



The Pakistan Credit Rating Agency Limited

## Rating Report

### Halmore Power Generation Company Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Apr-2019	A+	A1	Stable	Maintain	-
20-Nov-2018	A+	A1	Stable	Maintain	-
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 (Halmore Power) 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 period, availability of primary fuel was adequate on account of better energy mix; hence operational performance remained intact. Additionally, because of the mounting receivables and consequent funding thereof from banking lines, remaining cushion in the available working capital facilities is limited, warranting further space to be created. As of Dec-18, short term lines utilization stood at 97%. Halmore Power has total long-term debt of PKR 3,642mln as at end-Mar19 payable till September 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. Accumulation of circular debt would pose threat to the company's ability to continue with this practice. Any significant increase in overdue receivables, as a result of rise in circular debt, may impact the ratings.

#### Disclosure

<b>Name of Rated Entity</b>	Halmore Power Generation Company Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Criteria   Rating Modifier(Jun-18),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-18),Methodology   IPP (Jun-18)
<b>Related Research</b>	Sector Study   Power(Jan-19)
<b>Rating Analysts</b>	Faizan Arif   faizan.sufi@pacra.com   +92-42-35869504

## Profile

**Plant** Halmore Power Generation Company Limited (Halmore Power), a public limited company, is operating a Combined Cycle gas turbine plant on a build-own operate (BOO) basis, with gross capacity of 225 MW.

**Tariff** Halmore Power key source of earnings is the generation tariff from the power purchaser, NTDC. The reference generation tariff comprises a capacity charge component and an energy charge component. Levelized tariff on Gas as per NEPRA determination is 4.0203 Cents/KWh and on HSD fuel 9.1421 Cents/KWh.

**Return On Project** The dollar IRR of Halmore Power, as agreed with NEPRA, is 15%.

## Ownership

**Ownership Structure** Halmore Power is majorly owned by Mian Karim Ud Din with 99.99% shareholding. The company was established and owned by Mian Muhammad Shaif, however after his demise in September 2017, all of his shareholding as part of his inheritance was transferred to Mian Karim Ud Din.

**Stability** Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. Sharif family owns real estate property at prominent place in UK continue to provide comfort.

**Business Acumen** Halmore Power is engaged in the real estate and property business and having more than nine years of experience in the power sector.

**Financial Strength** The financial strength of the sponsors is considered strong as the sponsors have well diversified profitable businesses. Sponsors being a UK based businessman with a claimed net worth of over US\$600 million.

## Governance

**Board Structure** The board of directors (BoD) comprises four directors, including the Chief Executive Officer (CEO). All the members except the CEO are representatives from Sharif Family. Due to dominance of the Sharif family on the board, the board has limited diversification. Mian Karim-ud-Din is the Chairman of the board. Mian Karim Ud din, Chartered Accountant, has around 3 decades of experience.

**Members' Profile** The board members have diversified experience with CEO having useful experience of setting up and running of power plants.

**Board Effectiveness** The experiences of board will help guiding the management in developing effective operational and financial policies. 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.

**Financial Transparency** There is an established Internal Audit function, reporting directly to the BoD. The internal audit function was outsourced to EY Ford Rhodes Chartered Accountants. (Member firm of Ernst & Young Global Limited). KPMG chartered Accountants is the Auditor of the Company and it has given unqualified report for FY18, while highlighting company's pending litigation with NTDC.

## Management

**Organizational Structure** Halmore Power has a lean management structure with small and efficient management team. The CEO is supported by a team of qualified and experienced professionals.

**Management Team** Mr. Zaheer Ahmed is the Chief Executive Officer since January 2017. He has over 26 years of experience in construction, operation and maintenance of power generation and transmission.

**Effectiveness** The management of Halmore Power is mostly engaged in the finance related activities. The operations and maintenance of the plant have been outsourced to GE by way of the O&M contract. In this regard, company's management team conducting regular meetings with GE personnel to further enhance and fortify their knowledge of operating the power plant.

**Control Environment** The Company maintains an adequate MIS which helps management to keep track of all operations and liaison with O&M operator.

## Operational Risk

**Power Purchase Agreement** Halmore Power key source of earnings is the revenue generated through sale of electricity to the power purchaser, NTDC. The Company will receive the capacity payments if it is at the benchmark availability and is ready to provide electricity, even if no purchase order is placed by Power Purchaser.

