



The Pakistan Credit Rating Agency Limited

Rating Report

WAPDA | Sukuk | May-17

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-Jun-2020	AAA	-	Stable	Maintain	YES
26-Dec-2019	AAA	-	Stable	Maintain	YES
26-Jun-2019	AAA	-	Stable	Maintain	YES
28-Dec-2018	AAA	-	Stable	Maintain	-
28-Jun-2018	AAA	-	Stable	Maintain	-
20-Nov-2017	AAA	-	Stable	Initial	-
04-Apr-2017	AAA	-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The Water and Power Development Authority of Pakistan is in the process of 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. Stage 1 (2,160 MW) is expected to complete by 2023 with cost of USD ~4.247bln. For partial financing of the project, WAPDA is issuing debt instruments worth PKR 88bln (TFCs: 35.2bln, Sukuks: 52.8bln) in multiple tranches. For this purpose in May 2017 first tranche of debt instruments has been issued and WAPDA is planning to issue second tranche in late 2020.

The ratings of PPTFCs (Tranche 1: PKR 10bln, Tranche 2: PKR 4.235bln) and Sukuks (Tranche 1: PKR 15bln, Tranche 2: PKR 6.353bln) reflects an unconditional and irrevocable guarantee by the Government of Pakistan (GoP). The guarantee covers 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 is maintaining a debt payment account (DPA) under the exclusive lien of the trustee. Within first fifteen days of each month, WHE deposits an amount equal to 1/6th of the upcoming installment in the DPA. The rating apart from a debt payment and guarantee mechanism recognizes WAPDA's strategic importance as the major hydroelectric power supplier to the country (18% in overall electricity generation in FY19). WAPDA generated 27,196Gwh electricity in FY19. WAPDA expects to generate additional ~7,000Gwh by completion of new hydel projects in next five years.

WHE's financial profile draws comfort from strong cash flows. However, it remains dependent on repayment behavior of power purchaser. Continued compliance with the predefined covenants of PPTFC, including maintenance of DPA would remain critical. The watch captures that the financial statements of the issuer for FY19 are being audited and will be approved in the next month. This will be followed by the process for the approval of financial statements for the ongoing financial year.

Disclosure

Name of Rated Entity	WAPDA Sukuk May-17
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	PACRA_Methodology_Debt Instrument_FY19(Jun-19),Methodology Sukuk(Jun-19),Methodology IPP(Jun-19),Criteria Rating Modifier(Jun-19)
Related Research	Sector Study Power(Jan-20)
Rating Analysts	Sana Shameen sana.shameen@pacra.com +92-42-35869504

WAPDA - PROFILE	
Incorporated	1958 – Through a statutory act
Major business lines	Power Generation Water Development
Legal status	PSE
Head office	Lahore
Chairman	LT. General (Retd.) Muzzamil Hussain
Installed Capacity	8,420 MW

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 ▪ Pakistan plans to add over 10,000MW hydel electricity in next decade. ▪ Going forward, cheap renewable electricity will be a challenge to viability of thermal power plants.

ISSUER PROFILE

- WAPDA is a statutory body fully owned by Government of Pakistan and was established through WAPDA Act 1958.
- WAPDA has the primary responsibility to develop Hydel Power Projects
- The entity has a total generation capacity of 8,420MW. It is the largest hydel energy producer in the country.
- WAPDA is in the process of constructing different projects which are to add ~8,502MW by 2024.

ABOUT THE DEBT INSTRUMENTS

- WAPDA has issued privately placed term finance certificates (TFC) of PKR 10bln and Sukuks of PKR 15bln to partially finance Dasu Hydropower Project (Dasu). Profit on the debt instruments will be payable semi-annually at 6MK + 1.45%. Till now WAPDA has made six profit payments both on TFC and Sukuk.
- The profit paid to the Sukuk certificates holders as of May-20 is PKR 1,106mln. The principal payment of the Sukuk certificate will start from May-23.
- WAPDA is planning to issue second tranche of TFCs and Sukuks amounting PKR 4.23bln and 6.35bln in late 2020.
- Total project cost of Dasu is USD ~4.247bln which is to be financed from local and external financing. ECC has given approval of upto PKR 144bln as local financing for the project.
- WAPDA maintains Debt Payment Account (DPA) which is held under exclusive lien in favor of trustee. WAPDA replenishes the DPA with 1/6th of the upcoming installment.
- Shortfall occurring for three consecutive months will constitute event of default. Government guarantee will be callable by trustee after serving cure period of 45 days.
- The underlying agreements of the instruments include GoP guarantee, Trust Deed, and Investor Agreement. Further, to follow Islamic structure of Sukuks, Musharaka Agreement, Purchase Undertaking Agreement and Payment Agreement are signed between the issuer and Sukuk holder.

