The Pakistan Credit Rating Agency Limited

Rating Report

Atlas Power Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Sep-2022	AA-	A1+	Stable	Maintain	-
22-Sep-2021	AA-	A1+	Stable	Maintain	-
30-Sep-2020	AA-	A1+	Stable	Maintain	-
09-Oct-2019	AA-	A1+	Stable	Maintain	-
26-Apr-2019	AA-	A1+	Stable	Maintain	-
27-Dec-2018	AA-	A1+	Stable	Maintain	-
30-Jun-2018	AA-	A1+	Stable	Maintain	-
22-Dec-2017	AA-	A1+	Stable	Maintain	-
23-Jun-2017	AA-	A1+	Stable	Maintain	-
27-Oct-2016	AA-	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The support and association of Atlas Group with Atlas Power Limited (the Company) provides comfort to the ratings. Atlas group is one of the biggest conglomerates of Pakistan with its high penetration in engineering, automobile, financial services and trading sectors. Demand risk of Atlas Power is mitigated by the power purchase agreement (PPA) and the payments are secured by the sovereign guarantee provided by GoP given that availability (88%) and efficiency (45%) benchmarks are met. Additionally, cushion is provided by the fact that PPA has twelve years to expire. The company has moved Operations in-house successfully by retaining staff of previous O&M operator. Fuel supply risk is considered adequate as they procure from different suppliers with good credit terms. During the period, FY22, company provided ~1007GWh of electricity to the national grid and reported sales revenue of PKR ~29,145mln along with Net loss (N.L) of PKR ~1,896mln in FY22. This net loss represents accounting loss emanating from writing-off interest receivable and expensing out overhauling costs. The ratings take comfort from the master agreement signed with the GoP leading to improved liquidity indicators as a sizable amount of outstanding trade receivable were received during the rating review period. Consequently, the margins have trended downwards in line with the tariff discounts given by the company to the power purchaser albeit are considered to be adequate. Going forward mounting receivable remains a cause of concern. The Company has arranged amicable working capital lines, to cover its working capital requirement, out of which 54% had been utilized as at June-22. APL project related debt has been completely paid off in Oct'19. At end June'22 Company's long term borrowings stands at PKR ~5,625mln. APL has made an investment (60%) in Zhenfa Pakistan New Energy Company (Pvt) Ltd, a Solar project of 100MW in Layyah. Zhenfa has achieved its COD in March'22. Dividend flow from Zhenfa is expected in near future. External factors such as any changes in the regulatory framework may impact ratings.

Upholding operational performance in line with agreed performance levels would remain a key rating driver. Accumulation of circular debt would pose threat to the company's ability to continue with this practice. Sustained good financial discipline and upholding strong operational performance in line with agreed performance levels remain important. Any significant increase in overdue receivables, as a result of rise in circular debt, may impact the ratings. Timely repayments of receivable from power purchaser as per agreement remains imperative for the rating.

Disclosure

Name of Rated Entity	Atlas Power Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Independent Power Producer Rating(Jun-22)
Related Research	Sector Study | Power(Jan-22)
Rating Analysts	Anam Waqas Ghayour | anam.waqas@pacra.com | +92-42-35869504

Profile

Plant The power plant comprises eleven Residual Fuel Oil fired diesel engines having a capacity of 18.9 MW each along with a combined cycle heat recovery system providing additional capacity of 16.45 MW through a steam turbine. Net rated capacity, after accounting for auxiliary consumption, is 213.85 MW.

Tariff Company's key source of earnings is the generation tariff from the power purchaser. The levelized tariff for the period of 25 years approved by NEPRA is PKR/Kwh 11.6097

Return On Project The dollar IRR of Atlas Power, as approved by NEPRA, is 17%. ROE will be locked at 17% with no dollar indexation in future.

Ownership

Ownership Structure The principal sponsor of the company is Shirazi Investments (Pvt.) Limited (~92%) and National Bank of Pakistan hold (~8%) shares. MAN Diesel SE previously had 34% stake (no. of shares: 161 mln) in the company, which was acquired by the Shirazi Investments (Pvt.) Limited at the price of PKR 17.8/share in Dec-15.

Stability Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. Stability factor is considered strong.

Business Acumen Atlas is a diversified group involved in auto, engineering, financial, and trading sectors. The group has a strong financial profile and proven business acumen.

Financial Strength Company’s sponsors have the ability and showed the willingness to support the entity both on a continuing basis, and support in times of crisis. Additionally, the financial strength of the sponsors is considered strong as the sponsors have well diversified profitable businesses.

Governance

Board Structure Atlas Group, through professional representation, maintains good governance standards in its entities. APL’s board comprises seven directors and the CEO, with all members being representatives of Shirazi Investments.

Members’ Profile Mr. Frahim Ali Khan is the Chairman of the Board. The presence of Mr. Saquib Shirazi, CEO Atlas Honda Limited (AHL) on the board is an added benefit to the company. The board has been actively involved in providing strategic guidance to the company and implementing strong internal control framework.

Board Effectiveness Company's board members conduct quarterly board discussions where important matters related to the plant’s efficiency, and budget is discussed.

Financial Transparency EY Ford Rhodes is the external auditor of the company. They have expressed an unqualified opinion on the company’s financial statements at end-June21.

