



## The Pakistan Credit Rating Agency Limited

### Rating Report

#### The Hub Power Company Limited | PPSTS | PKR 6bln | TBI

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
08-May-2023	AA+	A1+	Stable	Preliminary	-

#### Rating Rationale and Key Rating Drivers

The rating reflects the holding Company character of Hubco with an exclusive focus on the different dimensions of the energy sector. The Company had signed a PPA with the government for 30 years that is valid till 2027. Hubco itself is a 1,292MW RFO based power plant situated at Mouza Kund, Hub in Balochistan. With its investment in Narowal Energy Limited, Laraib Energy Limited and China Power Hub Generation Company, the total combined installed power generation capacity of Hubco was 2,921MW, which is now increased to 3,581MW. As 660MW is added to the total installed capacity of Hubco as ThalNova Power and Thar Energy Limited achieved their respective COD on 17th Feb'23 and 1st Oct'22 respectively. The Company aims at expanding its operations in oil & gas exploration, water desalination and renewable energy through this strategic investment. HUBCO completed the acquisition of Eni's business in Pakistan, through a 50:50 joint venture company, Prime International Oil & Gas Co. During the six-month period ended on Dec 2022, the Company reported topline of PKR ~25bln (Dec'21: PKR ~31bln). While the profitability of the Company significantly increased by ~40% to PKR ~15bln (Dec'21: 9bln). The increase in profit is mainly due to Dividend income from NEL and partly offset by impact of higher finance costs due to higher interest rate. Although Hubco has a sizeable amount of borrowings to support its working capital needs and growth opportunities. The settlement of outstanding receivables due from CPPAG under the signed MoU has further eased the burden on the Company's financial risk profile.

Hubco's strong operational performance over the years coupled with its diversified investment portfolio in the power sector contributes towards to the assigned ratings.

#### Disclosure

<b>Name of Rated Entity</b>	The Hub Power Company Limited   PPSTS   PKR 6bln   TBI
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Debt Instrument Rating
<b>Applicable Criteria</b>	Methodology   Debt Instrument Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22),Methodology   Independent Power Producer Rating(Jun-22)
<b>Related Research</b>	Sector Study   Power(Jan-23)
<b>Rating Analysts</b>	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. The plant is situated at the Hub River estuary, Baluchistan. The term of the PPA is valid till 2027. The current applicable tariff is US 12.28 cents/KWh. The tariff is adjusted as per PPA. Mega Conglomerate Private Limited (19.5%) is the single largest shareholder while the remaining shareholding of HUBCO resides with Modarabas and Mutual Funds (12.5%), Insurance companies (10.7%) and Individuals have remaining shareholding.

**Ownership** Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. However, sponsors association with Mega Conglomerate and Fauji Foundation group will continue to provide comfort. Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. However, sponsors association with Mega Conglomerate and Fauji Foundation group will 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 portfolio

**Governance** Overall control of the company vests in a nine-member board of directors (BoD) including the CEO. The BoD comprises of 3 nominees from Mega Conglomerate, 1 nominee each of NIT, Fauji Foundation and Government of Balochistan along with 2 Independent directors. The board members have diverse professional experience, skills and backgrounds which adds to the effectiveness. Mr. Aly Khan, who is also on the Board of Hub Power, heads the Company's Board as the Chairman. For effective oversight of the matters the board has formed two board committees. (i) Board audit Committee and (ii) Board Compensation Committee. The company displays relevant information on website, stock exchange and financial reports in proper way. 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 2022.

**Management** Hub Power deploys a lean organizational structure. Six functions including Finance, Corporate services, Operations, and Audit report directly to CEO. Mr. Muhammad Kamran Kamal is the CEO of the company. He has been associated with the company for about 7 years and is serving on the current position for little less than one year. He has vast experience in areas of business strategy, electricity reforms, electricity derivatives, energy technology evaluation and large scale infrastructure and project structuring. 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 had signed a PPA with the government for 30 years that is valid till 2027. Hub Power has established a wholly owned subsidiary – Hub Power Services Limited (HPSL) – incorporated in 2015 to manage the O&M of the plant. 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. Hub Power has adequate insurance coverage for property damage and business interruption. The insured values for damages include a property damage cover (upto USD 1,774mln) & business interruption cover (up to USD 398mln). The total installed generation capacity of the country is above 40,000MW. Total generation during the 1QFY23 was recorded at 41,081GWh (FY22: 143,174GWh). Maximum generation was through Hydel which contributed approx. 36% to the total generation. Remaining was fulfilled by RFO (7%), Coal (13%) and Gas (10%). Renewables including Wind and Solar contributed 4% to the total generation during 1QFY23. During 1QFY23, electricity generation was 203GWh (FY22: 1,229GWh) with average load factor of 7.68% (FY22: 11.69%). Output produced by the plant is dependent on the load demanded by CPPAG and plant availability. The company reported a topline of PKR ~17,417mln (FY22: 62,544mln) for the three month period ended on Sept 2022. During the period the plant remained as per its agreed benchmarks under the PPA.

