



The Pakistan Credit Rating Agency Limited

## Rating Report

### The Hub Power Company Limited

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Jun-2022	AA+	A1+	Stable	Maintain	-
21-Jun-2021	AA+	A1+	Stable	Maintain	-
29-Jun-2020	AA+	A1+	Stable	Maintain	-
27-Dec-2019	AA+	A1+	Stable	Maintain	-
27-Jun-2019	AA+	A1+	Stable	Maintain	-
27-Dec-2018	AA+	A1+	Stable	Maintain	-
29-Jun-2018	AA+	A1+	Stable	Maintain	-
22-Dec-2017	AA+	A1+	Stable	Maintain	-
20-Apr-2017	AA+	A1+	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

The rating reflects the holding company character of Hubco with an exclusive focus on the different dimension of the energy sector. 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 is 2,921MW. Furthermore, 660MW will be added to the total installed capacity of Hubco once ThalNova Power and Thar Energy Limited achieve their respective COD by second half of CY22 as per their PPA. Hub Power Services Limited is a wholly owned subsidiary of Hubco that provides O&M services to its existing power plants. The company also holds a minority stake of 8% in Sindh Engro Coal Mining Company which is establishing a coal mining facility at Thar. Prime international Oil and Gas Company (50% owned by Hub Power Holdings Ltd) has acquired all upstream operations and assets of ENI Pakistan under a J.V with ENI's local employees. The company aims at expanding its operations in oil & gas exploration, water desalination and renewable energy through this strategic investment. During the nine-month period ended on March 2022, the company reported topline of PKR~ 41,835mln on account of increased generation (863GWh) of Hub Plant. The profitability of the company was further enhanced with addition of dividend income and share of profit from associates. Although Hubco has sizeable amount of borrowings to support its working capital needs and growth opportunities but its cash flows are adequate to sustain the debt burden. The settlement of outstanding receivables due from CPPAG under the signed MoU has further eased the burden on the company's financial risk profile. Repayment of principle and mark up on Long Term Sukuks issued previously are due this year. Timely repayment along with successful completion of expansion projects remain crucial for Hubco to sustain its assigned ratings.

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
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Independent Power Producer Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Power(Jan-22)
<b>Rating Analysts</b>	Anam Waqas Ghayour   anam.waqas@pacra.com   +92-42-35869504

## The Pakistan Credit Rating Agency Limited

### Profile

**Plant** 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.

**Tariff** The current applicable tariff is US 12.28 cents/KWh. The tariff is adjusted as per PPA.

**Return On Project** The policy IRR of Hub Power, as agreed with NEPRA is 12%.

### Ownership

**Ownership Structure** Mega Conglomerate Private Limited (19.5%) is the single largest shareholder, followed by Fauji Foundation (8.5%), Allied Bank Limited (5.38%), Jubilee Life Insurance (4.39%) and National Bank Pakistan (3.6%). The remaining shareholding is held by various Financial Institutions, Joint Stock Companies and general public.

**Stability** 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.

**Business Acumen** Mega Conglomerate having a diversified experience with presence in shipping, logistics, real estate development, cement, energy and food sector.

**Financial Strength** Mega Conglomerate has a strong financial position with diversified business portfolio.

### Governance

**Board Structure** 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.

**Members' Profile** The board members have diverse professional experience, skills and backgrounds which adds to the effectiveness. Mr. Habibullah Khan is the Chairman of the board. He is also the Chairman and founder of Mega conglomerate, a diversified business conglomerate having business interests in dairy, cement manufacturing, real estate and shipping terminal.

**Board Effectiveness** For effective oversight of the matters the board has formed three board committees. (i) Board audit Committee (ii) Board Investment Committee and (iii) Board Compensation Committee. The company displays relevant information on website, stock exchange and financial reports in proper way.

**Financial Transparency** 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 2021.

### Management

**Organizational Structure** Hub Power deploys a lean organizational structure. Six functions including Finance, Corporate services, Operations, and Audit report directly to CEO. The company's department – Manufacturing Excellence (MAX) – is responsible for improving the efficiency of the organization.

**Management Team** 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.

**Effectiveness** Hub Power management effectiveness plays a significant role in empowering the organization through positive results, which has made decision making process systematic.

**Control Environment** 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.

### Operational Risk

**Power Purchase Agreement** 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.

**Operation And Maintenance** Hub Power has established a wholly owned subsidiary – Hub Power Services Limited (HPSL) – incorporated in 2015 to manage the O&M of the plant.

**Resource Risk** Pakistan State Oil (PSO) is responsible for supplying RFO under the Fuel Supply Agreement (FSA) for 30 years. HUBCO is protected from fuel transportation issues as the company receives fuel directly from PSO.

**Insurance Cover** 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).

### Performance Risk

**Industry Dynamics** The total installed generation capacity of the country is above 40,000MW. Thermal energy mix contributes 62% to the installed power generation capacity followed by hydel electricity capacity which stands at 27%. Total generation during the nine months period of FY22 was recorded at 101,699GWh (9MFY21: 92,371GWh), witnessing a 10% increase. The increase in generation was backed by surging electricity demand and consumption pattern. However, due to shortage of fuel, the country has been facing issues to meet the rising demand with current shortfall surging to almost 7,500MW.