**Operation And Maintenance** Halmore Power has negotiated an O&M contract with General Electric Inc (GE) for a period of 18 years, which commenced from the COD in October 2011. GE ensures adherence with operational benchmarks as agreed with power purchaser.

**Resource Risk** Halmore Power has signed Gas Supply Agreement and Fuel Supply Agreement with SNGPL and PSO for gas and HSD respectively for 30 years. The company procures HSD from other oil marketing companies. With inclusion of RLNG into the system Gas availability to the company has improved of late. However, during 1HFY19, the plant has been mainly operated on gas/RLNG (99%) and remaining operations are conducted on HSD (1%).

**Insurance Cover** Halmore Power has adequate insurance coverage for property damage (PKR 27.9bln) and business interruption (PKR 7.3bln).

## Performance Risk

**Industry Dynamics** Pakistan total power generation is increasing on the back of new power projects under CPEC. Going forward, cheap renewable electricity will be a challenge to viability of thermal power plants. During FY18, there has been a growth of ~30% in the actual power generation. Moreover, there has been an increase of ~17% in the installed capacity as at end-Jun18 to 32,641MW (FY17: 27,731MW).

**Generation** Electricity generation increased by 58% during FY18 as compare to the corresponding year (FY18: 871GWh; FY17: 552GWH, FY16: 915GWH); a facet of higher electricity demand from the power purchaser. Moreover, electricity produced during 1HFY19 was 402GWh.

**Performance Benchmark** The required availability for Halmore Power under the PPA is 88%. During 1HFY19, average plant availability stood at 95.4% in accordance with agreed parameter (FY18: 100%; FY17: 94%, FY16: 93%). The plant has contracted efficiency of 51% for gas and 47% for HSD. During 1HFY19, Halmore Power on average managed to meet efficiency targets (Gas: 50.23; HSD: 50.2. Net income surged to PKR 815mln during 1HFY19 in comparison with the same period last year on account of higher generation (1HFY18: 604mln; FY18: PKR 1,668mln; FY17: PKR 1,007mln).

## Financial Risk

**Financing Structure Analysis** Halmore Power project capital structure comprises 25% equity (PKR 4,894mln) and 75% debt (PKR 14,683mln). Project cost after project over runs was PKR 22,750mln. The total outstanding balance of Halmore Power stood at PKR 3,642mln as at end Mar-19. The Company has repaid thirty four installments up till now, the debt servicing is mainly funded from capacity payments.

**Liquidity Profile** At end-Dec18, total receivables of the company stood at PKR 9,334mln (FY18: PKR 7,998mln; FY17: PKR 3,306mln) As circular debt continues to be an issue for companies operating in power sector. Consequently, IPPs have to manage their liquidity requirements from short-term borrowings.

**Working Capital Financing** Despite increase in receivables Halmore Power's cash cycle at end-Dec18 stood at 142days (FY18: 114days, FY17: 121days, FY16: 74days) surged on the back of delayed payment behavior of power purchaser. Though later, it has a slight improvement as the government has issued PKR 200bln sukuk for power sector receivables in early March 2019.

**Cash Flow Analysis** The company's debt service coverage [FCFO pre WC / Gross Interest +CMLTD] remained stagnant to 1.1x at end-Dec18 despite increased interest rates (FY18: 1.1x; FY17: 1.0x; FY16 1.0x).

**Capitalization** Project cost over runs were financed by sponsor. Sponsor loan stands at PKR 3,184mln at end Dec18. However, in 2018, sponsors have changed the terms and conditions of loan and now it 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 (1HFY19: 43.6%; FY18: 44.4%; FY17: 51.4%).



