



The Pakistan Credit Rating Agency Limited

Rating Report

Lucky Electric Power Company Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
11-Apr-2023	AA	A1+	Stable	Maintain	-
11-Apr-2022	AA	A1+	Stable	Upgrade	-
06-Aug-2021	AA-	A1	Stable	Maintain	-
06-Aug-2020	AA-	A1	Stable	Upgrade	-
07-Aug-2019	A	A1	Stable	Maintain	-
08-Feb-2019	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Lucky Electric Power Company Limited ("LEPCL" or "the Company") has set up a 1x660MW (gross) coal-fired power plant. The project achieved COD in March-22 and is successfully connected to and providing electricity to the grid. The primary fuel is Coal; a coal supply agreement is signed with Sindh Engro Coal Mining Company (SECMC), SECMC will provide the coal from its developing Block-II (Phase III), which will be started in May-24. The previous tentative month was May-23. The Company has also signed imported coal supply agreement with reputable coal suppliers. Currently, plant is generating electricity through the mix of local & imported coal. The Company has generated 1.8mln MWh since Mar'22. The Company has generated a topline of ~ PKR 45.7bln during 6MFY23. Lucky Electric Power Company Limited generated a humble bottom line of ~PKR 2.19bln during the same period. Comfort is drawn from the experience of O&M contractor. O&M Contractor, KEPSCO Plant Services & Engineering Co. Ltd - Republic of Korea (KPS) has been replaced with M/s Harbin Electric International Co., Ltd. -P.R. China (HEI). Going forward, the Company's main focus would be to keep the plant operational. The Company has procured short-term financing facilities aggregating to PKR 45.2bln (including the debt instruments amounting to PKR 27bln) for operational needs. The financial strength and experience in the energy chain of the sponsoring company Lucky Cement – are considered positive for the ratings. Further, the sponsor has given explicit comfort to provide sufficient liquidity support. This is a key consideration in the assigned ratings. However, considering the unusual increase in working capital requirement due to the significant devaluation of PKR, supply chain issues and tariff adjustments LEPCL is striving to manage its need. The offtake agreement is with CPPA-G, which will, upon the plant's availability as per the contract, provide capacity payments even if no purchase order is placed. The Government of Pakistan has given a payment guarantee against dues from CPPA-G.

The management's ability along with the explicit support from the sponsor to effectively manage operational risks provides comfort to assigned ratings. Trend in operational profitability would bode well for rating. External factors such as any adverse changes in the regulatory framework may impact the ratings.

Disclosure

Name of Rated Entity	Lucky Electric Power Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22),Methodology Independent Power Producer Rating(Jun-22)
Related Research	Sector Study Power(Jan-23)
Rating Analysts	Ahsan Zahid ahsan.zahid@pacra.com +92-42-35869504

Profile

Plant Lucky Electric Power Company Limited (Lucky Electric) Limited has set up a 1x660MW (gross) local coal fired super critical power plant at Port Qasim, Karachi, Sindh. Plant is developed on a Build-Own-Operate (“BOO”) basis with an initial estimated cost of USD 883.30 Million in a debt to equity ratio of 75:25.

Tariff Lucky Electric has been provided a levelized tariff of 9.2100 US¢ per KWh. The tariff is divided into two components; Capacity Payments and Energy Payments. Energy payments further have two components; variable costs and fixed fuel costs (for mine). If the Plant is operational at contract availability, capacity payments and the fixed fuel costs will be provided even if no purchase order is placed by CPPA-G. The tariff control period is 30 years.

Return On Project The PKR/KWh Return on Equity (ROE) of Lucky Electric, as agreed with NEPRA, is 29.5%.

Ownership

Ownership Structure Lucky Cement Limited owns 100% shareholding of Lucky Electric, incorporated in Pakistan on June 13, 2014 as public unlisted company. The registered office of the company is situated at 6-A, Muhammad Ali Housing Society, Karachi, Sindh.

Stability Lucky Electric is a subsidiary of Yunus Brothers Group (YBG), YBG is one of the biggest conglomerates in Pakistan with diversified interests in textiles, real estate, power generation, chemicals, food and automotive.

Business Acumen Lucky Cement Limited stands as the flagship company of YBG. Lucky Cement is one of the largest producers and leading exporters of quality cement in Pakistan.

Financial Strength Company’s sponsors have the ability to support the entity both on a continuing basis, and support in times of crisis. Additionally, financial strength of sponsors is considered strong as the sponsors have well diversified profitable businesses.

Governance

Board Structure The board is dominated by the sponsor’s representatives. The company’s board of directors comprises of seven directors including CEO. All the board members represents Lucky Cement Limited.

Members’ Profile Mr. Muhammad Ali Tabba, the Chairman has been associated with the Group in different capacities for nearly three decades and is currently chairing the Board with his visionary leadership and vast experience. All board members are highly qualified and competent enough for effective leadership.

