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
11-Oct-2019	A+	A1	Stable	Maintain	-
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 Mar-19, short term lines utilization stood at 88%. Current borrowings mainly short-term reflects the need to bridge the working capital requirements and maintenance of projects. Because of the mounting receivables and consequent funding thereof from banking lines, there is minimal cushion in the available working capital facilities as it has been highly utilized as at end-Mar19, warranting management’s immediate attention. In this regard, the company is in the process of obtaining new short term borrowing lines from Banks. Further, the company expects recovery of receivables coupled with low generation during next 3 to 4 months due to which cushion in lines will be created. Halmore Power has total long-term debt of PKR 3,075mln as at end-June 19 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

Name of Rated Entity	Halmore Power Generation Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_IPP_FY19(Jun-19),PACRA_Crtieria_LT ST Relationship_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study | Power(Jan-19)
Rating Analysts	Mubasher Bhatti | mubasher.bhatti@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 Shairf, 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 as well. With inclusion of RLNG into the system Gas availability to the company has improved. However, During FY19, 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. Owing to newly installed plants, Pakistan's energy mix is shifting towards Solar/Gas/RLNG and coal from Furnace Oil and other expensive sources. Pakistan total power generation is increasing on the back of new power projects under CPEC. During July - March FY2019, installed capacity of electricity reached 34,282 MW, which was 33,433 MW in corresponding period last year, thus, posting a growth of 2.5 percent. Although electricity generation varies due to availability of inputs and other constraints, the generation increased from 82,011 GWh to 84,680 GWh, posting a growth of 3.3 percent during the period under discussion.

Generation Electricity generation declined by 30% during FY19 as compare to the corresponding year (FY19: 613GWh; FY18: 871GWh; FY17: 552GWH) due to lower electricity demand from the power purchaser.

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 FY19, Halmore Power remained slightly below efficiency targets (Gas: 47.66; HSD: 44.7. Net income surged to PKR 1,450mln during 9MFY19 in comparison with the same period last year on account of increase in tariff due to increase in USD rate (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 3,075mln as at 30 June 2019. The Company has repaid twenty nine installments up till now, the debt servicing is mainly funded from capacity payments.

Liquidity Profile At 9MFY19, total receivables of the company stood at PKR 9,262mln (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 9MFY19 stood at 159days (FY18: 114days, FY17: 121days, FY16: 74days) and it 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] improved to 1.6x at end-9MFY19 despite increased interest rates (FY18: 1.1x; FY17: 0.7x).

Capitalization Project cost over runs were financed by sponsor. Sponsor loan stands at PKR 3,184mln at end 9MFY19. 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 (9MFY19: 40.7%; FY18: 44.4%; FY17: 51.4%).

PKR mln

Halmore Power Generation Company Limited

BALANCE SHEET	31-Mar-19	30-Jun-18	30-Jun-17	30-Jun-16
	9M	Annual	Annual	Annual
Non-Current Assets	**17,615**	**18,116**	**18,743**	**19,487**
Current Assets	**10,821**	**9,631**	**9,207**	**7,514**
Inventory	167	170	208	140
Trade Receivables	9,263	7,998	6,662	6,703
Other Current Assets	968	803	782	597
Cash & Bank Balances	423	660	1,554	75
Total Assets	**28,436**	**27,747**	**27,950**	**27,001**
Debt				2,770
Short-term	6,793	6,280	6,434	
Long-term (Inlc. Current Maturity of long-term debt)	**3,634**	**5,200**	**7,012**	**8,764**
Trade Payables	824	395	331	812
Other Long term Liabilities	2,011	1,491	1,459	2,083
Shareholder's Equity	**15,174**	**14,381**	**12,713**	**12,572**
Total Liabilities & Equity	**28,436**	**27,747**	**27,950**	**27,001**
INCOME STATEMENT				
Turnover	**9,288**	**14,062**	**9,673**	**12,956**
Gross Profit	2,580	2,963	2,279	2,817
Operating Expenses	(131)	(149)	(197)	(189)
Other Income/ (Expense)	(61)	(49)	2	21
Financial Charges	(939)	(1,096)	(1,078)	(1,571)
Net Income / (Loss)	**1,450**	**1,668**	**1,007**	**1,078**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	3,020	3,594	2,863	3,421
Net Cash changes in Working Capital	(477)	(1,054)	(945)	458
Net Cash from Operating Activities	1,556	1,237	277	3,421
Net Cash from InvestingActivities	(74)	(153)	(39)	(21)
Net Cash from Financing Activities	(1,719)	(1,979)	1,241	(2,407)
Net Cash generated during the period	(237)	(895)	1,480	(115)
Ratio Analysis				
Performance				
Turnover Growth	-11.9%	45.4%	-25.3%	-23.4%
Gross Margin	27.8%	21.1%	23.6%	21.7%
Net Margin	15.6%	11.9%	10.4%	8.3%
ROE	12.7%	11.6%	15.8%	8.3%
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.6	1.1	1.0	1.0
Interest Coverage (X) (FCFO/Gross Interest)	3.2	3.3	2.7	2.2
FCFO Pre-WC/Gross interest+CMLTD	1.6	1.1	0.7	1.0
Liquidity				
Short Term Borrowings Coverage (Adjusted Quick Assets/Short Term Borrowings)	1.3	1.1	0.3	1.7
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	159.4	114.4	120.6	73.7
Capital Structure (Total Debt/Total Debt+Equity)	40.7%	44.4%	51.4%	55.1%

Credit Rating Scale & Definitions

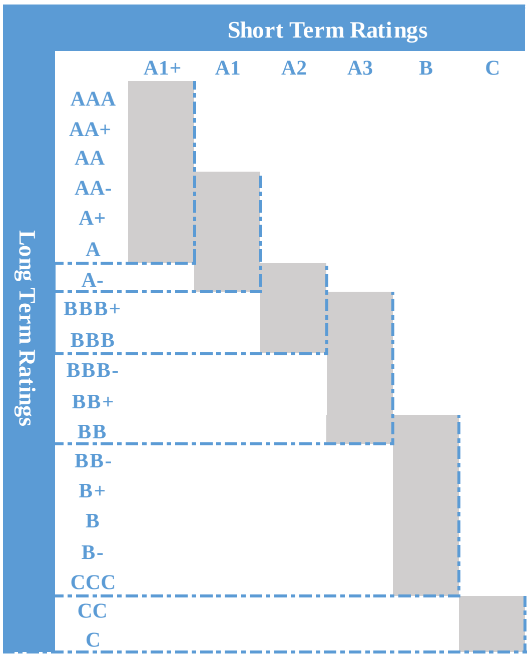
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

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 and in 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.** 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 surveill the opinion due to lack of requisite information.

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

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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)
Proprietary Information