



The Pakistan Credit Rating Agency Limited

Rating Report

The Hub Power Company Limited | PPSTS | PKR 6bln | May-23

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Jun-2023	AA+	A1+	Stable	Initial	-
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, China Power Hub Generation Company, Thar Energy Limited and Thal Nova Power Thar Ltd, the Group has an established footprint in the power generation sector. 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. Generation from Hub plant generation has declined over the reporting period with 9MFY23 Net Electrical Output recorded at 205GWh (9MFY22: 863 GWh) with a load factor of 2.6%. The fall in generation represents lower demand from CPPA-G as a result of governments increasing preference for most cost-effective power generation options. During the nine-month period ended on Mar'23, the Company reported topline revenue of PKR ~35bln (Mar'22: PKR ~42bln). The Company's profitability is supplemented from dividend from subsidiaries and income from management services provided to TEL and TNPTL accumulating to PKR 10,339mln for the nine-month period ended on March 2023. Although HUBCO has a moderately leveraged structure to support its working capital requirements and investments in subsidiaries, but its strong cash flows and group's financial strength are robust to provide any assistance to the Company.

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

Name of Rated Entity	The Hub Power Company Limited PPSTS PKR 6bln May-23
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	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)
Related Research	Sector Study Power(Jan-23)
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. The plant is situated at the Hub River estuary, Baluchistan. The plant achieved its commercial operations in March 1997. As per the Merit Order List issued by NTDC for the Month of May 2023, HUBCO's generation tariff stands at PKR 40.564/kWh. The policy IRR of Hub Power, as agreed with NEPRA is 12%.

Ownership Mega Conglomerate holds the majority stake in HUBCO of 19.48% while Fauji Foundation holds 8.5%. Both Allied Bank and National bank hold a minor stake of 3.38% and 2.97%. Remaining ownership is owned by General Public, Joint Stock Companies, Financial Institutions, Investment Companies and Insurance Companies. 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 Private Limited (MCPL) is a holding company and is associated with Mega and Forbes Group of Companies, an established group with presence in Logistics, Dairy Food and Beverages, Energy, Construction and Real Estate, Aviation and Digital Finance. 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). The BoD comprises 3 nominees from Mega Conglomerate, 1 nominee each of NIT and Fauji Foundation. 2 members represent the Government of Balochistan along with 2 independent directors. Mr. Habibullah Khan is the chairman of the board. Simultaneously, he is also the Founder and Chairman of Mega Conglomerate – Mega & Forbes Group of Companies. Remaining members also hold positions on the board of different companies belonging to diverse sectors including Foods, Cement, Container Terminals and have commendable experience in fields like Investments, Law, Real Estate, Architecture, Infrastructure Project Development and Strategy. For effective oversight of the matters the board has formed two committees. (i) Board Audit Committee (ii) Board Nomination & Compensation Committee. The board and its committees conducts regular meetings throughout the year to fulfill its oversight responsibilities. A. F. Ferguson & Co is the external auditor of the company. The auditor has given unqualified opinion on company's financial position as at 30th June 2022. Being a listed entity, the Company has to comply with the code of corporate governance which ensures its strong financial transparency.

Management HUBCO deploys a comprehensive organizational structure as compared to other IPPs. Eight functions including Finance, Commercial, HR Corporate Communications and Digitalization, Internal Audit, Operations, Legal, Strategy and Regulatory, New Ventures report directly to the CEO. Furthermore, the CEO of TEL and TNPTL also reports to the CEO of HUBCO who reports to the BoD. The Senior Management consists of professionals having experience in the relevant fields. Mr. Kamran Kamal is the CEO of the Company and has been associated with the Group for about eight years. He has experience in several different areas including strategy, wholesale electricity market reforms, electricity derivatives, energy technology evaluation and large-scale infrastructure project structuring. He is simultaneously Chairman and CEO of LEL and NEL along with CEO of HPHL and HPSL. 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. Under the signed PPA, the plant will generate and supply electricity for 30 years. The PPA is valid till 2027. HUBCO has established a wholly owned subsidiary – Hub Power Services Limited (HPSL) – incorporated in 2015 to manage the O&M of the plant. HPSL also manages O&M of the groups other plant assets. Pakistan State Oil (PSO) is responsible for supplying RFO under the Fuel Supply Agreement (FSA) for 30 years. Failure to do so will result in Liquidated Damages to PSO. Hub Power has adequate insurance coverage for property damage and business interruption. The insured values for damages include a property damage cover (up to USD 1,774mln) & business interruption cover (up to USD 398mln). The total installed capacity of the country as at End-FY22 stood at ~43,775MW per hour with contributions from Hydro (24%), Thermal (61%), Nuclear (8%) and Renewables (7%). There has been a decline in electricity demand from RFO based plants because of their high per unit generation cost. The electricity demand is catered through cheaper sources including Renewables, Hydel, Gas and Thar Coal based projects. The remaining demand is met through costly alternatives including RFO and RLNG based plants. During 9MFY23, the HUB plant generated Net Electrical Output of 205GWh (9MFY22: 863 GWh) with a Load Factor of 2.6%. The fall in generation represents lower demand from CPPA-G as a result of governments shift to purchase electricity from other lower generation cost plants. During the nine month period ended on March 2023, the plant met its performance benchmark of availability and efficiency as agreed in the PPA.