GOVERNANCE & MANAGEMENT

- WAPDA is a statutory body under the administrative control of the Federal Government.
- The Authority comprises Chairman, member of each wing (Water, Power, and Finance), and secretary WAPDA.
- Lt. General (Retd.) Muzzamil Hussain is the Chairman WAPDA since 2016.
- Mr. Hussain - a retired army professional and a diplomat brings experience of over 3 decades with him to the management of the WAPDA.
- The Ministry of Water Resources provides oversight to WAPDA.
- WAPDA has a highly experienced management team with most of them having long term association.

BUSINESS RISK

- WAPDA has a total generation capacity of 8,420 MW, while many projects are in pipeline including Tarbela 5th Extension and Dasu Hydro Power Project. Aforementioned projects with maximum capacity of 3,570 MW are expected completion in year 2021 and 2023 respectively.
- WAPDA generation increased by 2% in FY19: 27,196Gwh (FY18: 26,775Gwh; FY17: 30,797Gwh).
- WAPDA's revenue in FY19 stood at PKR 67,229mln (FY18: PKR 59,317mln; FY17: PKR 65,235mln).

FINANCIAL RISK

- WAPDA as part of its arrangements with provinces pays Net Hydel Profit @ 1.155Kwh to provinces. This amount is recoverable from CPPA-G via its tariff. CPPA-G approved WAPDA's tariff including Net Hydel Profit payable to provinces was approved in FY17. Consequently, WHE's receivables increased significantly in FY19: PKR 193,569mln (FY18: PKR 101,324mln). Thus, receivable days have also increased to 1,050 days as at Jun19 (Jun18: 624 days; Jun17: 299 days).
- WAPDA's free cash flow from operation during FY19 is PKR 58,276mln (FY18: PKR 50,557mln; FY17: PKR 57,857mln). Consequently, WAPDA's debt service ratio in FY19 is 0.7x. (FY18: 1.3x, FY17: 2.1x).
- During FY19, WAPDA's leverage capital structure stood at 61% (FY18:62%, FY17: 54%), on account of decrease in long term debt (FY18: PKR 270,119mln; FY18: PKR 336,424mln) and increase in short-term debt service liabilities

The Pakistan Credit Rating Agency Limited
WAPDA Hydroelectric
BALANCE SHEET

	30-Jun-19	30-Jun-18	30-Jun-17	<i>PKR mln</i> 30-Jun-16
	<i>Annual</i>	<i>Annual</i>	<i>Annual</i>	<i>Annual</i>
<i>Non-Current Assets</i>	1,258,438	1,167,357	1,145,131	1,091,683
<i>Investments</i>	3,000	31,000	2,000	-
<i>Cash and Bank Balances</i>	71,672	66,188	58,086	46,940
<i>Inventories</i>	7,511	5,108	4,694	5,583
<i>Trade Receivables</i>	193,570	101,324	53,472	19,477
<i>Other Current Assets</i>	9,324	46,540	8,472	27,670
Total Assets	1,543,514	1,417,517	1,271,855	1,191,353
<i>Current Liabilities</i>	114,414	56,080	35,496	16,789
<i>Long Term Borrowings (Including Current Maturities)</i>	321,013	343,189	229,745	185,511
<i>Other Non Current Liabilities</i>	82,936	50,832	38,103	37,557
<i>Shareholders' Equity</i>	1,025,152	967,415	968,512	951,497
Total Liabilities & Equity	1,543,514	1,417,517	1,271,855	1,191,353

PROFIT & LOSS ACCOUNT

	30-Jun-19	30-Jun-18	30-Jun-17	30-Jun-16
<i>Turnover</i>	67,230	59,317	65,235	54,776
<i>Gross Profit</i>	29,079	31,827	36,250	25,399
<i>Other Income</i>	-	-	2,654	1,933
<i>Financial Charges</i>	(38,691)	(32,287)	(21,349)	(18,667)
<i>Net Income</i>	(7,724)	605	17,015	7,654

CASHFLOW STATEMENT

	30-Jun-19	30-Jun-18	30-Jun-17	30-Jun-16
<i>EBITDA</i>	61,347	52,699	60,450	49,808
<i>Free Cashflow from Operations (FCFO)</i>	58,276	50,557	57,857	47,790
<i>Net Cash provided by operating activities</i>	9,724	(49,919)	39,255	38,708
<i>Net Cash available from investing activities</i>	(15,064)	(60,254)	(71,393)	(53,943)
<i>Cashflow from financing activities</i>	7,325	121,774	43,284	6,398

