



The Pakistan Credit Rating Agency Limited

Rating Report

Lucky Electric Power Company Limited | PPCP-2 | PKR 6bln | Nov-22

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
16-Dec-2022	AA	A1+	Stable	Initial	-
27-Oct-2022	AA	A1+	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

Lucky Electric Power Company Limited ("LEPCL" or "the Company") has set up a 1x660MW (gross) coal-fired power plant. The project achieved COD in March-22 and is successfully connected to and providing electricity to the grid. The primary fuel is Coal; a coal supply agreement is signed with Sindh Engro Coal Mining Company (SECMC), SECMC will provide the coal from its developing Block-II (Phase III), which will be started in May-24. The previous tentative month was May-23. The Company has also signed imported coal supply agreement with reputable coal suppliers. Currently, plant is generating electricity through imported coal. Up till now, the Company has utilized 48% local and 53% imported coal. The Company has generated 1.8mln MWh since Mar'22. Comfort is drawn from the experience of O&M contractor - KEPCO. Going forward, the Company's main focus would be to keep the plant operational. The Company has procured short-term financing facilities aggregating to PKR 46.5bln (including the debt instruments amounting to PKR 30bln) for operational needs. The financial strength and experience in the energy chain of the sponsoring company – Lucky Cement are considered to be positive for the ratings. Further, the sponsor has given explicit comfort to provide sufficient liquidity support. This is a key consideration in the assigned ratings. However, considering the unusual increase in working capital requirement due to the significant devaluation of PKR, supply chain issues and tariff adjustments LEPCL is striving to manage its need. The offtake agreement is with CPPA-G, which will, upon the plant's availability as per the contract, provide capacity payments even if no purchase order is placed. The Government of Pakistan has given a payment guarantee against dues from CPPA-G.

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

Disclosure

Name of Rated Entity	Lucky Electric Power Company Limited PPCP-2 PKR 6bln Nov-22
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Corporate Rating(Jun-22),Methodology Debt Instrument Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Power(Jan-22)
Rating Analysts	Madiha Sohail madiha.sohail@pacra.com +92-42-35869504

Issuer Profile

Profile Lucky Electric Power Company Limited (Lucky Electric) Limited has set up a 1x660MW (gross) local coal fired super critical power plant at Port Qasim, Karachi, Sindh. Plant is developed on a Build-Own-Operate (“BOO”) basis with an initial estimated cost of USD 883.30 Million in a debt to equity ratio of 75:25. 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. 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. After the continuous indexation and devaluation of PKR against the USD. Currently, the company is receiving 20.263. The PKR/KWh Return on Equity (ROE) of Lucky Electric, as agreed with NEPRA, is 29.5%.

Ownership 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 in the IPPs is drawn from the agreements signed between the company and power purchaser. Stability factor is considered strong. 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. 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 The board is dominated by the sponsor’s representatives. The company’s board of directors comprises of seven directors including CEO. All the board members represents Lucky Cement Limited. 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 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. A.F. Ferguson & CO., Chartered Accountants, is the external auditor of the company. They have expressed an unqualified opinion on the company’s financial statements at end-Jun-22.

Management 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. Mr. Ruhail Muhammad, the CEO, is MBA and CFA Charter holder. Mr. Ruhail carries vast experience in leading various corporate organizations and is also on the board of various renowned corporate entities. He is supported by an experienced team of professionals. Mr. Intisar ul Haq Haqqi, Executive Director Technical, completed his Marine Engineering Training from Pakistan Marine Academy, has been spearheading the Company. He carries with him over two decades of experience in captive power industry in Pakistan. 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. Over the years since incorporation, management played a significant role in empowering the organization through its progressive results and achieved project milestones in a timely and accurate manner. The company takes advantage of advanced I.T. solutions to deliver comparatively better on many fronts. Moreover, Lucky Electric’s quality of the I.T. infrastructure and the breadth and depth of activities performed has remained well satisfactory.

Business Risk The electricity generated will be sold to Central Power Purchasing Agency (CPPA-G) under 30 years Power Purchase Agreement (PPA). RCOD as per the PPA was March 01 2021. However, the company achieved COD on March 21, 2022 owing to global pandemic of Novel Corona Virus. 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 The Coal Supply Agreement (CSA) of Lucky Electric is with SECMC. SECMC is expanding up to 13.1 mmpa coal mine in Thar Block – II in three phases. Company has also negotiated imported coal supply agreement from Indonesia. Plant would be run on imported coal in case of non-availability of Thar coal. Lucky Electric has obtained four types of different insurances to cover its various types of risks. Installed capacity of electricity increased to 37,261 MW during July-April FY2021 compared to same period last year, showing an addition of 1,289 MW. Likewise, its generation increased to 102,742 GWh showing an additional generation of 6,360 GWh during the period under discussion. Plant achieved COD on March 21, 2022. The company has successfully generated 1,831 GWh since Mar 22. 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 Lucky Electric’s capital structure comprises 25% equity and debt financing constitutes 75% of the initial estimated project cost; ~USD 883mln, financed from local and foreign financial institutions. Local Facility obtained from multiple consortium of banks aggregating to Rs 65.9 billion has a 10 year tenure starting June 2022 and to be paid in 40 quarterly installments. The foreign facility is USD 210mln. Out of which USD 20mln will be paid quarterly and USD 190mln will be paid semiannually. 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. The Company has procured working capital facilities of around PKR 35 billion including ICP’s of PKR 21 billion. 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. Lucky Electric leveraging stood at 83.2% as of Jun 2022.

