The Pakistan Credit Rating Agency Limited

Rating Report

National Transmission & Despatch Company Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
09-Aug-2024	AA+	A1+	Stable	Maintain	-
11-Aug-2023	AA+	A1+	Stable	Maintain	-
13-Aug-2022	AA+	A1+	Stable	Maintain	-
13-Aug-2021	AA+	A1+	Stable	Maintain	-
28-Aug-2020	AA+	A1+	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect National Transmission and Despatch Company's (NTDC) "the Company" ownership structure dominantly owned by the Government of Pakistan (GoP). The Company is of strategic importance to Pakistan as being an autonomous power transmission utility. It is mandated to construct, maintain and operate an integrated network of 220 kV, 500 kV, and above transmission lines and grid stations to evacuate power from an installed generation capacity of over 45,885 MW. NTDC's low business risk emanates from its leading market position and strong hold on the transmission system in terms of its technical and business expertise. Moreover, the Company's operational expenses being part of its tariff reflect positively on its performance and business risk profile. During FY 2023-24, NTDC received a total of 133,815 GWh of energy and delivered 130,438 GWh of energy through CDPs all over Pakistan. T&T losses expressed as a percentage of energy received by NTDC were 2.524% for FY 2023-24. The Company's transmission losses are within the limits allowed by NEPRA which is 2.639%. The Company has undertaken and completed multiple projects in FY 2023-24 that will improve transmission efficiency by managing the load. The Multi-Year Tariff (MYT) for Use of System charges by NTDC expired in FY22. On October 28, 2022, Authority permitted NTDC to implement a fixed rate of PKR 235/kW/month for FY23 and beyond. NTDC subsequently submitted a new MYT proposal for the next three years starting from FY23, which will be applied retroactively once approved by the Authority. As MYT is in approval stage, NTDC's topline has decreased slightly compared to the previous year (9MFY24: PKR 52,435mln; 9MFY23: PKR 54,135mln). Additionally, operating costs have surged significantly without a corresponding increase in revenue along with the escalation in finance cost and taxation, leading to a substantial decline in net income which reduced to PKR 458mln in 9MFY24 from PKR 11,702mln in the same period of previous year. With its extensive transmission network spread all over Pakistan, NTDC dominates the electricity transmission industry. Ratings also take into account the Company's moderate financial risk emanating from sizable equity, an adequate capital structure that comprises mainly of foreign loans relent in Pak Rupee to NTDC and borrowing from the local banks. Furthermore, Company's in-house working capital management is reflected in strong internal cash generation and constructive management of circular debt by adjusting its receivables with repayments due against foreign loans relent to NTDC by GoP. The Company is in the process of implementing ERP System that aims at achieving business automation in the Company.

Effective management, timely completion of ongoing and upcoming projects and consistency in financial profile and risk matrices as well as approval of MYT remains critical for the ratings. Meanwhile, reconciliation of outstanding adjustments regarding Business Transfer Agreements and sustained competitive positioning are also imperative for ratings.

Disclosure

Name of Rated Entity	National Transmission & Despatch Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-24),Methodology | Independent Power Producer Rating(Jul-24)
Related Research	Sector Study | Transmission & Distribution | Electricity(Feb-24)
Rating Analysts	Ali Arslan Malik | Ali.Arslan@pacra.com | +92-42-35869504

Profile

Legal Structure National Transmission and Despatch Company (NTDC) is a public unlisted company, incorporated in Pakistan on November 06, 1998. The registered office is situated at WAPDA House, Lahore.

Background After unbundling of WAPDA, NTDC took over certain properties, assets, rights, obligations and liabilities relating to transmission of electricity from WAPDA under Business Transfer Agreement (BTA) on March 01, 1999. Later, upon receiving direction from the GoP , Company signed a Business Transfer Agreement (BTA) on June 03, 2015 with Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) and had transferred its functions, operations, assets and liabilities related to CPPA and CRPEA to CPPA-G.

Operations The principal activity of the Company is the transmission of power to DISCOs through its transmission infrastructure and network facilities. NEPRA granted transmission license to NTDC in December 2002 for a term of thirty (30) years. NTDC's first tariff was notified by NEPRA in April, 2004.

Ownership

Ownership Structure NTDC is 88% owned by the GoP through Ministry of Energy (Power Division). Whereas, 12% shares are owned by employees of the Company under the "Benazir Employee Stock Option Scheme" (BESOS).

Stability Majority shareholding owned by GoP provides support to stability of the Company.

Business Acumen GoP considers NTDC as a strategically vital entity and representatives from GoP hold significant industry-related experience, resulting in strong business acumen.

Financial Strength Sovereign ownership from the GoP and given the strategic importance of NTDC to the GoP, in terms of being the largest energy evacuator and transmitter, the probability of sovereign support, in case the Company requires it, remains high.