Board Effectiveness Board members meets quarterly or conduct regular board discussions on need basis. Chairman of the board exercises close oversight over the affairs of the company. However, there are no sub-committees. Board has been actively involved in providing strategic guidance to the company. There is no independent director on the board.

Financial Transparency A.F. Ferguson & CO., Chartered Accountants, is the external auditor of the company. They have expressed an unqualified opinion on the company’s financial statements at end-Jun-22.

Management

Organizational Structure Lucky Electric’s management team comprises qualified professionals in areas like technical, commercial and legal specialists with the capability to construct, develop, operate, finance and maintain the project. The company has a well-defined organizational structure with the CEO reporting to the board.

Management Team Mr. Ruhail Muhammad, the CEO, is MBA and CFA Charter holder. Mr. Ruhail carries vast experience in leading various corporate organizations and is also on the board of various renowned corporate entities. He is supported by an experienced team of professionals.

Effectiveness Over the years since incorporation, management played a significant role in empowering the organization through its progressive results and achieved project milestones in a timely and accurate manner. The company takes advantage of advanced I.T. solutions to deliver comparatively better on many fronts. Moreover, Lucky Electric’s quality of the I.T. infrastructure and the breadth and depth of activities performed has remained well satisfactory.

Control Environment The company takes advantage of advanced I.T. solutions to deliver comparatively better on many fronts. Moreover, Lucky Electric’s quality of the I.T. infrastructure and the breadth and depth of activities performed has remained well satisfactory.

Operational Risk

Power Purchase Agreement The electricity generated will be sold to Central Power Purchasing Agency (CPPA-G) under 30 years Power Purchase Agreement (PPA). RCOD as per the PPA was March 01 2021. However, the company achieved COD on March 21, 2022 owing to global pandemic of Novel Corona Virus.

Operation And Maintenance The Company has replaced existing O&M Contractor, KEPCO Plant Services & Engineering Co. Ltd - Republic of Korea (KPS) with M/s Harbin Electric International Co., Ltd. - P.R. China (HEI) for the period of 5 years. The project revenues and cash flows are primarily dependent upon maintaining plant’s availability and capacity factors at the adequate levels.

Resource Risk The Coal Supply Agreement (CSA) of Lucky Electric is with SECMC. SECMC is expanding up to 13.1 mmpta coal mine in Thar Block – II in three phases. Company has also negotiated imported coal supply agreement from Indonesia. Plant would run on imported coal in case of non-availability of Thar coal.

Insurance Cover Lucky Electric has obtained four types of different insurances to cover its various types of risks.

Performance Risk

Industry Dynamics Power generation in Pakistan stood at ~153,874GWh in FY22, up ~7% YoY. Generation capacity, on the other hand, stood at ~43,775MW up ~10% YoY. With ~61% share in FY22, Pakistan’s power generation capacity mix is highly concentrated in thermal technology. However, it has been transitioning towards nuclear and renewables, albeit slowly (i.e., FY18 mix: 66.4% Thermal, 24.5% Hydel, 5% Renewable and 4.1% Nuclear V/S FY22 mix: 60.6% Thermal, 24.5% Hydel, 8.3% Nuclear and 6.5% Renewable).

Generation Company achieved Commercial Operation Date (COD) on 21st Mar 2022. The electricity generation stood at 1,069 GWh till June 2022 (PKR 25,953mln). During 1HFY23, company successfully generated 1,514 GWh and reported revenues of PKR 45,738mln. However, due to the increase in policy rate company incurred the finance cost of PKR 11,667mln. Thus, reporting a profit of PKR 2,196mln.

Performance Benchmark The contract availability for the plant over 30 years is agreed to be at 85%. If these aren’t met, Lucky Electric would be charged LDs by the Power Purchaser.

Financial Risk

Financing Structure Analysis Lucky Electric’s capital structure comprises 25% equity and debt financing constitutes 75% of the initial estimated project cost; ~USD 883mln, financed from local and foreign financial institutions. Local Facility obtained from multiple consortium of banks aggregating to Rs 65.9 billion has a 10 year tenure starting June 2022 and to be paid in 40 quarterly installments. The foreign facility is USD 210mln. Out of which USD 20mln will be paid quarterly and USD 190mln will be paid semiannually.

Liquidity Profile DSRA will be fully funded through tariff during the next fiscal year and ROE component may be diverted to DSRA account, if required to make balance equivalent to debt servicing due for the upcoming nine months.

Working Capital Financing Company manages its working capital needs through internal cash flows as well as through Short term borrowings due to delayed payments from power purchaser. Receivables of the company stands at PKR 31,006mln at end Dec-22 (9M since COD) increased from PKR 16,372mln at end Jun-22 (3M since COD). Similarly, short term borrowings stand at PKR 38,667mln at end Dec-22 (Jun-22: PKR 35,252mln).

