



The Pakistan Credit Rating Agency Limited

Rating Report

The Hub Power Company Limited | Sukuk

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
15-Apr-2022	AA+	-	Stable	Maintain	-
16-Apr-2021	AA+	-	Stable	Maintain	-
09-Apr-2020	AA+	-	Stable	Initial	-
13-Feb-2020	AA+	-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The rating reflects the holding company character of Hubco with an exclusive focus on the different dimension of the energy sector. In addition to the investment book, Hubco itself is a large RFO based power plant. Hubco aims to expand generation capacity to boost the country's power generation by utilizing Pakistan's indigenous natural resources. China Power Hub Generation Company (CPHGC) - A joint venture with China Power International Holdings Limited (CPIHL): 2x660MW coal-fired power plant at Hub achieved COD as of 17 August 2019. This is indeed a crucial development. Hubco is setting up two more coal power plants (i) Thar Energy Limited (TEL): 330MW mine-mouth coal-fired power plant at Thar and (ii) Thalnova Power: 330MW mine-mouth coal-fired power plant at Thar. Hubco also has an investment in Sindh Engro Coal Mining Company (SECMC). These investments are being funded through a mix of short term and long term debt and Hubco has already deployed a sizeable fund in its ongoing projects of Thalnova and Thar Energy Ltd. Hubco has working capital related borrowing as well. The overall debt quantum in the wake of fresh investment is huge. The cash flows of the company can sustain the burden, which will be complemented by the dividend inflows. Furthermore, the company has recently received payments from government against outstanding capacity payments under the signed MoU. This has further improved the Company's cashflows providing comfort to the ratings. Hubco has used short term debt instruments and privately placed short term Sukuk to meet its working capital requirement.

Cash flow streams of Hubco's plants are guaranteed by GoP under the Power Purchase Agreement (PPA), subject to adherence to the agreed-upon performance benchmarks; this provides comfort to the ratings. Hubco has recently signed an agreement with Govt. actual impact of the executed agreement is yet to be seen. Timely completion of new projects, settlement of receivable and payable and maintaining healthy debt service coverages is important.

Disclosure	
Name of Rated Entity	The Hub Power Company Limited Sukuk
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Debt Instrument Rating(Jun-21),Methodology Corporate Rating(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Power(Jan-22)
Rating Analysts	Madiha Sohail madiha.sohail@pacra.com +92-42-35869504

Issuer Profile

Profile The Hub Power Company Limited (Hub Power) consists of four generating units, each comprises of 323 MW gross outputs, with an oil-fired single re-heat boiler. Company has submitted a plan in May-19 to the government to convert furnace oil-fired plant into a coal-fired power plant prior to expiry of Power Purchase Agreement (PPA) in 2027. The current applicable tariff is US 12.28 cents/KWh. The tariff is adjusted as per PPA. The policy IRR of Hub Power, as agreed with NEPRA is 12%

Ownership Mega Conglomerate Private Limited (19.5%) is the single largest shareholder amongst the Associated Companies that occupy 20.07% of the total ownership. The remaining shareholding is held by various Financial Institutions (15.15%), Insurance Companies (10.71%) Joint Stock Companies (3.77%), Modaraba/Mutual Fund & Leasing Companies (11.34%) and general public (19.52%). Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. However, sponsors association with Mega Conglomerate continue to provide comfort. Mega Conglomerate having a diversified experience with presence in shipping, logistics, real estate development, cement, energy and food sector. Mega Conglomerate has a strong financial position with diversified business.

Governance The Company's Board of Directors comprises of eleven Directors, The Board's efficacy is strengthened by the presence of an executive director, the CEO. Directors having strong professional profile along with diversified experience assists the management in terms of strategic guidance and implementation of strong control framework. For effective oversight of the matters the board has formed three board committees. (i) Board audit Committee (ii) Board Investment Committee and (iii) Board Compensation Committee. The company displays relevant information on website, stock exchange and financial reports in proper way.

Management Hub Power deploys a lean organizational structure. Six functions including Finance, Corporate services, Operations, and Audit report directly to CEO. The company's department – Manufacturing Excellence (MAX) – is responsible for improving the efficiency of the organization. Mr. Kamran Kamal is appointed as the CEO of the company in July 2021 carrying vast experience in Business Strategy, Energy and large scale Infrastructure project structuring. He has also served as CEO Laraib Energy Limited and Vice President CPHGC. He is assisted by a team of experience professionals. Hub Power management effectiveness plays a significant role in empowering the organization through positive results, which has made decision making process systematic. Hub Power 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.