**Generation** During 9MFY22, electricity generation was 863GWh (9MFY21: 105GWh) with average load factor of 10.94% (9MFY21: 1.33%). Output produced by the plant is dependent on the load demanded by CPPAG and plant availability.

**Performance Benchmark** The company reported a topline of PKR ~41,835mln (9MFY21: 22,762mln) for the nine month period ended on March 2022. During the period the plant remained as per its agreed benchmarks under the PPA.

### Financial Risk

**Financing Structure Analysis** 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.

**Liquidity Profile** At end Mar'22, total receivables of the company stood at PKR 61,221mln (FY21: PKR 72,205mln). 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.

**Working Capital Financing** As a result of payments received from the government, HUBCO's receivable days have dropped significantly from 884 days (FY21) to 437 days (9MFY22). Net working capital days stood at 276 days (FY21: 372 days). The company has been meeting its cash flow requirements through internally generated cash and short-term debt instruments.

**Cash Flow Analysis** During the review period the debt coverage ratio (EBITDA/Fin Cost) clocked in at 4.7x (FY21: 5.7x). Free cash flows as of 9MFY22 stood at PKR 18,630mln (FY21: PKR 30,076mln).

**Capitalization** HUBCO's leveraging stood at 53.8% (FY21: 53.2%). Total borrowings as on March 2022 stood at PKR~ 63,398mln. Short term borrowings from banks and related parties amount to PKR~ 32,043mln while long term borrowings including current portion adds up to PKR 31.355mln.



The Pakistan Credit Rating Agency Limited

Financial Summary  
PKR mln

The Hub Power Company Ltd Power	Mar-22 9M	Jun-21 12M	Jun-20 12M	Jun-19 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	8,793	10,285	12,194	13,741
2 Investments	-	-	-	-
3 Related Party Exposure	61,586	62,395	57,413	48,404
4 Current Assets	80,126	87,328	94,914	91,582
<i>a Inventories</i>	4,604	2,806	6,319	4,576
<i>b Trade Receivables</i>	61,222	72,206	75,031	66,629
5 Total Assets	150,504	160,007	164,521	153,728
6 Current Liabilities	32,229	42,722	57,042	57,110
<i>a Trade Payables</i>	21,876	34,496	55,981	56,273
7 Borrowings	63,604	62,360	64,799	64,355
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	54,671	54,924	42,680	32,263
11 Shareholders' Equity	54,671	54,924	42,680	32,263
<b>B INCOME STATEMENT</b>				
1 Sales	41,835	32,292	27,524	36,249
<i>a Cost of Good Sold</i>	(24,520)	(11,897)	(9,630)	(24,516)
2 Gross Profit	17,316	20,395	17,893	11,733
<i>a Operating Expenses</i>	(513)	(789)	(757)	(872)
3 Operating Profit	16,803	19,606	17,137	10,861
<i>a Non Operating Income or (Expense)</i>	2,341	8,741	3,007	2,375
4 Profit or (Loss) before Interest and Tax	19,144	28,347	20,144	13,237
<i>a Total Finance Cost</i>	(4,400)	(5,772)	(9,395)	(4,961)
<i>b Taxation</i>	(297)	(1,141)	(582)	(239)
6 Net Income Or (Loss)	14,447	21,434	10,167	8,037
<b>C CASH FLOW STATEMENT</b>				
<i>a Free Cash Flows from Operations (FCFO)</i>	18,630	30,076	21,627	14,950
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	14,623	19,298	11,857	8,246
<i>c Changes in Working Capital</i>	(1,200)	(12,117)	(11,442)	(8,129)
1 Net Cash provided by Operating Activities	13,423	7,181	415	117
2 Net Cash (Used in) or Available From Investing Activities	277	4,222	(7,221)	(24,720)
3 Net Cash (Used in) or Available From Financing Activities	(13,614)	(11,614)	5	31,489
4 Net Cash generated or (Used) during the period	85	(211)	(6,800)	6,885
<b>D RATIO ANALYSIS</b>				
1 Performance				
<i>a Sales Growth (for the period)</i>	72.7%	17.3%	-24.1%	-52.7%
<i>b Gross Profit Margin</i>	41.4%	63.2%	65.0%	32.4%
<i>c Net Profit Margin</i>	34.5%	66.4%	36.9%	22.2%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	41.7%	55.6%	37.0%	18.8%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity) ]</i>	34.2%	38.5%	24.6%	26.4%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	461	884	1012	803
<i>b Net Working Capital (Average Days)</i>	276	372	267	118
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.5	2.0	1.7	1.6
3 Coverages				
<i>a EBITDA / Finance Cost</i>	4.7	5.7	2.4	3.2
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.6	3.0	2.3	1.2
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	1.6	1.4	2.7	2.9
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	53.8%	53.2%	60.3%	66.6%
<i>b Interest or Markup Payable (Days)</i>	42.3	43.4	33.2	44.0
<i>c Entity Average Borrowing Rate</i>	8.8%	8.3%	13.7%	10.0%

**Credit Rating**

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

Scale	Long-term Rating Definition
AAA	<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+	<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	
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):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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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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- (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)
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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 | 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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