Stable

REPORT CONTENTS
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MARCH 2017

Profile & Ownership

- Foundation Power Company Daharki Limited (FPCDL) was established in 2005 as an independent power producer (IPP). The plant commenced operations in May 2011.
- The company is operating a combined cycle power plant on a build-own-operate basis with a net capacity of 180MW.
- FPCDL is majority owned by Daharki Power Holdings Limited (DPHL), which, in turn is owned by Fauji Foundation (FF) (81%) and Asian Development Bank (ADB) (19%).

Governance

- FPCDL has a six member Board, comprising five representatives from FF (including the MD), and one from ADB.
- FF's strong professional profile assists the management in terms of strategic guidance and implementation of strong control framework.
- Lt. Gen. Khalid Nawaz Khan (Retd.) – Managing Director of FF – is the Chairman of the Board since November 2014.
- The board has three committees in place – (i) Audit and Finance Committee, (ii) Technical Committee, and (iii) Human Resource Committee.

Management

- During the year, Brig. Raashid Wali Janjua (Retd) was appointed as the non-executive Director on Board, also serves on the Board of Mari Petroleum Limited on behalf of Fauji Foundation representation.
- The management team is experienced and is ably handling the affairs of the company.

Performance Risk

- FPCDL generated a total of 547,677 MWH of electricity during 1HFY17 (1HFY16: 690,442 MWH).
- KEPCO, the O&M operator, ensures adherence of the plant to meet minimum performance benchmarks (Availability: Actual: 96.2%; Benchmark: 88%, Efficiency: Actual: 48.8%; Benchmark: 48.8%).
- FPCDL has negotiated the gas supply agreement with Mari Petroleum Company Limited for a period of 25 years.

Financial Risk

- FPCDL's increased profitability has further improved its free cashflows from operations (FCFO) on annual basis. Though, there is a minimal reduction in (FCFO), when we compare it on YoY basis (end-1HFY17: PKR 1,469mln; end-1HFY16: PKR 1,710 mln).
- FPCDL's working capital requirements decreased on a YoY basis due to timely payments made to the fuel supplier resulting in reduction in trade payable days.
- Previously, the company met its working capital requirements through stretching payments to fuel supplier and through short term borrowings. However, as a result of improved working capital management, the cash cycle has reversed from negative to positive.
- The project cost (75%) was financed through a syndicated term finance loan. The loan size, PKR 11,565mln, is priced at 6-month KIBOR + 2.93% p.a., out of which PKR 7,166mln is outstanding as on 01-Jan-17. It is to be repaid in 20 unequal semi-annual installments. Thirteen installments have been made to date as on 1HFY17.
- FPCDL has a moderately leveraged capital structure (end-1HFY17: 53%; end-FY16: 55%; end-FY15: 63%).
- The company has made the last seven semi-annual payments on time and is looking to continue this prudent practice in the future.

RATING RATIONALE

The ratings reflect strong business profile of FPCDL emanating from the demand risk coverage under Power Purchase Agreement signed between NTDC and the company. The implementation agreement further provides sovereign guarantee for cashflows, given adherence to agreed performance benchmarks. The ratings incorporate low operational risk, a result of the performance of KEPCO - the O&M operator. Fuel of the plant is 'low BTU' gas, which is supplied by an associate - Mari Petroleum Company Limited (40% owned by Fauji Foundation). Thus fuel supply risk is considered low. The company manages its working capital requirements by stretching payables to the fuel supplier and through short-term borrowings. However, the improvement in managing the commercial obligations is considered positive. Short-term borrowing lines are maintained to fund any short-fall in debt servicing and/or dividend payments. The company's association with Fauji Foundation (FF) provides comfort to the ratings.

KEY RATING DRIVERS

The positive outlook signifies FPCDL's good financial conduct in the recent past. Accumulation of circular debt would pose threat to the company's ability to continue with this practice. However, the management ably supported by sponsors remains committed to sustain improvement in management of commercial obligations and timely debt repayments. Cushion in un-utilized lines also provide comfort.