**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'22, total receivables of the company stood at PKR 56,342mln (FY22: PKR 62,919mln). The liquidity profile of the company is further improved with addition of dividend income and share of profit from associates and subsidiary companies. Settlement of outstanding receivables due from CPPAG under the signed MoU has further eased the burden on the company's financial risk profile. As a result of payments received from the government, HUBCO's receivable days have dropped from 394 days (FY22) to 312 days (1QFY23). Net working capital days stood at 125 days (FY22: 167 days). The company has been meeting its cash flow requirements through internally generated cash and short-term debt instruments. During the review period the debt coverage ratio (EBITDA/Fin Cost) clocked in at 3.6x (FY22: 5.1x). Free cash flows as of 1QFY23 stood at PKR7,144mln (FY22: PKR 30,771mln). HUBCO's leveraging stood at 43.1% (FY22: 48.6%). Total borrowings as on September 2022 stood at PKR~ 49,666mln. Short term borrowings from banks and related parties amount to PKR~ 21,652mln while long term borrowings including current portion adds up to PKR 28,018mln.

## Instrument Rating Considerations

**About The Instrument** HubCo is in a process of issuing another unsecured, privately placed short term sukuk of PKR 6bln to finance Company's working capital requirements of The Hub Power Company Limited. The Privately Placed Short Term Sukuk, having a tenor of six months, carries a profit rate of 6M KIBOR +30bps. Interest and principal will be paid in bullet at the time of maturity.

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

**Credit Enhancement** The instrument is unsecured.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

The Hub Power Company Ltd	Dec-22	Jun-22	Jun-21	Jun-20
Power	6M	12M	12M	12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	7,452	8,325	10,285	12,194
2 Investments	347	-	-	-
3 Related Party Exposure	69,921	67,992	62,395	57,413
4 Current Assets	75,348	77,692	87,328	94,914
a Inventories	1,831	1,831	2,806	6,319
b Trade Receivables	50,628	62,919	72,206	75,031
5 Total Assets	153,069	154,008	160,007	164,521
6 Current Liabilities	38,962	34,312	42,722	57,042
a Trade Payables	37,594	22,743	34,496	55,981
7 Borrowings	57,163	58,208	62,360	64,799
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	56,945	61,488	54,924	42,680
11 Shareholders' Equity	56,945	61,488	54,924	42,680
<b>B INCOME STATEMENT</b>				
1 Sales	25,831	62,544	32,292	27,524
a Cost of Good Sold	(13,425)	(39,140)	(11,897)	(9,630)
2 Gross Profit	12,407	23,404	20,395	17,893
a Operating Expenses	(391)	(559)	(789)	(757)
3 Operating Profit	12,016	22,845	19,606	17,137
a Non Operating Income or (Expense)	8,396	6,429	8,741	3,007
4 Profit or (Loss) before Interest and Tax	20,411	29,275	28,347	20,144
a Total Finance Cost	(4,408)	(6,552)	(5,772)	(9,395)
b Taxation	(240)	(1,594)	(1,141)	(582)
6 Net Income Or (Loss)	15,763	21,128	21,434	10,167
<b>C CASH FLOW STATEMENT</b>				
a Free Cash Flows from Operations (FCFO)	13,017	30,771	30,076	21,627
b Net Cash from Operating Activities before Working Capital Changes	9,129	22,546	19,298	11,857
c Changes in Working Capital	16,349	(1,531)	(12,117)	(11,442)
1 Net Cash provided by Operating Activities	25,477	21,015	7,181	415
2 Net Cash (Used in) or Available From Investing Activities	5,183	(1,889)	4,222	(7,221)
3 Net Cash (Used in) or Available From Financing Activities	(23,037)	(18,138)	(8,769)	11,203
4 Net Cash generated or (Used) during the period	7,624	987	2,634	4,397
<b>D RATIO ANALYSIS</b>				
1 Performance				
a Sales Growth (for the period)	-17.4%	93.7%	17.3%	-24.1%
b Gross Profit Margin	48.0%	37.4%	63.2%	65.0%
c Net Profit Margin	61.0%	33.8%	66.4%	36.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	113.7%	46.8%	55.6%	37.0%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity) ]	55.2%	33.7%	38.5%	24.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	414	408	884	1012
b Net Working Capital (Average Days)	201	241	372	267
c Current Ratio (Current Assets / Current Liabilities)	1.9	2.3	2.0	1.7
3 Coverages				
a EBITDA / Finance Cost	3.2	5.1	5.7	2.4
b FCFO / Finance Cost+CMLTB+Excess STB	1.4	1.9	3.0	2.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.6	1.3	1.4	2.7
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	50.1%	48.6%	53.2%	60.3%
b Interest or Markup Payable (Days)	45.6	51.5	43.4	33.2
c Entity Average Borrowing Rate	14.2%	10.1%	8.3%	13.7%

### 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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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	<b>High credit quality.</b> 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	<b>Good credit quality.</b> 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+	
BB	<b>Moderate risk.</b> 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-	
B+	
B	<b>High credit risk.</b> 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	
CC	<b>Very high credit risk.</b> 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.
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 conditions.
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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(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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(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)

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(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	Book Value of Assets (PKR mln)	Nature of Assets	Lead Advisor
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Privately Placed Short Term Sukuk (PPSTS)	PKR 6,000mln	6 months	Unsecured	N/A	N/A	Habib Bank Limited
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Name of Issuer	The Hub Power Company Limited
Issue Date	May-23
Maturity	Nov-23
Profit Rate	6M KIBOR + 0.3%

The Hub Power Company Limited | PPSTS | PKR 6bln | TBI

Sr.	Due Date Principal	Opening Principal	6M Kibor	Markup/Profit Rate 6MK + (0.3%)	Markup/Profit Payment	Principal Payment	Total	Principal Outstanding
		PKR (mln)						
Issue Date	May-23	6,000			-	-	-	6,000
1	Nov-23	6,000	22.06%	22.36%	697	6,000	6,697	-
					697	6,000	6,697	