Cash Flow Analysis The stability and sustainability of future cash flows of Lucky Electric depends completely on continuous performance of its power plant. During 1HFY23, company generated FCFOs of PKR 16,134mln. Interest coverage stands at 1.4x and Debt Coverage stands at 1.2x.

Capitalization The project has been initially allowed a project cost of USD 883 mln with 75:25 debt to equity ratio. Currently debt to equity ratio stood at 83% as of Dec 2022 with a total debt of the company at PKR 149,544mln and equity of PKR 31,073mln.



Lucky Electric Power Company Limited Power	Dec-22 6M	Jun-22 12M	Jun-21 12M	Jun-20 12M
---	--------------	---------------	---------------	---------------

A BALANCE SHEET

1 Non-Current Assets	136,983	134,264	105,489	86,680
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	614	33
4 Current Assets	57,574	51,780	6,013	4,602
<i>a Inventories</i>	10,030	14,439	-	-
<i>b Trade Receivables</i>	31,006	16,372	-	-
5 Total Assets	194,557	186,043	112,116	91,315
6 Current Liabilities	13,846	14,360	4,686	4,056
<i>a Trade Payables</i>	6,298	-	-	-
7 Borrowings	149,544	142,717	83,666	68,066
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	94	89	62	41
10 Net Assets	31,073	28,877	23,702	19,152
11 Shareholders' Equity	31,073	28,877	23,702	19,152

B INCOME STATEMENT

1 Sales	45,738	25,953	-	-
<i>a Cost of Good Sold</i>	(31,804)	(19,647)	-	-
2 Gross Profit	13,935	6,306	-	-
<i>a Operating Expenses</i>	(148)	(156)	(2,116)	(124)
3 Operating Profit	13,787	6,150	(2,116)	(124)
<i>a Non Operating Income or (Expense)</i>	76	(139)	0	6
4 Profit or (Loss) before Interest and Tax	13,863	6,011	(2,116)	(118)
<i>a Total Finance Cost</i>	(11,667)	(5,236)	(1)	(2)
<i>b Taxation</i>	-	-	616	34
6 Net Income Or (Loss)	2,196	775	(1,500)	(86)

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	16,134	7,337	(2,031)	(23)
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	6,359	(3,130)	(8,520)	(5,630)
<i>c Changes in Working Capital</i>	(8,140)	(36,033)	(2,982)	(2,187)
1 Net Cash provided by Operating Activities	(1,781)	(39,163)	(11,502)	(7,816)
2 Net Cash (Used in) or Available From Investing Activities	(165)	(14,206)	(11,634)	(45,766)
3 Net Cash (Used in) or Available From Financing Activities	2,296	53,659	23,517	54,315
4 Net Cash generated or (Used) during the period	350	289	380	732

D RATIO ANALYSIS

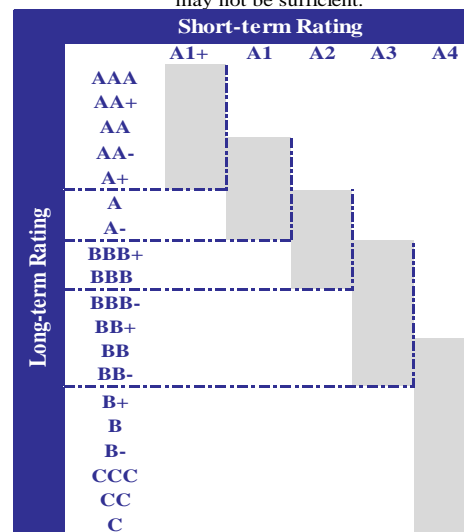
1 Performance				
<i>a Sales Growth (for the period)</i>	252.5%	N/A	N/A	N/A
<i>b Gross Profit Margin</i>	30.5%	24.3%	N/A	N/A
<i>c Net Profit Margin</i>	4.8%	3.0%	N/A	N/A
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	17.5%	-110.6%	N/A	N/A
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sl</i>	14.5%	3.3%	N/A	N/A
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	143	433	N/A	N/A
<i>b Net Working Capital (Average Days)</i>	118	N/A	N/A	N/A
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	4.2	3.6	1.3	1.1
3 Coverages				
<i>a EBITDA / Finance Cost</i>	1.4	1.5	N/A	N/A
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.2	1.0	-1.2	N/A
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	15.4	42.8	-41.2	-2929.1
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	82.8%	83.2%	77.9%	78.0%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	N/A	N/A
<i>c Entity Average Borrowing Rate</i>	17.7%	4.6%	0.0%	0.0%

Credit Rating

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB	
BBB-	
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.
BB	
BB-	
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.
B-	
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.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
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.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*The correlation shown is indicative and, in certain cases, may not hold.

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) 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.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

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 | Clause 11-(A)(p).
- (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

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent