The Pakistan Credit Rating Agency Limited

Rating Report

Lucky Electric Power Company Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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 (Lucky Electric) is setting up a 1x660MW (gross) local coal fired super critical power plant located in Deh Ghangiaro, Bin Qasim, Karachi. The project achieved financial close (FC) in June-18. Its COD as per PPA is 1st March, 2021. As at end-Jun 2020, the actual project progress, issued by EPC was ~85%. In addition the EPC Contractors has served Force Majeure Event (FME) claim to Lucky Electric in light of the COVID-19 Pandemic, which Lucky Electric is striving for its withdrawal. Due to pandemic, the management is expecting some delay in achieving its COD, though the delay window is short and management remains committed to achieve the milestone. Further, an explicit undertaking from the sponsor is provided to ensure that all kind of support including financial shall be made available to complete the development work and honour both its present and future commitments towards its creditors. This is a key rating consideration. The EPC contractors will be liable to pay the liquidated damages of $ 87,500 per day beyond the time for completion subject to upper cap of 12.5% of Contract Value. The primary fuel is Thar Coal; a coal supply agreement is signed with Sindh Engro Coal Mining Company (SECMC), from its Block-II (Phase III). Company is also in a process of negotiating imported coal supply agreement from International supplier which is expected to be executed by September 30, 2020. Plant would be run on imported coal in case of non-availability of local coal. It is pertinent to mention that Yunus Brother Group through its trading company, Lucky Commodities, has vast experience in import of coal. The onshore EPC contract is with SEPCO III Electric Power Construction Corporation and offshore EPC contract is with Tie Jun International. Comfort is drawn from the experience of these contractors. The ratings incorporate the project's exposure to the completion risks. Once completed, the Company's main challenge would be to keep the plant operational. DSRA will be fully funded through tariff and ROE component may be diverted to DSRA account, if required to make balance equivalent to debt servicing due for the upcoming nine months. Off take agreement is with CPPA-G, which will, upon plant's availability as per contract, provide capacity payments even if no purchase order is placed. The Government of Pakistan has given payment guarantee against dues from CPPA-G. Rating takes benefit from the company's association with one of the largest conglomerate of the country.

Ensuring timely commissioning of the project is important. Moreover, timely completion of the affiliated infrastructure projects needed to make the plant operational and the viability of local Coal is a consideration.

Disclosure	
Name of Rated Entity	Lucky Electric Power Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | IPP(Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Power(Jan-20)
Rating Analysts	Sana Shameen | sana.shameen@pacra.com | +92-42-35869504

Profile

Plant Lucky Electric Power Company Limited (Lucky Electric) Limited is setting up a 1x660MW (gross) local coal fired super critical power plant at Port Qasim, Karachi, Sindh. Plant will be 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 Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. Stability factor is considered strong.

Business Acumen Lucky Cement Limited stands as the flagship company of Yunus Brothers Group (YBG). Lucky Cement is one of the largest producers and leading exporters of quality cement in Pakistan. YBG is one of the biggest conglomerates in Pakistan with diversified interests in textiles, ,real estate, power generation, chemicals, food and automotive.

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 six 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-June,19.

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. Intisar ul Haq Haqqi, the CEO, completed his Marine Engineering Training from the Pakistan Marine Academy, has been spearheading the company. Mr. Haqqi carries with him over two decades of experience with the captive power industry in Pakistan. Mr. Haqqi is supported by an experienced team of professionals. Mr. Zulfiqar Ali Rana, Chief Operating Officer, brings over 30 years of experience in the power sector ranging energy sector reforms, development, execution, operations and management across multiple power plants. Mr. Naeem Kasbati, the CFO, a fellow member of ICAP, has 30 years of experience with expertise in streamlining operations, cost reduction, financial planning & reporting, and funds management including 20 years in power sector.

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

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 is March 01 2021. Company is expecting some delay in achieving its COD owing to global pandemic of Novel Corona Virus.

Operation And Maintenance Lucky Electric's O&M contractor is Kepco Plant Services & Engineering Co, Korea for period of 7 years, automatically renewed for additional 3 years, unless notified. 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 is also in a process of negotiating imported coal supply agreement from Indonesia. Plant would be run on imported coal in case of non-availability of Thar coal.

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

Performance Risk

Industry Dynamics Pakistan has total coal reserves of 186bln tonnes. The GoP and GoS are working towards using the indigenous coal at Thar to reduce the electricity short fall in the country. Pakistan total power generation is increasing on the back of new power projects under CPEC. During FY19, there has been a growth of ~30% in the actual power generation.

Generation Plant is under construction phase so no generation is made so far.

