The Pakistan Credit Rating Agency Limited

Rating Report

Gul Ahmed Energy Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
10-Nov-2021	A-	A2	Stable	Maintain	-
10-Nov-2020	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Gul Ahmed Energy's Power Purchase Agreement (PPA) with Karachi-Electric (KE), expired in November, 2019. National Electric Power Regulatory Authority (NEPRA) has approved the tariff of GAEL for three years (valid till Nov-2022) which is contingent till the time CPPA-G/NTDC are willing and capable of supplying equivalent additional power to KE. Under current tariff (i) the Company will have a 'take and pay' tariff by virtue of which the Company will generate revenue only when electricity is supplied to the power purchaser i.e. K.electric and other bulk purchasers (ii) Fuel procurement will be the responsibility of GAEL (iii) No liquidated damages relating to fuel supply / electricity supply will be applicable on either party. The Company is in negotiation with KE for finalization of PPA. The Company's project debt has been paid and it has not procured any short-term facility, consequently the Company finances its working capital through its operations. GAEL holds short term investment in mutual funds amounting to PKR 3.08bln as at 30 June, 2021 which, being much beyond the operational requirement of the Company, lends extra cushion. Furthermore, GAEL's controlling interest in the 3 subsidiaries it owns is noted as i) Gul Ahmed Wind Power Limited 50MW which is operational since 2016, ii) Gul Ahmed Electric Limited 50MW which has achieved financial close in 2019, has subsequently achieved a Construction Start Date in July, 2020 and shall be commencing commercial operations on November, 2021and iii) Gul Ahmed Solar Power Limited 50MW which has obtained Letter of Intent from Energy Department, Government of Sindh. GAEL's Leverage stands at virtually zero, as it does not have any sort of borrowings (neither long term nor short term).

The ratings have a stable outlook owing to the already determine tariff. The management is confident based on rational argument as to the finalization of PPA and continued operations of the Company. Comfort can be drawn from Company's liquid cash position and low leveraged balance sheet and no working capital lines utilization. Although well-managed, in-house O&M activities expose the company to operational risk; thus upholding strong operational performance would remain a key driver of the ratings. Meanwhile, the determination of Power Purchase Agreement is essential for the ratings.

Disclosure

Name of Rated Entity	Gul Ahmed Energy Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Independent Power Producer Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Power(Jan-21)
Rating Analysts	Anam Waqas Ghayour | anam.waqas@pacra.com | +92-42-35869504

Profile

Plant Gul Ahmed Energy Limited (GAEL) operates 136.17 MW (gross) FO based private power plant under 1994 Power Policy of the GOP on Build Own, Operate basis. The power plant comprises of 9 Oil Fired diesel engines having capacity 15.13 MW each.

Tariff The Company filed a petition for determination of generation tariff for its 136.17 MW Gross RFO based Power under the NEPRA Act. The Petitioner requested for extension of its PPA with KE for further five years from 3rd November 2019 to 2nd November 2024. After hearing and discussion with all the relevant stakeholder, the Authority has decided to allow for a tariff for three (3) years. The tariff determined by NEPRA is 15.8463 Rs./kWh.

Return On Project The ROE of Gul Ahmed Energy Limited, as determined by NEPRA is 12%.

Ownership

Ownership Structure The principal sponsor of the company is Gul Ahmed Energy Group (67.68%), however, rest of shareholding lies with Corporate, including the Toyota Tsusho (18.62%), Tomen power (12.78%), and Wartsila (0.92%) as on June 2021.

Stability Gul Ahmed Energy Group has a long history of diversified business since 1948. The Group gradually diversified in various industries with operations across manufacturing, investments, power & energy and currently it is one of the leading industrial groups in the country.

Business Acumen Sponsor group has significant experience in power generation and real estate.

Financial Strength The financial strength of the sponsors is considered strong as they have well diversified profitable businesses. Further the company is managing its working capital from their investments and efficient management of operations, and have not opted for any working capital lines.

Governance

Board Structure The Company's Board of Directors comprises of eight Directors. All of them are experienced individuals having more then 20+ years of experience. There is no independent director on the board.

Members' Profile Directors having strong professional profile along with diversified experience assists the management in terms of strategic guidance and implementation of strong control framework.