**Halmore Power Generation Company Limited**

<b>BALANCE SHEET</b>	<b>31-Dec-18</b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>
	<b>6M</b>	<b>Annual</b>	<b>Annual</b>	<b>Annual</b>
<b>Non-Current Assets</b>	<b>17,757</b>	<b>18,116</b>	<b>18,743</b>	<b>19,487</b>
<b>Current Assets</b>	<b>10,964</b>	<b>9,631</b>	<b>9,207</b>	<b>7,514</b>
Inventory	145	170	208	140
Trade Receivables	9,334	7,998	6,662	6,703
Other Current Assets	975	803	782	597
Cash & Bank Balances	511	660	1,554	75
<b>Total Assets</b>	<b>28,722</b>	<b>27,747</b>	<b>27,950</b>	<b>27,001</b>
<b>Debt</b>				2,770
Short-term	7,544	6,280	6,434	
Long-term (Inlc. Current Maturity of long-term debt)	<b>4,180</b>	<b>5,200</b>	<b>7,012</b>	<b>8,764</b>
Trade Payables	490	395	331	812
Other Long term Liabilities	1,314	1,491	1,459	2,083
<b>Shareholder's Equity</b>	<b>15,195</b>	<b>14,381</b>	<b>12,713</b>	<b>12,572</b>
<b>Total Liabilities &amp; Equity</b>	<b>28,722</b>	<b>27,747</b>	<b>27,950</b>	<b>27,001</b>

**INCOME STATEMENT**

<b>Turnover</b>	<b>7,192</b>	<b>14,062</b>	<b>9,673</b>	<b>12,956</b>
Gross Profit	1,569	2,963	2,279	2,817
Operating Expenses	(101)	(149)	(197)	(189)
Other Income/ (Expense)	(58)	(49)	2	21
Financial Charges	(595)	(1,096)	(1,078)	(1,571)
<b>Net Income / (Loss)</b>	<b>815</b>	<b>1,668</b>	<b>1,007</b>	<b>1,078</b>

**Cashflow Statement**

Free Cashflow from Operations (FCFO)	1,848	3,594	2,863	3,421
Net Cash changes in Working Capital	(1,535)	(1,054)	(945)	458
Net Cash from Operating Activities	(362)	1,237	277	3,421
Net Cash from Investing Activities	(24)	(153)	(39)	(21)
Net Cash from Financing Activities	237	(1,979)	1,241	(2,407)
Net Cash generated during the period	(149)	(895)	1,480	(115)

**Ratio Analysis**

<b>Performance</b>				
Turnover Growth	31.3%	45.4%	-25.3%	-23.4%
Gross Margin	21.8%	21.1%	23.6%	21.7%
Net Margin	11.3%	11.9%	10.4%	8.3%
ROE	10.9%	11.6%	15.8%	8.3%
<b>Coverages</b>				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.1	1.1	1.0	1.0
Interest Coverage (X) (FCFO/Gross Interest)	3.1	3.3	2.7	2.2
FCFO Pre-WC/Gross interest+CMLTD	1.1	1.1	0.7	1.0
<b>Liquidity</b>				
Short Term Borrowings Coverage (Adjusted Quick Assets/Short Term Borrowings)	1.2	1.1	0.3	1.7
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	141.8	114.4	120.6	73.7
<b>Capital Structure</b> (Total Debt/Total Debt+Equity)	43.6%	44.4%	51.4%	55.1%

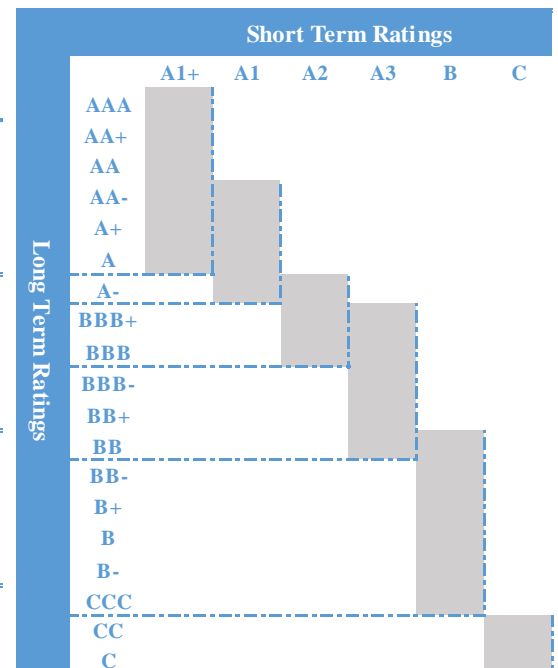
**Halmore Power Generation Company Limited**

Apr-19

## 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	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> 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.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> 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.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> 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.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> 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>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> 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.	<b>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> 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.		
<b>D</b>	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.

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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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- (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)
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- (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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