Performance Benchmark Yearly generation capacity is expected to be 5,314GWh with the benchmark efficiency of plant at 39%. 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. The contractual remedies under O&M contract has been incorporated to partially cover the damages

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 the consortium of banks led by United Bank Limited amounting to Rs 55.98 billion has a 10 year tenure starting March 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 semi-annually.

Liquidity Profile DSRA will be maintained by Lucky Electric to provide comfort to lenders regarding debt repayments. DSRA will be fully funded through tariff 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 The Company has agreed to procure working capital commitment of over Rs.3.5 billion from Project Financiers and the documentation in this respect is under finalization

Cash Flow Analysis Lucky Electric will meet its debt repayment and mine capacity payments at 65% of availability. Hence, Lucky Electric can generate ample revenue to cover its financial obligations. Lucky Electric, in its off-take agreement with CPPA-G will receive capacity payments, given the plant meets contract availability, even if no purchase order is placed

Capitalization Lucky Electric leveraging stood at 74.9% as of June 2020.

Lucky Electric Power Company Limited *PKR mln*

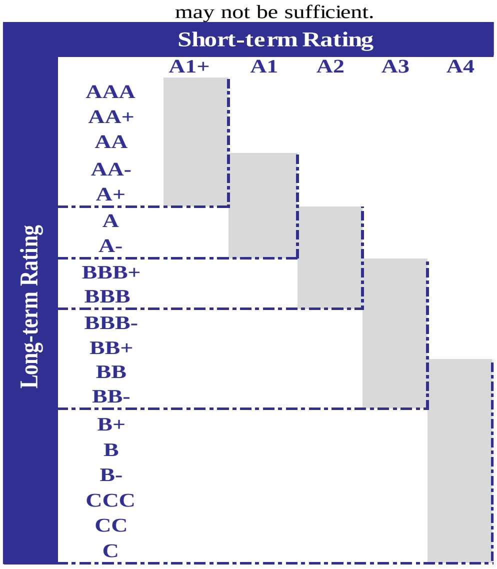
BALANCE SHEET	30-Mar-20	30-Jun-19	30-Jun-18
	9M	FY19	FY18
Non-Current Assets	**73,497**	**33,091**	**6,204**
Investments (Others)	-	-	-
Equity	-	-	-
Debt	-	-	-
Current Assets	**5,356**	**3,721**	**3,906**
Inventory	-	-	-
Trade Receivables	-	-	-
Other Current Assets	3,424	3,294	1,106
Cash & Bank Balances	1,932	427	2,800
Total Assets	**78,853**	**36,812**	**10,110**
Debt	**58,462**	**22,197**	-
Short-term	-	-	-
Long-term (Inlc. Current Maturity of long-term debt)	**58,462**	**22,197**	-
Other Short term liabilities (inclusive of trade payables)	4,304	4,204	25
Other Long term Liabilities	39	22	12
Shareholder's Equity	**16,048**	**10,388**	**10,073**
Total Liabilities & Equity	**78,853**	**36,812**	**10,110**
INCOME STATEMENT			
Turnover	-	-	-
Gross Profit	-	-	-
Other Income	7	9	8
Financial Charges	(1)	(2)	(2)
Net Income	**(90)**	**(85)**	**(60)**
Cashflow Statement			
Free Cashflow from Operations (FCFO)	(9)	(95)	(53)
Net Cash changes in Working Capital	(835)	2,837	(1,006)
Net Cash from Operating Activities	(4,964)	2,241	(1,061)
Net Cash from InvestingActivities	(35,460)	(24,987)	(4,521)
Net Cash from Financing Activities	41,928	20,373	8,350
Net Cash generated during the period	1,504	(2,373)	2,769
Ratio Analysis			
Performance			
Turnover Growth	-	-	-
Gross Margin	-	-	-
Net Margin	-	-	-
ROE	-	-	-
Coverages			
Debt Service Coverage (X) (FCFO/Gross Interest+CM	-7.3	-55.4	-34.7
Interest Coverage (X) (FCFO/Gross Interest)	-7.3	-55.4	-34.7
FCFO Pre-WC/Gross interest+CMLTD	0.0	-0.4	-2.7
FCFO POST-WC/Gross interest+CMLTD	-3.7	12.5	-53.6
FCFO+change in WC+Change in STB/Gross Interest+C	-3.7	12.5	-53.6
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Pa	-	-	-
Capital Structure (Total Debt/Total Debt+Equity)	78.5%	68.1%	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.

Long-term Rating	
Scale	**Definition**
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 Rating	
Scale	**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
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 surveill 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):

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

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

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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