Board Effectiveness The experiences of the board will help in guiding the management in developing operational and financial policies. However, they have not formed any committees to assist the board.

Financial Transparency A.F. Ferguson & Co is the external auditor of the company. The auditor has given unqualified opinion on company's financial statement as at 30th June 2021.

Management

Organizational Structure Gul Ahmed Energy deploys a lean organizational structure. Company has separate teams at head office and at plant site. The CEO is supported by a team of qualified and experienced professionals. At head office Six functions including Finance, I.T, Legal, Company Secretary and Technical Advisor add more strength to the structure. At plant site, team is headed by Plant Manager Mr. Ghulam Shabbir who is an experienced professional.

Management Team Mr. Danish Iqbal is the CEO of the company. Mr. Danish has over twenty years of experience in industry. He is supported by a experienced team of professionals.

Effectiveness The management's role in an IPP is confined largely to financial matters and regulatory interaction. The management tier ensures effective delegation of functional responsibility across various departments, facilitating a smooth flow of operations through positive results, which has made decision making process systematic.

Control Environment The Company has in place an efficient MIS reporting system for its operations. The system generates real-time plant production data, enabling efficient monitoring and timely decision making.

Operational Risk

Power Purchase Agreement Gul Ahmed Energy key source of earnings is the revenue generated through sale of electricity to the power purchaser K-Electric, and the contract is structured in a way that it protects the company simultaneously from many risk including currency risk, interest risk and fuel supply disruptions, however the PPA of GAEL has expired in November 2019 and the Company is exposed to all the aforementioned risk. Uncertainty regarding the renewal of PPA leaves the Company in a vulnerable position. Although, management is confident of obtaining the PPA as the tariff has already been approved by NEPRA for 3 years.

Operation And Maintenance Initially the O&M contract was awarded to Wartsila Diesel Pakistan Limited in September 1996, however after expiration of O&M contract in November 2019, the management of the company has set up in-house O&M operations. since the plant has been operational for 22 years, management has the required expertise to run the operations effectively.

Resource Risk Pakistan State Oil (PSO) was responsible for supplying RFO under the Fuel Supply Agreement (FSA) for 22 years. however the FSA expired in November 2019. Currently, the Company is obtaining fuel from different fuel supplier on competitive prices.

Insurance Cover Gul Ahmed Energy Limited has adequate insurance coverage for property damage and business interruption. The insured values for damages include a property damage cover (upto Rs. 17,550 million) & business interruption cover (up to Rs.1,170 million).

Performance Risk

Industry Dynamics Owing to newly installed plants, Pakistan's energy mix is shifting towards Solar/Gas/coal and other expensive sources. As on June-20, installed capacity of electricity reached 38,719 MW, which was 38,995 MW at end June 19, decline of 0.7%.(276MW)in FY20, due to the expunge of 784MW of GTPS-Kotri (144MW) and TPS Guddu (640MW). There was an increase of 508MW new power projects including CPEC from coal and renewable sources and this will increase further in coming years. Although electricity generation varies due to availability of inputs and other constraints, generation decreased from 136,532 GWh to 134,745 GWh, posting a decline of 1.3% in FY20 as compared to FY19.

Generation Electricity Generation during FY21 increased by 36% and total dispatches were 673GW (FY20: 496GW, FY19: 648.71GWH). Generation increased due to the higher power demand on the back of improving energy mix.

Performance Benchmark During FY21, net profit has increased to PKR 1,683mln on the back of increased generation (FY20: PKR 1,218mln, FY19: PKR 2,233mln).

Financial Risk

Financing Structure Analysis The Gul Ahmed Energy Limited total project cost was USD 140mln on a debt equity of 70:30. Out of total USD 97mln of total debt, IFC contributed USD 62mln and remaining USD 35mln was contributed from ING Bank. The project debt remained fully paid by the Company in 2009.

Liquidity Profile In FY21, total receivables of the company stood at PKR 1,505mln (FY20: PKR 946mln, FY19: PKR 2,994mln), which is due from K-Electric.

Working Capital Financing Receivable days have decreased to 41 days in FY21 (FY20: 87 days) which is much better as compared to others players. As of FY21, company's long term equity investment stood at PKR 3,085mln.