Governance

Board Structure The board of NTDC was reconstituted by the government in June 23 and comprises thirteen experienced professionals, there are seven independent directors and five non-executive directors: among these members are representatives from Ministry of Energy, Power Division, PPIB & CPPA-G.

Members' Profile The federal government of Pakistan reconstituted the NTDC board in June 23. Although the position of Chairman is currently vacant and will be filled in the near future, the board is made up of professionals with extensive technical expertise across various sectors of the industry.

Board Effectiveness There are four committees at the Board level, namely: i) Audit, Finance, Investigation, FR Management and Internal Control Committee, ii) HR, legal and other Misc. matters Committee, iii) Procurement Committee. and iv) Technical, Initiative, Development, Operational Risk Management and Operations Committee. The board along with its committees had conducted regular meetings throughout FY 2022-23 to direct / assist the management. The TORs of all the committees are formally defined and they maintain a strong control environment over the organization.

Financial Transparency Grant Thornton Anjum Rahman, Chartered Accountants is the external auditor of the Company. They expressed a qualified opinion on the Company's financial statements for the year ended June 30, 2023 for not making any provision for Workers' Profit Participation Fund (WPPF). The Company has changed its external auditors to Yousaf Adil & Co., and the audit for the FY24 is currently in progress.

Management

Organizational Structure NTDC has a strong organizational structure. MD, Chief Internal Auditor, Board Committees are directed by the BoD of the Company. While Chief Officers and Deputy Managing Directors of six operational departments namely: Asset Development & Management , Finance, Legal, Security Operations, Procurement & Engineering, HR and Information Technology reports directly to MD.

Management Team The position of Managing Director is currently vacant and will be filled in the near future. The management team, however, is composed of experienced individuals with a strong association with the Company and relevant expertise..

Effectiveness The robustness of control systems is a reflection of effective decision-making. The implied system checks have led the processes to become more systematic.

MIS NTDC has initiated the process to achieve Digital Transformation by implementing ERP with an aim to achieve Business Automation of the Company's processes. M/S Siemens, Pakistan is responsible to supply, design and implement the ERP in the company. The ERP consists of Business Intelligence Analytics along with modules of Project Delivery and Asset Management supported by the modules of Finance, Supply Chain and Human Resource. A.F.Ferguson & Co. has been engaged as the quality assurance consultant for ERP implementation.

Control Environment NTDC maintains an effective control environment with defined policies and procedures. Company's internal audit function performs regular reviews on the financial, operational and compliance controls and reports directly to the audit committee for all critical issues.

Business Risk

Industry Dynamics There are a total of 7 electricity transmission companies that have been granted license by NEPRA. Amongst these only 4 companies are operational including NTDC, K Electric, Pak Matiari Lahore Transmission Company and Sindh Transmission & Dispatch Company.

Relative Position Amongst the above stated operational companies, NTDC owns the majority transmission network that is spread over 21,355 km and includes 70 grid stations (500kV: 18, 220kV: 50, ± 660kV: 02) with a total transmission capacity of 67,940MVA.

Revenues NTDC's topline has slightly decreased as compare to same period of previous year (9MFY24: PKR 52,435mln; 9MFY23: PKR 54,135mln) on account of deteriorated demand. Total T&T losses during FY24 stood at 3,377,347,714 KWh which is 2.524% (FY23: 2.422%), were under the limits of 2.639% allowed by NEPRA. During the year, the Company has charged rate of Rs. 235.30/kW/month (2022: Rs. 235.30/KW/month) based on notification by NEPRA dated 28 October 2022. Tariff for next 3 years is also in the process of being filed.

Margins Being the power transmitter, NTDC does not entail any direct cost of goods sold, and operating expenses are primarily associated with energy transmission. On account of decrease demand along with increase in operating expense, the Company's profitability after tax has condensed significantly during the review period (9MFY24: PKR 458mln; 9MFY23: PKR 11,702mln). NP Margin stood at 0.9% for the period ended Mar-24(end-Mar23: 21.6%) due to deferred tax adjustment.

Sustainability Being the national grid company of the country, NTDC management in line with the preferential requirements as set by the GoP. The Company has planned to accelerate the completion of existing ongoing projects and to expand its transmission network for evacuation of power from new upcoming generation projects to eradicate power shortage in the country for good.

Financial Risk

Working Capital Timely recovery of bills is imperative for NTDC's working capital management. NTDC bills Power Purchaser against the use of system charges. The trade receivables days were reported as 401 days at end-Mar24 (end-Jun23: 394days). Hence, the net cash cycle deteriorated slightly on back of higher payables days (end-Mar24: 356 days; end-June23: 357 days). Moreover, the current ratio during the review is reported at 2.0x (FY23: 2.2x, FY22: 2.8x) indicating an adequate short-term liquidity position of the Company.

Coverages NTDC's coverages are a reflection of subdued FCFO as compare to same period of previous period (end-Mar24: PKR 26,012mln, end-Mar23: PKR 36,911mln) along with the factor of rising finance cost on the back of higher project financing (interest coverage: end-Mar24: 1.7x, end-Mar23: 3.7x).