Instrument Rating Considerations

About The Instrument LEPCL issued a rated, unlisted, privately placed, commercial paper Lucky Electric Power Company Limited | PPCP-2 | PKR 6bln | Nov-22 (“PPCP-2”) of PKR 6,000mln on 03-Nov-22. The tenor of PPCP-2 is 6 months. The purpose of the instrument is to be utilized by the Company to meet its working capital requirements. The instrument carries a profit rate of 6MK+150bps. Profit and principal will be realized at the time of maturity. The instrument is in replacement of PPCP amounting to PKR 6bln which matured on 04-Nov-22

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

Credit Enhancement The instrument is unsecured.



Lucky Electric Power Company Limited IPP	Dec-21 6M	Jun-21 12M	Jun-20 12M	Jun-19 12M
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A BALANCE SHEET

1 Non-Current Assets	117,051	105,489	86,680	33,091
2 Investments	-	-	-	-
3 Related Party Exposure	700	614	33	31
4 Current Assets	16,872	6,013	4,602	3,690
<i>a Inventories</i>	8,203	-	-	-
<i>b Trade Receivables</i>	1,875	-	-	-
5 Total Assets	134,623	112,116	91,315	36,812
6 Current Liabilities	6,205	4,686	4,056	4,204
<i>a Trade Payables</i>	-	-	-	-
7 Borrowings	102,935	83,666	68,066	22,198
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	68	62	41	22
10 Net Assets	25,415	23,702	19,152	10,388
11 Shareholders' Equity	25,415	23,702	19,152	10,388

B INCOME STATEMENT

1 Sales	-	-	-	-
<i>a Cost of Good Sold</i>	-	-	-	-
2 Gross Profit	-	-	-	-
<i>a Operating Expenses</i>	(311)	(2,116)	(124)	(123)
3 Operating Profit	(311)	(2,116)	(124)	(123)
<i>a Non Operating Income or (Expense)</i>	16	0	6	9
4 Profit or (Loss) before Interest and Tax	(296)	(2,116)	(118)	(114)
<i>a Total Finance Cost</i>	(192)	(1)	(2)	(2)
<i>b Taxation</i>	-	616	34	31
6 Net Income Or (Loss)	(487)	(1,500)	(86)	(85)

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	(275)	(8,520)	(23)	(95)
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	(4,356)	(8,520)	(5,630)	(596)
<i>c Changes in Working Capital</i>	(10,231)	(2,982)	(2,187)	2,837
1 Net Cash provided by Operating Activities	(14,586)	(11,502)	(7,816)	2,241
2 Net Cash (Used in) or Available From Investing Activities	(4,168)	(11,634)	(45,766)	(24,987)
3 Net Cash (Used in) or Available From Financing Activities	17,819	23,517	54,315	20,373
4 Net Cash generated or (Used) during the period	(936)	380	732	(2,373)

D RATIO ANALYSIS

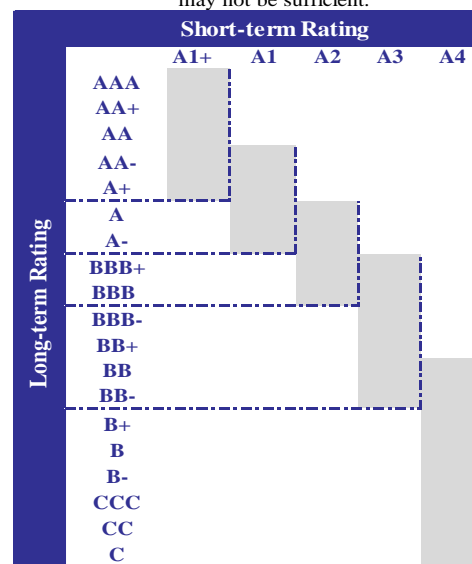
1 Performance				
<i>a Sales Growth (for the period)</i>	N/A	N/A	N/A	N/A
<i>b Gross Profit Margin</i>	N/A	N/A	N/A	N/A
<i>c Net Profit Margin</i>	N/A	N/A	N/A	N/A
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	N/A	N/A	N/A	N/A
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sl</i>	N/A	N/A	N/A	N/A
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	N/A	N/A	N/A	N/A
<i>b Net Working Capital (Average Days)</i>	N/A	N/A	N/A	N/A
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.7	1.3	1.1	0.9
3 Coverages				
<i>a EBITDA / Finance Cost</i>	-2.9	N/A	N/A	-64.6
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	-0.2	-5.0	N/A	-0.2
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	-122.5	-9.8	-2929.1	-233.9
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	80.2%	77.9%	78.0%	68.1%
<i>b Interest or Markup Payable (Days)</i>	1063.7	N/A	N/A	0.0
<i>c Entity Average Borrowing Rate</i>	0.2%	0.0%	0.0%	0.0%

Credit Rating

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

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
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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(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)

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(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).

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(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)

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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)

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(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)

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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

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security	Nature of Assets	Issuing & Paying Agent	Book Value of Assets (PKR mln)
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Rated, Privately Placed, Commercial Paper (PPCP-2)	6,000 mln	6 months	Unsecured	N/A	N/A	Bank of Punjab	N/A
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Name of Issuer	Lucky Electric Power Company Limited						
Issue Date	12-Oct-22						
Maturity	12-Apr-23						
Option	N/A						

Due Date Principal*	Opening Principal	Principal Repayment*	Due Date Markup/ Profit*	Markup/Profit rate	6M Kibor Plus 150bps	Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln				PKR in mln			
Issuance								6,000
12-Oct-22	6,000			6M KIBOR + 1.5%	16.67%		-	6,000
12-Apr-23	6,000	6,000	12-Apr-23	6M KIBOR + 1.50%	16.67%	443	6,443	-
		6,000				443	6,443	