



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
08-Nov-2024	AA+	A1+	Stable	Maintain	-
20-Jun-2024	AA+	A1+	Stable	Maintain	-
21-Jun-2023	AA+	A1+	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

In a notable development within Pakistan's power sector, the Hub Power Company Limited (HUBCO) has executed a Negotiated Settlement Agreement with the Government of Pakistan and its associated entities. This agreement advances the expiration of HUBCO's power purchase and related contracts for its 1,292 MW power generation project from the original end date of March 31, 2027, to October 1, 2024. As part of the settlement, HUBCO has received payment for all outstanding receivables billed up to PKR 36.5bln (excluding any delayed payment interest) from the Central Power Purchasing Agency (Guarantee) Limited (CPPA-G). Additionally, any outstanding claims between HUBCO and Pakistan State Oil (PSO) will be settled, with PSO's liabilities being addressed by GoP-related entities. Based on our discussions with management, the Company plans to use the funds received from CPPA-G to deleverage its balance sheet by retiring both short-term and long-term debt at both the holding company and subsidiary levels.

PACRA maintains a stable outlook on HUBCO's financial standing, which is underpinned by the Company's strong corporate structure and pivotal role in Pakistan's energy sector. HUBCO directly or beneficially holds 100% ownership of 225 MW Narowal Energy Limited, a 74.95% share in 84 MW Laraib Energy Limited, a 60% stake in 330 MW Thar Energy Limited, a 47.5% shareholding in 1,320 MW China Power Hub Generation and a 38.3% ownership in 330 MW Thal Nova Power Thar Ltd. All of the projects above have commenced commercial operations and are expected to make a substantial contribution to HUBCO's earnings through dividends over an extended period, which forms the basis of our opinion on the financial strength of the Company going forward.

Additionally, HUBCO holds a 50% stake in Prime International Oil and Gas Company, which has acquired ENI Pakistan's upstream operations and assets in partnership with ENI's local employees. HUBCO also has a 49% stake in China Power Hub Operating Company (Pvt) Limited, a joint venture with China Power International Maintenance Engineering Company Limited, providing operations and maintenance (O&M) services for the Super Critical Coal Power Plant at Hub. Furthermore, HUBCO owns an 8% minority stake in Sindh Engro Coal Mining Company, which is developing and expanding coal mining operations in Thar.

HUBCO continues to expand its strategic footprint in key sectors such as automobiles, mining, oil and gas exploration, water desalination, and renewable energy. To further enhance its portfolio, the company also plans to acquire an additional 9.5% stake in Sindh Engro Coal Mining Company. HUBCO's strong dividend stream from its current and future strategic investments strengthens its financial stability, leading us to maintain confidence in its ratings.

Disclosure

Name of Rated Entity	The Hub Power Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Rating Modifiers(Apr-24),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-24),Methodology Independent Power Producer Rating(Jul-24)
Related Research	Sector Study Power(Jan-24)
Rating Analysts	Hashim Yazdani hashim.yazdani@pacra.com +92-42-35869504

Profile

Plant The Hub Power Company Limited (HUBCO or "the Company") consists of four generating units, each comprising 323 MW gross output, with an oil-fired single re-heat boiler, situated at the Hub River estuary, Baluchistan. Apart from its core thermal power generation operations, HUBCO has other strategic investments aimed at expanding its footprint in the energy sector. Furthermore, the Company is also actively expanding in the automobile, mining, oil and gas exploration sectors.

Tariff HUBCO's tariff, regulated by NEPRA, traditionally comprised two main components: capacity payments, which covered plant availability and fixed costs, and energy payments, based on actual electricity generation, covering variable costs like fuel. However, due to recent developments in the power sector, the Company has executed the Negotiated Settlement Agreement (NSA), resulting in the expiration of all relevant agreements, including the Power Purchase Agreement, as of October 1, 2024.

Return On Project Under the NSA executed between HUBCO and the Government, all relevant agreements, expired as of October 1, 2024. Consequently, HUBCO will no longer have a fixed return on the project. The Company's future earnings will likely be driven by dividend flows from its strategic investments.

Ownership

Ownership Structure Mega Conglomerate holds the majority stake in HUBCO of 19.48%, while Fauji Foundation holds an 8.5% ownership stake. The remaining shareholding is held by various financial institutions, insurance companies, joint stock companies, modaraba/mutual fund & leasing companies, and the general public.