Business Risk Hub Power's key source of earnings is the revenue generated through sale of electricity to the power purchaser, CPPA-G. The company has signed the master agreement in pursuant to MoU to revise the terms of PPA, but the execution of the agreement is yet to be seen. Hub Power has established a wholly owned subsidiary – Hub Power Services Limited (HPSL) – incorporated to manage the O&M in 2015. Resource Risk Pakistan State Oil (PSO) is responsible for supplying RFO under the Fuel Supply Agreement (FSA) for 30 years. HUBCO is protected from fuel transportation issues as the company receives fuel directly from PSO.

Financial Risk The total project cost of Hubco was \$1.5bln; with US \$175mln from international and local equity investors, US \$689mln from international banks, and the bulk of the rest coming via US \$589mln subordinated loan provided by the World Bank, JEXIM and ECAs. The project debt has been fully paid by the company. At end Sept'21, total receivables of the company stood at PKR 80,370mln (FY21: PKR 72,205mln; FY20: PKR 75,030mln). Receivables are not in a better off position due to circular debt of the power sector. Receivable days for the period 3MFY22 were recorded as 386 days (FY21: 832 days). The drastic decrease in the receivable days is a result of payment received from government against outstanding dues to IPPs. HUBCO has used short term debt instruments and intends to raise borrowing through a retail bond. Short term debt instruments would act as bridging short-term facility to cover the timing difference between investments and cashflow from government. As of Sept'21 company's long term equity investment stood at PKR ~57bln (FY21: PKR 57bln), company through its wholly owned subsidiary Hub Holdings Limited has made an equity investment of PKR 38.42bln in China Power Hub Generation Company (CPHGC) and Thal Nova Power Ltd. During the review period, despite improvement in Free cash flows of the company, the debt coverage ratio (EBITDA/Fin Cost) has improved (3MFY22: 5.3x; FY21: 5.7x) on account of increased profit. Free cash flows as of 3MFY22 stood at PKR 6,219mln (3MFY21: PKR 5,175mln). Hub Power leveraging is at ~49.3% in 3MFY22 (Debt: equity FY21: 53%; FY20: 60%). Leveraging at HUBCO and group level is being monitored. In case, the deviation from envisaged takes place or funds are deployed in risky or unrelated avenues, this will be considered negative.

Instrument Rating Considerations

About The Instrument Hubco issued a Rated, Secured, Privately Placed, Islamic Certificate on March 19, 2020, amounting PKR 5bln to finance Company's working capital requirements. The Privately Placed Long Term Sukuk, having a tenor of four years, carries a profit rate of 1 Year Kibor + 190bps. Interest is being paid semi-annually and principal will be paid in 4 equal semi-annual installments (with two years of Grace Period) starting from the 30th month of the issuance date in September 2022. Currently, the markup of PKR 1,215mln has been paid till March 2022 by the Company. The first principal repayment amounting PKR 1,250mln is falling due on 19-Sep-22.

Relative Seniority/Subordination Of Instrument The claims of the ICP Certificate holders will rank superior to the claims of ordinary shareholders.

Credit Enhancement The instrument is secured by way of i) revolving guarantee from Narowal Energy Limited for an amount of PKR 6,666.67mln (issue amount plus 25% margin) ii) Subordinate hypothecation charge over all present and future movable fixed assets of NEL for PKR 6,667.67mln (issue amount plus 25% margin) iii) Subordinate hypothecation charge over all present and future movable fixed assets of HUBCO for PKR 6,667.67mln (issue amount plus 25% margin)