Capitalization Being an infrastructure-based Company, NTDC arranges funds from foreign and local financial institutions for the expansion of its network. The Company financed its projects mainly through Government re-lent loans and secured local financing. NTDC has a moderate leverage capital structure, mainly composed of long-term financing while short-term financing stands nil (end-Mar24: ~62%; Jun23: ~58%). Borrowings stood at PKR 312,644mln as at end-Mar24 (end-Jun23: PKR 267,337mln).

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Financial Summary
PKR mln

National Transmission and Despatch Company Power Transmission and Distribution	Mar-24 9M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	556,466	499,310	392,248	351,341
2 Investments	-	-	-	-
3 Related Party Exposure	27,250	26,362	27,408	25,053
4 Current Assets	152,365	149,561	134,694	108,299
a Inventories	-	-	-	-
b Trade Receivables	*68,985*	*84,773*	*74,512*	*70,385*
5 Total Assets	736,081	675,232	554,349	484,692
6 Current Liabilities	77,344	67,578	48,944	35,250
a Trade Payables	*7,986*	*9,393*	*5,420*	*6,813*
7 Borrowings	312,644	267,337	185,463	161,516
8 Related Party Exposure	23,872	25,531	23,551	24,140
9 Non-Current Liabilities	130,016	120,175	114,854	87,747
10 Net Assets	192,203	194,613	181,537	176,039
11 Shareholders' Equity	192,203	194,613	181,537	176,039
B INCOME STATEMENT				
1 Sales	52,435	73,861	76,326	53,944
a Cost of Good Sold	-	-	-	-
2 Gross Profit	52,435	73,861	76,326	53,944
a Operating Expenses	(35,044)	(41,459)	(33,856)	(30,539)
3 Operating Profit	17,390	32,402	42,470	23,405
a Non Operating Income or (Expense)	*5,474*	*2,735*	*3,981*	*2,406*
4 Profit or (Loss) before Interest and Tax	22,864	35,137	46,451	25,811
a Total Finance Cost	*(14,977)*	*(16,046)*	*(10,137)*	*(7,923)*
b Taxation	*(7,430)*	*(6,692)*	*(19,750)*	*(5,147)*
6 Net Income Or (Loss)	458	12,399	16,564	12,741
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*26,012*	*24,227*	*61,414*	*39,613*
b Net Cash from Operating Activities before Working Capital Changes	*11,875*	*13,783*	*55,015*	*34,902*
c Changes in Working Capital	*1,885*	*196*	*(30,230)*	*(19,574)*
1 Net Cash provided by Operating Activities	13,760	13,979	24,785	15,328
2 Net Cash (Used in) or Available From Investing Activities	(59,208)	(94,554)	(50,259)	(44,519)
3 Net Cash (Used in) or Available From Financing Activities	45,699	83,646	24,747	26,948
4 Net Cash generated or (Used) during the period	252	3,072	(727)	(2,243)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-5.3%	-3.2%	41.5%	24.2%
b Gross Profit Margin	100.0%	100.0%	100.0%	100.0%
c Net Profit Margin	0.9%	16.8%	21.7%	23.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	53.2%	33.1%	40.9%	37.1%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	0.3%	7.0%	9.7%	7.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	401	394	346	466
b Net Working Capital (Average Days)	356	357	317	421
c Current Ratio (Current Assets / Current Liabilities)	2.0	2.2	2.8	3.1
3 Coverages				
a EBITDA / Finance Cost	2.8	4.0	6.6	5.6
b FCFO / Finance Cost+CMLTB+Excess STB	0.4	0.3	1.0	0.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	21.2	32.7	3.6	5.7
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	61.9%	57.9%	50.5%	50.8%
b Interest or Markup Payable (Days)	979.3	1064.1	1260.7	1230.9
c Entity Average Borrowing Rate	7.2%	7.0%	5.3%	4.5%

Credit Rating

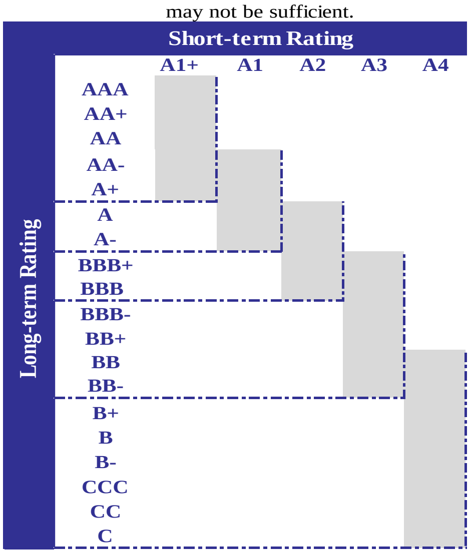
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

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

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

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

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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 | 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)

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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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
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