The Pakistan Credit Rating Agency Limited

Rating Report

Halmore Power Generation Company Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Apr-2018	A+	A1	Stable	Maintain	-
13-Oct-2017	A+	A1	Stable	Upgrade	-
07-Mar-2017	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Halmore Power Generation Company Limited runs a 225MW power plant. The company operates in the regulated power sector. It enjoys sovereign guarantee against receivables from power purchaser - CPPA-G - given adherence to agreed performance benchmarks. The Company's operations and maintenance operator, General Electric International (GE), is a key source of comfort in managing the plant's operations. The company's financial risk profile is largely dependent on repayment behavior of the power purchaser. In recent periods, availability of primary fuel was challenging; however operational performance remained healthy. The company’s cash cycle witnessed a surge on account of delayed capacity payments by CPPA-G. Halmore funds its working capital requirements mainly through short term borrowing. Halmore has total long term debt of PKR 6,146mln as at end-Dec17 payable till December 2020. The company avails forbearance period while meeting its financial obligations.

Upholding operational performance in line with agreed performance levels would remain a key rating driver. Any significant increase in overdue receivables, as a result of rise in circular debt, may impact the ratings.

Disclosure	
Name of Rated Entity	Halmore Power Generation Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation between long-term and short-term rating scale(Jun-17),Methodology | Criteria Modifiers(Jun-17),Methodology | Independent Power Producers (IPP)(May-17)
Related Research	Sector Study | Power(Apr-18)
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HALMORE POWER GENERATION COMPANY LIMITED PROFILE	
Incorporated	2005
Major business lines	Independent Power Producer
Legal status	Private Limited
COD	2011
Plant Specifications	Combined Gas Cycle Turbine
Plant Capacity	225 MW
Fuel	Gas
Plant Location	Bhikki, Punjab
Head Office	Lahore

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
- Circular Debt has swell to PKR 505mln as at end December 2017
- Going forward, cheap renewable electricity will be a challenge to viability of Gas based power plants.

OWNERSHIP

- HPGCL is majorly owned by Mian Karim Ud Din with 99.99% shareholding.
- The company was established and owned by Mian Muhammad Shairf, however after his demise in September 2018, all of his shareholding as part of his inheritance was transferred to Mian Karim Ud Din.
- Mian M. Sharif, a business professional and a real estate investor, was a UK based businessman with a claimed net worth of over US$600 million. Sharif family owns real estate property at prominent place in UK.

GOVERNANCE

- The board of directors (BoD) comprises four directors, including the CEO. All the members except the CEO are representatives from Sharif Family.
- Mian Karim-ud-Din is the Chairman of the board. Mian Karim Ud din, Chartered Accountant, has around 3 decades of experience.
- The board members have diversified experience with CEO having useful experience of setting up and running of power plants.
- There is no Board committee as the company does not comply with Code of Corporate Governance being a private company. There is no independent director on the board.

MANAGEMENT

- HPGCL has a lean organization structure with small and efficient management team.
- The company maintains an adequate MIS which helps management to keep track of all operations and liaison with O&M operator.
- Mr. Zaheer Ahmed is the Chief Operating Officer since Jan17, he has over 26 years of experience in construction, operation and maintenance of power generation and transmission. Mr. Zaheer is supported by an experienced management team.

OPERATIONAL & PERFORMANCE RISK

- HPGCL has signed Gas Supply Agreement and Fuel Supply Agreement with SNGPL and PSO for gas and HSD respectively for 30 years.
- Recently, the company has also started to procure HSD from other oil marketing companies.
- With inclusion of RLNG into the system Gas availability to the company has improved of late. However, recently the plant has been mainly operating on HSD as gas has been made available to government's new power plants on priority basis.
- HPGCL has signed an 18 year O&M agreement with General Electric International. GE ensures adherence with operational benchmarks as agreed with power purchaser.
- General Electric Energy provides third party O&M services at over 70 sites in 17 countries, with a combined generating capacity of more than 16,000 MW.
- Plant availability remained well above required level – 88% (FY17: 94%, FY16: 93%).
- Electricity generation decreased by 65% (FY17: 552GWH, FY16: 915GWH); a facet of lower electricity demand from the power purchaser.
- Despite lower generation the company's profits remained strong (1HFY18: 604mln; FY17: PKR 1,007mln; FY16: PKR 1,078mln).
- The plant has contracted efficiency of 51% for gas and 47% for HSD. During 6MFY18 HPGCL on average managed to meet efficiency targets.