Stability The ownership structure of HUBCO has historically shown stability, with key shareholders making long-term strategic investments in the power sector through the Company. Additionally, HUBCO is publicly listed on the PSX, with institutional investors further enhancing its stability.

Business Acumen HUBCO Group is one of the largest conglomerates in the country, primarily focused on the power sector. Under the leadership of Mr. Habibullah Khan, the group has expanded into various sectors and has a proven track record of successfully delivering projects from initial concept through to operational success.

Financial Strength Mega Conglomerate Private Limited's financial strength is highlighted by a diverse investment portfolio and stable revenue streams from its various associated companies across multiple sectors. This financial strength enables the sponsors to provide essential support to the Company whenever needed, ensuring resilience and growth.

Governance

Board Structure Overall control of the Company vests in an eight-member board of directors (BoD). The BoD comprises 3 nominees from Mega Conglomerate and 1 nominee each from NIT, Fauji Foundation, and the Government of Baluchistan, along with 2 independent directors.

Members' Profile The members are comprised of experienced professionals with diverse expertise. Simultaneously, the members also serve on the boards of other companies belonging to diverse sectors. They have expertise in policy and strategic decision-making. Mr. Habibullah Khan is the Chairman of the board. He is the Founder and Chairman of Mega Conglomerate—Mega & Forbes Group of Companies. Mr. Syed Bakhtiyar Kazmi was appointed as an independent director in place of Dr. Nadeem Inayat in May 2024.

Board Effectiveness For effective oversight, the board has formed two committees. (i) the Board Audit Committee and (ii) the Board Nomination & Compensation Committee. The board conducted six meetings during FY24 in the presence of the Chairman and CEO, while the attendance of remaining members remained satisfactory.

Financial Transparency HUBCO adheres to the Code of Corporate Governance issued by SECP, which outlines principles for transparency, accountability, and ethical conduct. Being a listed company, the management ensures timely preparation and dissemination of accounts along with other material information. A.F. Ferguson & Co. Chartered Accountants are the external auditors of the Company. They have expressed an unqualified opinion on the financial statements of FY24.

Management

Organizational Structure HUBCO employs a comprehensive organizational structure that sets it apart from other Independent Power Producers (IPPs). It features eight key functions: Finance, Commercial, Human Resources, Corporate Communications and Digitalization, Internal Audit, Operations, Legal, Strategy, and Regulatory Affairs. As a holding company, HUBCO centralizes decision-making for its subsidiaries and associates, ensuring cohesive management and strategic alignment across all operations. This structured approach enhances efficiency and enables effective oversight of its diverse portfolio.

Management Team The senior management consists of professionals having experience in their respective 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 and large-scale infrastructure project structuring.

Effectiveness The management monitors overall performance to maintain optimal effectiveness and ensure continuous improvement. Furthermore, the management is supported by the board and its committees in key decisions, which ensures operational stability and strategic success.

Control Environment The Audit Committee has a comprehensive approach to risk management and internal control, guided by HUBCO's Enterprise Risk Management (ERM) framework and Statement of Internal Control System. This includes regular assessments of the company's risk profile, implementation of internal control systems, and continuous monitoring of compliance with regulatory requirements.

Operational Risk

Power Purchase Agreement The Company had previously entered into a Power Purchase Agreement (PPA) with CPPAG for a period of 30 years, which was due to expire on March 31, 2027. However, subsequent to the execution of the NSA with the Government, the PPA stands expired on October 1, 2024.

Operation And Maintenance Previously, the operations and maintenance of the plant were outsourced to a wholly owned subsidiary, Hub Power Services Limited (HPSL), to ensure availability and applicability. However, future applicability of the contract depends on the operations of the plant if required.

Resource Risk After the execution of the NSA with the Government, the Fuel Supply Agreement with Pakistan State Oil stands expired on October 1, 2024.

Insurance Cover Previously, insurance was attained for material damage, third-party liability, and delay in startup affecting the profits. However, future applicability of the contract depends on the operations of the plant if required.

Performance Risk

Industry Dynamics Pakistan's power generation in FY24 dropped by 1.9% to 127,160 GWh, marking the second consecutive annual decline, driven by higher electricity costs, rising inflation, and reduced economic activity. Hydropower remained the largest contributor, making up 31% of total generation, followed by RLNG and nuclear power, each accounting for 19%. Local coal-based power plants contributed 12%, with the rest supplied by other thermal sources, including imported coal.

Generation After the execution of the NSA, the PPA stands expired.

Performance Benchmark After the execution of the NSA, the PPA stands expired.

