



The Pakistan Credit Rating Agency Limited

Rating Report

Hub Power Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Jun-2018	AA+	A1+	Stable	Maintain	-
22-Dec-2017	AA+	A1+	Stable	Maintain	-
20-Apr-2017	AA+	A1+	Stable	Maintain	-
20-Apr-2016	AA+	A1+	Stable	Maintain	-
29-Jun-2015	AA+	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The Hub Power Company Limited (Hubco) is one of the largest power producers in the country contributing ~7% towards the total generation of the country in FY17. Hubco aims to significantly expand its generation capacity. Hubco aims to boost the country's energy security by utilising Pakistan's indigenous natural resources. Hubco is in the process of setting up new coal power plants (i) 2x660MW coal fired power plant at Hub and (ii) 330MW mine-mouth coal fired power plant at Thar. Hubco's 2x660MW coal fired power project is being developed under a joint venture with China Power International Holdings (CPIH). A separate JV company has been setup (China Power Hub Generation Company - CPHGC) to undertake this project. Currently Hubco has 26% stake in CPHGC and it is planning to increase its shareholding upto 46%. Hubco has incorporated Thar Energy Limited to undertake its 330 MW open-mine mouth coal power plant in Thar. Company's new projects will be financed in debt to equity ratio of 75:25. The company plans to finance equity portion of the projects by securing new debt. For this purpose it has availed long term debt facility of PKR ~26.5bln with 4 years of grace period. Although this would increase leveraging, matching repayments with project returns should help manage the financial risk profile.

Comfort is drawn from Hubco's deleveraged balance sheet and relatively free stable cash flows. Cash flow streams of Hubco's plants are guaranteed by GoP under the Power Purchase Agreement (PPA), subject to adherence to the agreed upon performance benchmarks; this provides comfort to the ratings. Timely completion of new projects and maintaining healthy debt service coverages post acquisition of new debt will remain challenging.

Disclosure

Name of Rated Entity	Hub Power 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)
Rating Analysts	Muhammad Hassan muhammad.hassan@pacra.com +92-42-35869504



HUBCO PROFILE	
Incorporated	1991
Major business lines	Independent Power Producer
Legal status	Public Limited
COD	1997
Plant Specifications	4*323 MW
Primary Fuel	RFO
Plant Location	Hub, Balochistan
Head Office	Karachi

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> ▪ 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 viability of Thermal power plants.

OWNERSHIP

- Mega Conglomerate Private Limited (19.4%) is the single largest shareholder, followed by ABL (9.7%), Fauji Foundation (8.5%) and NBP (5%). The remaining shareholding is held by various Financial Institutions, Joint Stock Companies and Individuals respectively.
- Mega Conglomerate Private Limited (MCPL) is a diversified conglomerate with business holdings including the country's largest container terminal, third largest dairy producer, top tier cement manufacturing company, vertically integrated shipping and power sector.

GOVERNANCE

- The Company's Board of Directors comprises of fourteen Directors, four of which are independent, and the CEO, being the only Executive Director on the Board.
- Mr. Habibullah Khan is the Chairman of the Board. He is also Chairman of MCPL. Mr. Habibullah is a well-known entrepreneur and has over three decades of professional experience.
- The Company has three Board Committees - (i) Board Audit Committee; (ii) Board Compensation Committee; and (iii) Board Investment Committee - to assist the Board in various matters.

MANAGEMENT

- The management control of the Company vests with Mr. Khalid Mansoor, the CEO. He carries with him over three decades of experience in Energy & Petrochemical sectors in leading roles for mega size projects development, execution, management and operations. He is supported by a team of experienced professionals having relevant skills and expertise in their respective fields.
- Hubco has a lean organizational structure with an efficient management team.

BUSINESS AND OPERATIONAL RISK

- HUBCO has established a wholly owned subsidiary – Hub Power Services Limited (HPSL) – incorporated to manage the O&M in 2015.
- Pakistan State Oil (PSO) is responsible for supplying RFO under the Fuel Supply Agreement (FSA) for 30 years. HUBCO is protected from fuel transportation issues as the company receives fuel directly from PSO.

PERFORMANCE

- Hubco's profitability is a function of its availability, capacity utilization and plant efficiency.
- The company's generation of Hub plant decreased (9MFY18: 4,151Gwh, 9MFY17: 5,270Gwh) due to lower demand by the power purchaser due to closure of RFO plants on government's instruction. However, plants resumed generation in 2HFY18.
- Despite increase in finance cost, profit excluding Narowal's discontinued operations remained largely same. (9MFY18: 6128mln. 9MFY17: 6,291mln).
- Going forward, the company is in the process of setting up two new coal power plants. These two new power plants will strengthen the company's position and double its current generation.

FINANCIAL RISK

- Continued lag of payments by NTDC led Hubco's receivables to reach PKR 84,915mln at 9MFY18 (FY17: 73,662mln, FY16: 77,747mln). Resultantly, receivable days surged upwards to 406 days as at 9MFY18 (FY17: 342days FY16: 329days).
- To bridge the working capital requirements, the company has to finance through a mix of commercial credit and short term borrowings 9MFY18: 24,650mln (STB – FY17: PKR 20,091mln, FY16: PKR 16,540mln).
- The coverages of the company witnessed deterioration (Post-Working Capital FCFO/Interest + Current Maturity: 9MFY18: 1.1x; FY17: 1.5x; FY16: 2.3x) due to higher short term borrowings procured to meet increasing working capital needs – a facet of increase in overdue receivables.
- HUBCO's leverage increased on the back of increase in short term borrowing and new long term loan. (Debt: equity; 9MFY18: 64% FY17: 59% FY16: 57%). Further drawdown from availed facility to invest equity in its subsidiary may cause leveraging to increase further.