Cash Flow Analysis During FY21, cashflows from operations of the company have increased as compared to last year (FY21: PKR 1,051mln, FY20: PKR 906mln).

Capitalization The debt of the company has been fully paid back in 2009. Further, The Company has not procured any short term financing lines.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

00-Jan-00	Jun-21	Jun-20	Jun-19	Jun-18
##	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	435	540	694	989
2 Investments	3,085	4,549	2,250	3,158
3 Related Party Exposure	3,966	2,723	1,973	1,973
4 Current Assets	4,254	2,065	5,050	4,179
a Inventories	*1,109*	*35*	*675*	*718*
b Trade Receivables	*1,505*	*946*	*2,994*	*2,209*
5 Total Assets	11,739	9,877	9,966	10,299
6 Current Liabilities	625	413	1,767	2,064
a Trade Payables	*545*	*361*	*1,725*	*2,044*
7 Borrowings	12	45	-	-
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	35	34	34	32
10 Net Assets	11,068	9,386	8,165	8,203
11 Shareholders' Equity	11,068	9,386	8,165	8,203
B INCOME STATEMENT				
1 Sales	11,044	8,311	12,708	9,491
a Cost of Good Sold	*(9,952)*	*(7,265)*	*(10,568)*	*(8,307)*
2 Gross Profit	1,093	1,046	2,140	1,184
a Operating Expenses	(180)	(303)	(186)	(148)
3 Operating Profit	913	743	1,953	1,036
a Non Operating Income or (Expense)	*794*	*489*	*280*	*149*
4 Profit or (Loss) before Interest and Tax	1,707	1,232	2,233	1,185
a Total Finance Cost	*(24)*	*(14)*	-	-
b Taxation	-	-	-	-
6 Net Income Or (Loss)	1,683	1,218	2,233	1,185
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,051*	*906*	*2,291*	*1,374*
b Net Cash from Operating Activities before Working Capital Changes	*1,032*	*897*	*2,291*	*1,374*
c Changes in Working Capital	*(1,985)*	*1,642*	*(1,244)*	*637*
1 Net Cash provided by Operating Activities	(953)	2,540	1,048	2,010
2 Net Cash (Used in) or Available From Investing Activities	979	(2,507)	1,221	(999)
3 Net Cash (Used in) or Available From Financing Activities	(37)	(18)	(2,272)	(1,010)
4 Net Cash generated or (Used) during the period	(12)	15	(4)	2
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	32.9%	-34.6%	33.9%	11.9%
b Gross Profit Margin	9.9%	12.6%	16.8%	12.5%
c Net Profit Margin	15.2%	14.7%	17.6%	12.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-8.5%	30.7%	8.2%	21.2%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	16.5%	12.9%	26.9%	15.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	59	102	95	98
b Net Working Capital (Average Days)	44	56	41	51
c Current Ratio (Current Assets / Current Liabilities)	6.8	5.0	2.9	2.0
3 Coverages				
a EBITDA / Finance Cost	262.7	188.5	N/A	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	66.6	23.5	N/A	N/A
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.1	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	0.1%	0.5%	0.0%	0.0%
b Interest or Markup Payable (Days)	0.0	0.0	N/A	N/A
c Entity Average Borrowing Rate	--	--	--	--

Credit Rating

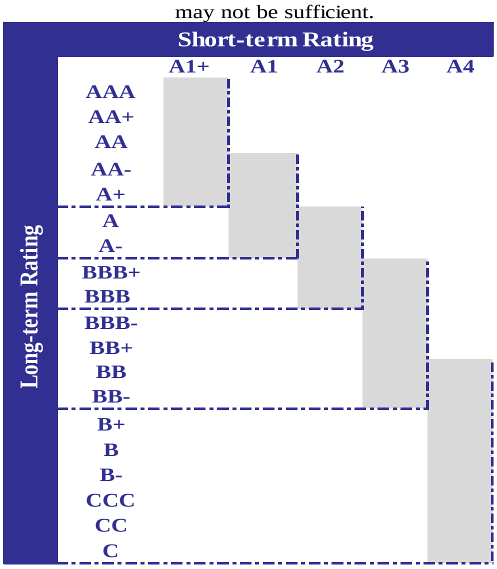
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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(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)

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(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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