FINANCIAL RISK

- Despite increase in receivables HPGCL's cash cycle (1HFY18: 103days, FY17: 121days, FY16: 74days) has improved on the back of slightly better payment behavior of power purchaser.
- Trade receivables include amount under litigation of PKR 3.2bln receivable from NEPRA. During the year the arbitrator has awarded the case in favor of the IPP.
- To meet working capital requirements the company has procured working capital lines of PKR 4,471mln unutilized up to 93%.
- The company's debt service coverage improved owing to decrease in interest rates (9MFY17: 1.0x; FY16 1.0x; FY15 0.9x).
- HPGCL financed the project with total debt of PKR 14,683mln payable in 40 installments. HPGCL has repaid 30 installments till end Mar18.
- Project cost over runs were financed by sponsor. Sponsor loan stands at PKR 3,184mln at end Dec17. However, during the year terms of the conditions changed and now the loan is payable without interest on the discretion of the company. Accordingly in compliance with technical release issued by ICAP, loan has been treated as equity.

PKR mln

Halmore Power Generation Company Limited

BALANCE SHEET	31-Dec-17	30-Jun-17	30-Jun-16	30-Jun-15
	9M	Annual	Annual	Annual
Non-Current Assets	**18,404**	**18,743**	**19,487**	**20,246**
Investments (Others)	-	-	-	-
Current Assets	**9,105**	**9,207**	**7,514**	**8,553**
Inventory	181	208	140	230
Trade Receivables	7,505	6,662	6,703	7,578
Other Current Assets	973	782	597	557
Cash & Bank Balances	446	1,554	75	190
Total Assets	**27,509**	**27,950**	**27,001**	**28,799**
Debt				
Short-term	6,439	6,434	2,770	2,870
Long-term (Inlc. Current Maturity of long-term debt)	**6,146**	**7,012**	**8,764**	**11,201**
Sponsor's loan	-	-	-	-
Trade Payables	389	331	812	1,725
Other Long term Liabilities	1,219	1,459	2,083	1,659
Shareholder's Equity	**13,317**	**12,713**	**12,572**	**11,344**
Total Liabilities & Equity	**27,509**	**27,950**	**27,001**	**28,799**
INCOME STATEMENT				
Turnover	**5,479**	**9,673**	**12,956**	**16,919**
Gross Profit	1,323	2,279	2,817	3,757
Operating Expenses	(157)	(197)	(189)	(140)
Other Income/ (Expense)	1	2	21	13
Financial Charges	(564)	(1,078)	(1,571)	(2,396)
Net Income / (Loss)	**604**	**1,007**	**1,078**	**1,234**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	1,555	2,863	3,421	4,384
Net Cash changes in Working Capital	(1,041)	(945)	458	(1,085)
Net Cash from Operating Activities	(188)	277	3,421	4,384
Net Cash from InvestingActivities	(51)	(39)	(21)	(67)
Net Cash from Financing Activities	(869)	1,241	(2,407)	(1,237)
Net Cash generated during the period	(1,107)	1,480	(115)	102
Ratio Analysis				
Performance				
Turnover Growth	23.8%	-25.3%	-23.4%	82.4%
Gross Margin	24.2%	23.6%	21.7%	22.2%
Net Margin	21.3%	21.5%	20.3%	21.4%
ROE	18.1%	15.8%	8.3%	10.8%
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.0	1.0	1.0	0.9
Interest Coverage (X) (FCFO/Gross Interest)	2.8	2.7	2.2	1.8
FCFO Pre-WC/Gross interest+CMLTD	0.9	0.7	1.0	0.9
Liquidity				
Short Term Borrowings Coverage (Adjusted Quick Assets/Short Term Borrowings)	0.8	0.3	1.7	1.5
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	102.7	120.6	73.7	49.2
Capital Structure (Total Debt/Total Debt+Equity)	48.6%	51.4%	55.1%	62.9%

ENTITY CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity; 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

Rating	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.
AA+ **AA** **AA-**	**Very high credit quality.** 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.
A+ **A** **A-**	**High credit quality.** 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.
BBB+ **BBB** **BBB-**	**Good credit quality.** Currently a low expectation of credit risk. 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.
BB+ **BB** **BB-**	**Moderate risk.** 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-**	**High credit risk.** 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.
CCC **CC** **C**	**Very high 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.
D	Obligations are currently in default.

Short Term Ratings

A1+: The highest capacity for timely repayment.

A1:. A strong capacity for timely repayment.

A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.

A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

Rating Watch
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.

Outlook (Stable, Positive, Negative, Developing)
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business or 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'.

Suspension
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.

Withdrawn
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.

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
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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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(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
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(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
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(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s 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 | Chapter III | 14-(f-VII)
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