Financial Risk The total project cost of HUBCO plant was USD 1.5bln which was financed with 80% foreign debt and 20% equity injection by the sponsors. The project debt was timely repaid. HUBCO's receivables stood at PKR 53,293mln as at 9MFY23 (FY2: PKR 62,919mln) out of which ~92% are overdue but not impaired because the trade debts are secured by a guarantee of GOP. IPPs in the local market suffer from payment discipline of the power purchaser. This has led to significant volatility in payment to IPPs by the power purchaser resulting in limited cash available for the IPPs to procure fuel for operations. Increased delay in payments by CPPA-G has caused HUBCO's receivable days to clock in at 454 days (FY22: 394 days). The Company manages its payable days resulting in Net Working Capital Days of 278 days as of March 2023. (June 2022: 241 days). The company has been meeting its working capital requirements through internally generated cash and short-term borrowings including Sukuks and running finance facilities. The coverages of the company witnessed stability (FCFO/Finance Cost: 9MFY23: 3.5x; FY22: 4.7x; FY21: 4.7x). The Company's FCFO for 9MFY23 stood at PKR 19,174mln (FY22: PKR 28,330mln). The finance cost relating to working capital financing is met through internal cash generation. Simultaneously, the Company's operating cashflow are further supplemented by Dividend received from subsidiaries of PKR 10,499mln during the nine-month period ended March 2023. As of March 2023, the Company's leveraging stood at 48.7% (June 2022: 48.6%) which depicts borrowings relating to equity investments made in associates.

Instrument Rating Considerations

About The Instrument Hubco issued unsecured, privately placed short term sukuk of PKR 6bln in May'23 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 Sukuk 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 Power	Mar-23 9M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	7,238	8,325	10,285	12,194
2 Investments	-	-	-	-
3 Related Party Exposure	70,704	67,992	62,395	57,413
4 Current Assets	68,526	77,692	87,328	94,914
<i>a Inventories</i>	2,246	1,831	2,806	6,319
<i>b Trade Receivables</i>	53,293	62,919	72,206	75,031
5 Total Assets	146,467	154,008	160,007	164,521
6 Current Liabilities	38,599	34,312	42,722	57,042
<i>a Trade Payables</i>	26,355	22,743	34,496	55,981
7 Borrowings	52,501	58,208	62,360	64,799
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	55,367	61,488	54,924	42,680
11 Shareholders' Equity	55,367	61,488	54,924	42,680
B INCOME STATEMENT				
1 Sales	35,070	62,544	32,292	27,524
<i>a Cost of Good Sold</i>	(16,235)	(39,140)	(11,897)	(9,630)
2 Gross Profit	18,835	23,404	20,395	17,893
<i>a Operating Expenses</i>	(639)	(559)	(789)	(757)
3 Operating Profit	18,196	22,845	19,606	17,137
<i>a Non Operating Income or (Expense)</i>	9,850	6,429	8,741	3,007
4 Profit or (Loss) before Interest and Tax	28,046	29,275	28,347	20,144
<i>a Total Finance Cost</i>	(5,993)	(6,552)	(5,772)	(9,395)
<i>b Taxation</i>	(380)	(1,594)	(1,141)	(582)
6 Net Income Or (Loss)	21,673	21,128	21,434	10,167
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	19,174	28,330	24,738	20,395
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	13,481	22,546	19,298	11,857
<i>c Changes in Working Capital</i>	12,606	(1,531)	(12,117)	(11,442)
1 Net Cash provided by Operating Activities	26,087	21,015	7,181	415
2 Net Cash (Used in) or Available From Investing Activities	7,229	(1,889)	4,223	(7,221)
3 Net Cash (Used in) or Available From Financing Activities	(33,056)	(19,038)	(11,614)	5
4 Net Cash generated or (Used) during the period	260	88	(211)	(6,801)
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	-25.2%	93.7%	17.3%	-24.1%
<i>b Gross Profit Margin</i>	53.7%	37.4%	63.2%	65.0%
<i>c Net Profit Margin</i>	61.8%	33.8%	66.4%	36.9%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	90.6%	42.8%	39.1%	32.5%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]</i>	50.9%	33.7%	38.5%	24.6%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	469	408	884	1012
<i>b Net Working Capital (Average Days)</i>	278	241	372	267
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	1.8	2.3	2.0	1.7
3 Coverages				
<i>a EBITDA / Finance Cost</i>	3.5	4.7	4.7	2.3
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.6	1.8	2.5	2.2
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	1.4	1.4	1.8	3.0
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	48.7%	48.6%	53.2%	60.3%
<i>b Interest or Markup Payable (Days)</i>	33.2	51.5	43.4	33.2
<i>c Entity Average Borrowing Rate</i>	13.1%	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	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+	
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-	
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	
CC	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.
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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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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(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	Book Value of Assets (PKR mln)	Nature of Assets	Lead Advisor
Privately Placed Short Term Sukuk (PPSTS)	PKR 6,000mln	6 months	Unsecured	N/A	N/A	Habib Bank Limited

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

Sr.	Due Date Principal	Opening Principal	6M Kibor	Markup/Profit Rate 6MK + (0.3%)	Markup/Profit Payment	PKR (mln)		
						Principal Payment	Total	Principal Outstanding
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	