Financial Risk

Financing Structure Analysis The total project cost of the HUBCO plant was USD 1.5bln, which was financed with 80% foreign debt and 20% equity. The project debt was timely repaid. The Company has outstanding long term loans of PKR 13.6bln to support its investment portfolio.

Liquidity Profile Under the executed NSA, HUBCO has received a one time settlement amount of PKR 36.5bln from CPPAG. Moreover, all outstanding obligations of the Company towards PSO will be assumed by CPPAG/GoP, which will enhance the Company's liquidity profile.

Working Capital Financing As of Sep 2024, the Company has outstanding short term borrowings of PKR 40,120mln including a short-term sukuk of PKR 6,000mln which is due to mature in November 2024. The one-time payment from the government against outstanding receivables will be utilized to pay off these liabilities.

Cash Flow Analysis Moving forward, the Company will primarily rely on cash flow from dividends generated by its investments. This stable dividend stream is anticipated to sustain the Company's financial stability in the future.

Capitalization As of Sep 2024, the leveraging ratio stood at 43.3%. Going forward, as the Company pays off its short-term liabilities, the ratio will further improve.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

The Hub Power Company Limited Power	Sep-24 3M	Jun-24 12M	Jun-23 12M	Jun-22 12M
A BALANCE SHEET				
1 Non-Current Assets	4,504	4,916	6,775	8,325
2 Investments	-	-	-	-
3 Related Party Exposure	87,518	69,204	73,670	67,992
4 Current Assets	55,356	83,270	71,378	77,692
a Inventories	2,041	2,263	2,253	1,831
b Trade Receivables	36,499	62,917	55,084	62,919
5 Total Assets	147,378	157,390	151,823	154,008
6 Current Liabilities	22,956	41,729	40,025	34,312
a Trade Payables	8,460	28,147	27,529	22,743
7 Borrowings	53,850	41,532	50,342	58,208
8 Related Party Exposure	-	316	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	70,572	73,813	61,455	61,488
11 Shareholders' Equity	70,572	73,813	61,455	61,488
B INCOME STATEMENT				
1 Sales	13,110	41,534	44,516	62,544
a Cost of Good Sold	(3,758)	(11,101)	(18,875)	(39,140)
2 Gross Profit	9,352	30,434	25,641	23,404
a Operating Expenses	(217)	(1,323)	(767)	(559)
3 Operating Profit	9,135	29,111	24,874	22,845
a Non Operating Income or (Expense)	542	16,489	15,926	6,429
4 Profit or (Loss) before Interest and Tax	9,677	45,600	40,800	29,275
a Total Finance Cost	(1,880)	(10,691)	(8,680)	(6,552)
b Taxation	(12)	(1,030)	(1,178)	(1,594)
6 Net Income Or (Loss)	7,785	33,879	30,942	21,128
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	9,360	30,627	27,579	28,330
b Net Cash from Operating Activities before Working Capital Changes	7,782	19,847	19,894	22,546
c Changes in Working Capital	(2,202)	(5,108)	11,744	(1,531)
1 Net Cash provided by Operating Activities	5,580	14,740	31,638	21,015
2 Net Cash (Used in) or Available From Investing Activities	(19,601)	18,487	8,097	(1,889)
3 Net Cash (Used in) or Available From Financing Activities	(1,260)	(31,603)	(37,846)	(18,138)
4 Net Cash generated or (Used) during the period	(15,281)	1,624	1,889	987
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	26.3%	-6.7%	-28.8%	93.7%
b Gross Profit Margin	71.3%	73.3%	57.6%	37.4%
c Net Profit Margin	59.4%	81.6%	69.5%	33.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	54.6%	61.4%	88.3%	42.8%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	42.7%	46.7%	50.0%	33.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	361	538	501	408
b Net Working Capital (Average Days)	234	294	294	241
c Current Ratio (Current Assets / Current Liabilities)	2.4	2.0	1.8	2.3
3 Coverages				
a EBITDA / Finance Cost	5.4	3.0	3.4	4.7
b FCFO / Finance Cost+CMLTB+Excess STB	1.9	2.0	1.6	1.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.7	0.7	1.2	1.4
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	43.3%	36.0%	45.0%	48.6%
b Interest or Markup Payable (Days)	48.4	26.8	58.3	51.5
c Entity Average Borrowing Rate	14.7%	21.6%	15.2%	10.1%

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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Rating Team Statements

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

2) Conflict of Interest

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

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 17-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

Proprietary Information

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