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Foundation Power Company Daharki Limited

PKR in mln

BALANCE SHEET	31-Dec-16	30-Jun-16	30-Jun-15	30-Jun-14
	1HFY17	Annual	Annual	Annual
Non-Current Assets	13,846	14,178	14,843	15,670
Current Assets	4,885	5,379	7,137	5,993
Inventory	-	-	-	-
Trade Receivables	3,952	4,169	5,799	4,960
Other Current Assets	529	621	319	242
Cash & Bank Balances	404	588	1,019	790
Total Assets	18,732	19,557	21,980	21,662
Debt	7,545	8,223	9,263	10,085
Short-term	400	457	463	471
Long-term (Incl. Current Maturity of long-term debt)	7,145	7,766	8,800	9,614
Other Short term liabilities (inclusive of trade payables)	4,362	4,664	7,143	6,038
Other Long term Liabilities	41	43	38	44
Shareholder's Equity	6,784	6,627	5,535	5,496
Total Liabilities & Equity	18,732	19,557	21,980	21,662

INCOME STATEMENT

Turnover	5,186	11,235	11,866	10,327
Gross Profit	1,187	3,118	2,981	2,740
Other Income	33	63	70	96
Financial Charges	(438)	(1,019)	(1,939)	(1,518)
Net Income	705	1,990	942	1,040

Cashflow Statement

Free Cashflow from Operations (FCFO)	1,469	3,695	3,558	3,314
Net Cash changes in Working Capital	(39)	(1,227)	19	1,013
Net Cash from Operating Activities	1,058	1,544	1,822	2,457
Net Cash from Investing Activities	(14)	(24)	147	(339)
Net Cash from Financing Activities	(1,227)	(1,951)	(1,741)	(1,544)
Net Cash generated during the period	(184)	(431)	229	574

Ratio Analysis

Performance

Turnover Growth	-10.3%	-5.3%	14.9%	-6.6%
Gross Margin	22.9%	27.8%	25.1%	26.5%
Net Margin	13.6%	17.7%	7.9%	10.1%
ROE	20.8%	30.0%	17.0%	18.9%

Coverages

FCFO Pre-WC/Gross interest+CMLTD	1.2	1.6	1.0	1.1
FCFO Post-WC/Gross interest+CMLTD	1.2	1.1	1.0	1.5

Liquidity

Net Cash Cycle	1.1	-16.8	-58.4	-64.4
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Capital Structure

Net Debt/Net Debt+Equity	52.7%	55.4%	62.6%	64.7%
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Foundation Power Company Daharki Limited

March 17

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STANDARD RATING SCALES & 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
AAA	<p>Highest credit quality. Lowest expectation of credit risk.</p> <p>Indicate exceptionally strong capacity for timely payment of financial commitments.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+ AA AA-	<p>Very high credit quality. Very low expectation of credit risk.</p> <p>Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p>	
A+ A A-	<p>High credit quality. Low expectation of credit risk.</p> <p>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.</p>	
BBB+ BBB BBB-	<p>Good credit quality. Currently a low expectation of credit risk.</p> <p>The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.</p>	
BB+ BB BB-	<p>Moderate risk. Possibility of credit risk developing.</p> <p>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.</p>	
B+ B B-	<p>High credit risk.</p> <p>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.</p>	
CCC CC C	<p>Very high credit risk.</p> <p>“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.</p>	
D	<p>Obligations are currently in default.</p>	

<p>Rating Watch</p> <p>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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.</p>	<p>Outlook (Stable, Positive, Negative, Developing)</p> <p>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’.</p>	<p>Suspension</p> <p>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, a suspended rating should be considered withdrawn.</p>	<p>Withdrawn</p> <p>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, or e) the entity/issuer defaults.</p>
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Disclaimer: PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.



Regulatory and Supplementary Disclosure

Rated Entity

Name of Rated Entity
Sector
Type of Relationship

Foundation Power Company Daharki Limited
Independent Power Producer
Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
24-Mar-16	A+	A1	Stable	Maintain
08-Apr-15	A+	A1	Stable	Maintain
14-Apr-14	A+	A1	Stable	Maintain
23-Apr-13	A+	A1	Stable	Maintain
03-Dec-12	A+	A1	Stable	Downgrade

Related Criteria and Research

IPP's Viewpoint - Feb16

Methodology:

IPP's Rating Methodology

Rating Analysts

Faizan Sufi faizan.sufi@pacra.com (92-42-35869504)	Rai Umar Zafar rai.umar@pacra.com (92-42-35869504)
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Rating Team Statement

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

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transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from

PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past.

Probability of Default (PD)