RATIO ANALYSIS

	30-Jun-19	30-Jun-18	30-Jun-17	30-Jun-16
<i>Gross Margin</i>	43.3%	53.7%	55.6%	46.4%
<i>Pre-Tax Profit Margin</i>	-11.5%	1.0%	26.1%	14.0%
<i>Net Profit Margin</i>	-11.5%	1.0%	26.1%	14.0%
<i>Net Cash Cycle (Days)</i>	1,028.1	566.1	239.8	94.0
<i>Interest Coverage (X)</i>	1.5	1.6	2.7	2.6
<i>Debt Service Coverage</i>	0.7	1.3	2.1	1.2
<i>Debt Payback (X)</i>	5.5	6.8	4.0	3.9
<i>Capital Structure</i>	61.8%	62.8%	54.2%	52.6%

Debt Instrument Rating Scale & Definitions

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

AAA **Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments

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+ **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+ **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.

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+ **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 **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.

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.

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

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (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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Sukuk May 17

Nature of Instrument	Size of Issue (PKR)	Years	Security	Quantum of Security	Nature of Assets	Trustee
Sukuk May17	15,000 mln	15 years	1. Un-conditional & irrevocable first demand guarantee covering principal and profit from the Ministry of Finance, GoP. 2. Exclusive lien over debt payment account for the benefit of investors.	WAPDA maintains a Debt Payment Account (DPA) with the HBL (Facility Agent). During each month (not later than the fifteenth (15th) day of each month), WAPDA shall deposit amount equivalent to the 1/6th share of the Installment into the DPA	WAPDA's own cash flows.	Pak Brunei Investment Company

Payment Period	Date	Principal as at Start of Period	Principal Repaid	Profit Payments	Cumulative amount to be paid	Balance as at end of
				Interest 6MK+1.45%		
0	May-17	15,000,000	-			15,000,000
1	Nov-17	15,000,000	-	574,685	574,685	15,000,000
2	May-18	15,000,000	-	566,059	566,059	15,000,000
3	Nov-18	15,000,000	-	601,907	601,907	15,000,000
4	May-19	15,000,000	-	839,047	839,047	15,000,000
5	Nov-19	15,000,000	-	961,085	961,085	15,000,000
6	May-20	15,000,000	-	1,106,172	1,106,172	15,000,000
7	Nov-20	15,000,000	-	710,361	710,361	15,000,000
8	May-21	15,000,000	-	700,693	700,693	15,000,000
9	Nov-21	15,000,000	-	712,307	712,307	15,000,000
10	May-22	15,000,000	-	700,693	700,693	15,000,000
11	Nov-22	15,000,000	-	712,307	712,307	15,000,000
12	May-23	15,000,000	750,000	700,693	1,450,693	14,250,000
13	Nov-23	14,250,000	750,000	676,692	1,426,692	13,500,000
14	May-24	13,500,000	750,000	632,375	1,382,375	12,750,000
15	Nov-24	12,750,000	750,000	603,807	1,353,807	12,000,000
16	May-25	12,000,000	750,000	560,555	1,310,555	11,250,000
17	Nov-25	11,250,000	750,000	534,230	1,284,230	10,500,000
18	May-26	10,500,000	750,000	490,485	1,240,485	9,750,000
19	Nov-26	9,750,000	750,000	462,999	1,212,999	9,000,000
20	May-27	9,000,000	750,000	420,416	1,170,416	8,250,000
21	Nov-27	8,250,000	750,000	391,769	1,141,769	7,500,000
22	May-28	7,500,000	750,000	351,320	1,101,320	6,750,000
23	Nov-28	6,750,000	750,000	319,662	1,069,662	6,000,000
24	May-29	6,000,000	750,000	280,277	1,030,277	5,250,000
25	Nov-29	5,250,000	750,000	249,307	999,307	4,500,000
26	May-30	4,500,000	750,000	210,208	960,208	3,750,000
27	Nov-30	3,750,000	750,000	178,077	928,077	3,000,000
28	May-31	3,000,000	750,000	140,139	890,139	2,250,000
29	Nov-31	2,250,000	750,000	106,846	856,846	1,500,000
30	May-32	1,500,000	750,000	70,069	820,069	750,000
31	Nov-32	750,000	750,000	35,615	785,615	-
		Total	15,000,000	15,600,857	30,600,857	-