The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

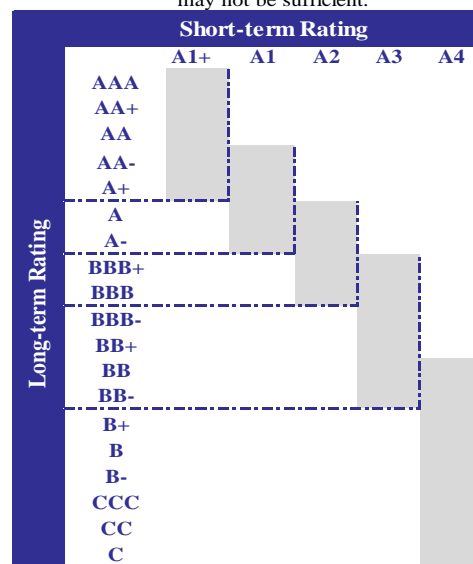
The Hub Power Company Ltd Power	Sep-21 3M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	9,806	10,285	12,194	13,741
2 Investments	-	-	-	-
3 Related Party Exposure	58,335	62,395	57,413	48,404
4 Current Assets	99,853	87,328	94,914	91,582
<i>a Inventories</i>	4,205	2,806	6,319	4,576
<i>b Trade Receivables</i>	80,371	72,206	75,031	66,629
5 Total Assets	167,995	160,007	164,521	153,728
6 Current Liabilities	50,659	42,722	57,042	57,110
<i>a Trade Payables</i>	49,945	34,496	55,981	56,273
7 Borrowings	57,850	62,360	64,799	64,355
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	59,486	54,924	42,680	32,263
11 Shareholders' Equity	59,486	54,924	42,680	32,263
B INCOME STATEMENT				
1 Sales	18,055	32,292	27,524	36,029
<i>a Cost of Good Sold</i>	(12,508)	(11,897)	(9,630)	(24,295)
2 Gross Profit	5,547	20,395	17,893	11,733
<i>a Operating Expenses</i>	(139)	(789)	(757)	(872)
3 Operating Profit	5,408	19,606	17,137	10,861
<i>a Non Operating Income or (Expense)</i>	439	8,741	3,007	2,375
4 Profit or (Loss) before Interest and Tax	5,847	28,347	20,144	13,237
<i>a Total Finance Cost</i>	(1,306)	(5,772)	(9,395)	(4,961)
<i>b Taxation</i>	(114)	(1,141)	(582)	(239)
6 Net Income Or (Loss)	4,427	21,434	10,167	8,037
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	6,219	30,076	21,627	14,950
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	4,848	19,298	11,857	8,246
<i>c Changes in Working Capital</i>	(571)	(12,117)	(11,442)	(8,129)
1 Net Cash provided by Operating Activities	4,277	7,181	415	117
2 Net Cash (Used in) or Available From Investing Activities	263	4,222	(7,221)	(24,720)
3 Net Cash (Used in) or Available From Financing Activities	(4,544)	(11,614)	5	31,489
4 Net Cash generated or (Used) during the period	(3)	(211)	(6,800)	6,885
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	123.6%	17.3%	-23.6%	-53.0%
<i>b Gross Profit Margin</i>	30.7%	63.2%	65.0%	32.6%
<i>c Net Profit Margin</i>	24.5%	66.4%	36.9%	22.3%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	31.3%	55.6%	37.0%	18.9%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	30.5%	38.5%	24.6%	26.4%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	403	884	1012	808
<i>b Net Working Capital (Average Days)</i>	190	372	267	119
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.0	2.0	1.7	1.6
3 Coverages				
<i>a EBITDA / Finance Cost</i>	5.3	5.7	2.4	3.2
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.1	3.0	2.3	1.2
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	1.8	1.4	2.7	2.9
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	49.3%	53.2%	60.3%	66.6%
<i>b Interest or Markup Payable (Days)</i>	33.9	43.4	33.2	44.0
<i>c Entity Average Borrowing Rate</i>	7.6%	8.3%	13.7%	10.0%

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+	
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-	
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
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

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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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- (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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Regulatory and Supplementary Disclosure

Annexure-1

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets (PKR mln)
Rated, Secured, Privately Placed, Islamic Certificates	5,000 mln	4 Years	<ul style="list-style-type: none"> •Revolving Cross Corporate Guarantee ("RCCG") from Narowal Energy Limited ("NEL") for the an amount of PKR 6,666.67 million (Issue Amount plus 25% margin) •Subordinate hypothecation charge over all present and future movable fixed assets of NEL for PKR 6,666.67 million (Issue Amount plus 25% margin) •Subordinate charge over all present and future movable current assets of HUBCO for PKR 6,666.67 million (Issue Amount plus 25% margin). 	Rs. 6,666.67 mln	Fixed and current assets	Pak Brunei Investment Company Limited	N/A

Name of Issuer	The Hub Power Company Limited (HUBCO)
Issue Date	19-Mar-20
Maturity	19-Mar-24

Due Date Principal*	Opening Principal	Principal Repayment*	Due Date Markup/ Profit*	Markup/Profit rate	1 Year Kibor Plus 190bps	Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln							
Issuance	5,000	0	19-Sep-20	1 Year KIBOR + 1.9%	14.18%	357	357	5,000
19-Sep-22	5,000	0	19-Mar-21	1 Year KIBOR + 1.9%	14.18%	352	352	5,000
	5,000	0	19-Sep-21	1 Year KIBOR + 1.9%	10.13%	255	255	5,000
	5,000	0	19-Mar-22	1 Year KIBOR + 1.9%	10.13%	251	251	5,000
	5,000	1250	19-Sep-22	1 Year KIBOR + 1.9%	10.13%	255	1505	3,750
19-Mar-23	3,750	1250	19-Mar-23	1 Year KIBOR + 1.9%	10.13%	188	1438	2,500
19-Sep-23	2,500	1250	19-Sep-23	1 Year KIBOR + 1.9%	10.13%	128	1378	1,250
19-Mar-24	1,250	1250	19-Mar-24	1 Year KIBOR + 1.9%	10.13%	63	1313	0
		5,000				1,850	6,850	