The Pakistan Credit Rating Agency Limited

Financials (Summary)

Independent Power Producer

The Hub Power Company Limited (Hubco)

PKR mln

BALANCE SHEET	31-Mar-18	30-Jun-17	30-Jun-16	30-Jun-15
	9M	Annual	Annual*	Annual*
Non-Current Assets	15,958	17,440	36,652	38,840
Investments (Others)	14,958	11,174	5,876	4,918
Current Assets	100,066	86,369	91,477	82,191
Inventory	4,771	4,746	5,023	5,580
Trade Receivables	84,915	73,662	77,747	72,683
Other Current Assets	9,706	6,737	5,428	3,444
Cash & Bank Balances	674	1,223	3,280	484
Total Assets	130,981	114,983	134,006	125,949
Debt	34,413	27,868	37,621	33,498
Short-term	24,650	20,091	16,540	10,963
Long-term (Incl. Current Maturity of long-term debt)	9,763	7,777	21,081	22,535
Other Short term liabilities (inclusive of trade payables)	77,324	67,629	68,806	60,816
Other Long term Liabilities	-	-	-	-
Shareholder's Equity	19,244	19,486	27,579	31,635
Total Liabilities & Equity	130,981	114,983	134,006	125,949

INCOME STATEMENT

	31-Mar-18	30-Jun-17	30-Jun-16	30-Jun-15
Turnover	57,253	78,590	86,415	131,484
Gross Profit	7,482	9,317	14,788	14,391
Other Operating Expense	(645)	(615)	(925)	(921)
Other Income	975	1,480	971	1,081
Financial Charges	(1,609)	(1,784)	(3,109)	(4,538)
Taxation	(75)	(142)	(149)	(160)
Profit from discontinued operations	-	1,344	-	-
Net Income	6,129	9,600	11,576	9,853

Cashflow Statement

	31-Mar-18	30-Jun-17	30-Jun-16	30-Jun-15
Free Cashflow from Operations (FCFO)	8,078	13,381	16,184	15,945
Net Cash changes in Working Capital	(4,176)	(7,321)	(85)	2,265
Net Cash from Operating Activities	2,534	3,317	12,900	13,463
Net Cash from Investing Activities	(2,768)	(224)	(663)	607
Net Cash from Financing Activities	(315)	(8,709)	(9,441)	(16,262)
Cash transferred to NEL	-	3,558	-	-
Net Cash generated during the period	(549)	(2,058)	2,796	(2,192)

Ratio Analysis

	31-Mar-18	30-Jun-17	30-Jun-16	30-Jun-15
Performance				
Turnover Growth	-1.0%	-9.1%	-34.3%	-18.7%
Gross Margin	13.1%	11.9%	17.1%	10.9%
Net Margin	10.7%	10.5%	13.4%	7.5%
ROE	30.7%	22.7%	43.3%	30.0%
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	2.4	3.2	2.3	1.8
Interest Coverage (X) (FCFO/Gross Interest)	5.0	7.5	5.2	3.5
FCFO post WC / Gross Interest +CMLTD	1.1	1.5	2.3	2.1
Liquidity				
Short Term Borrowings Coverage	0.5	0.6	1.0	1.6
Net Cash Cycle	3.5	18.3	18.3	34.8
Capital Structure (Total Debt**/Total Debt+Equity)	64.1%	58.9%	57.7%	51.4%

* Annual numbers of FY16 include Narowal Plant as continuing operations

** Total Debt includes Short term debt utilized to meet working capital needs

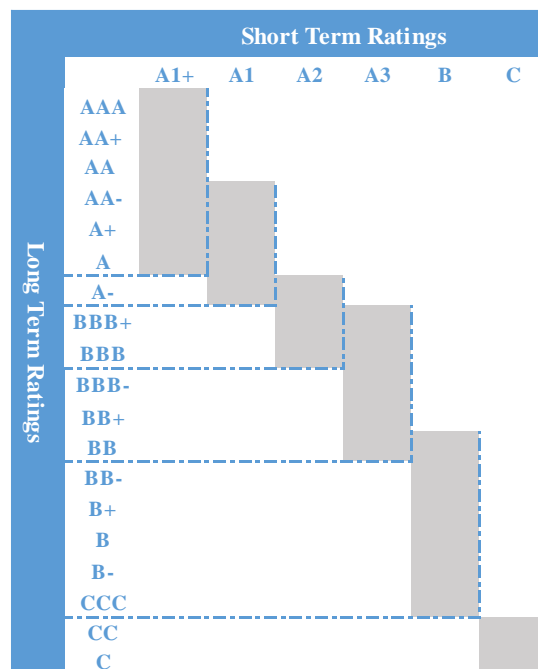
The Hub Power Company Limited (Hubco)

Jun-18

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	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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 and in economic conditions are more likely to impair this capacity.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	Very high credit risk. 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.		
D	Obligations are currently in default.		



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/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’.

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. 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.

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, the 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, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/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.

Rating Team Statements

(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

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- 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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- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (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.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (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
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (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)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (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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