Management

Organizational Structure The management’s role in an IPP is confined largely to operations, financial matters and regulatory interaction. In light of this, the company has a small workforce of around 90 individuals. Most of the staff is engaged in operations of the plant as maintenance is with MAN Energy Solution. The workforce is in place, with individuals moving in from other set-ups within the group to the company.

Management Team Mr. Razi-ur-Rehman heads APL’s operations as CEO. He has extensive experience within the Group, where he has served under various capacities and in different Group Companies since 1994. Prior to joining Atlas Group, he served Tourism Development Corporation of Punjab for 6 years. He is supported by a team of qualified and competent professionals.

Effectiveness Over the years company’s effective management played a significant role in empowering the organization through its progressive results. Additionally, management’s effective decision-making cause processes more systematic while robustness of control systems is considered a reflection of strong management.

Control Environment The company takes advantage of advanced I.T. solutions to deliver comparatively better on many fronts. Moreover, the Company's quality of the I.T. infrastructure and the breadth and depth of activities performed has remained well satisfactory

Operational Risk

Power Purchase Agreement Atlas Power’s key source of earnings is the revenue generated through sale of electricity to the power purchaser, NTDC. The Company will receive the capacity payments if it is at the benchmark availability and is ready to provide electricity

Operation And Maintenance The company has successfully taken over the operations from MAN Diesel Pakistan. However, maintenance of the plant is with MAN Energy Solutions.

Resource Risk Atlas Power is required to maintain a fuel inventory of 30 days including the affirmed orders. APL has established fuel supply arrangements with suppliers including Attock Petroleum, PARCO, BE Energy and Cynergico etc. Purchases are made on a credit basis. Though APL has been managing fuel supply timely, yet this arrangement exposes APL to the risks related to inventory management.

Insurance Cover The company has adequate insurance coverage for property damage and business interruption.

Performance Risk

Industry Dynamics Owing to newly installed plants, Pakistan’s energy mix is shifting towards Solar/Gas/and coal from Furnace Oil and other expensive sources. As on June-22, installed capacity of electricity reached 41,557 MW, which was 37,261 MW at end June-21. There was an increase of 4,296 MW new power projects including CPEC from coal and renewable sources and this will increase further in coming years. Government is devising Indicative Generation Capacity Expansion Plan for 2021-2030. Which encapsulates the power generation additions required to meet the future energy and power demand of NTDC. In order to meet the demand of energy by the year 2030, a generation capacity of 53,315 MW is proposed through a mix of thermal power plants, indigenous resource based power plant and renewable energy power plants. Further, during FY21, the Government has been successful in revising the power purchase agreements with the consultation of IPPs operating under different policies, in the larger interest of the country.

Generation During the first half of FY22, Atlas Power generated 431 GWh of electricity as compared to 511 GWh during FY21. The average capacity factor increased to 45% in comparison to 27% during FY21. During first half of FY22, average plant availability has been maintained according to agreed parameter.

Performance Benchmark During FY22 the sales of the company alleviated to PKR 29,145 mln as compared to FY21 in which sales were 12,371 mln (Sales at Dec FY21 were PKR 12,371 mln). Whereas the operation and maintenance costs are 188 mln during FY22 in comparison to 136 mln during FY21. Power generation has been improved in FY22 owned to increased demand by the power purchaser.

Financial Risk

Financing Structure Analysis The project capital structure comprises 25% equity and 75% debt. Project related debt was PKR 14,124 mln. The tenor of the project was 10 years with Forty (40) instalments and has been completely paid off timely in Oct-2019. Company availed further borrowings during the period and long term debt stand at PKR~6,5400 mln including current maturity

Liquidity Profile At the end of first half of FY22, total receivables of the company stood at PKR 25,804 mln as compared to PKR 21,609 mln for the first half of FY21 an increase of around ~19%. As circular debt continues to be an issue for companies operating in power sector, consequently IPPs have to manage their liquidity requirements from short-term borrowings.

Working Capital Financing During FY22, Atlas Powers has available working capital lines of PKR22,530 mln (FY21 PKR20,030 mln) of which ~54% (FY20: ~74%) has been utilized. Cash cycle days stood at 431 days during FY22 (FY21: 674 days).

Cash Flow Analysis Atlas Power has maintained its debt coverage ratio [FCFO / Gross Interest +CMLTD], at 1.3x during FY22 (FY21: 1.8x). This is attributable to the reduction in finance cost owing to stable policy rates.

Capitalization Atlas Power leveraging for FY22 remained moderate at ~55% (FY21: 48.6%).

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Atlas Power Ltd Power	Jun-22 12M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	10,088	10,866	11,642	12,406
2 Investments	-	-	-	-
3 Related Party Exposure	7,680	1,462	125	-
4 Current Assets	22,776	27,546	24,435	20,983
a Inventories	*3,004*	*1,557*	*538*	*1,059*
b Trade Receivables	*15,962*	*23,818*	*21,747*	*16,998*
5 Total Assets	40,544	39,874	36,202	33,389
6 Current Liabilities	4,847	2,744	948	1,748
a Trade Payables	*4,336*	*1,802*	*141*	*901*
7 Borrowings	19,433	18,038	18,433	17,329
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	49	45	34	22
10 Net Assets	16,215	19,046	16,786	14,290
11 Shareholders' Equity	16,215	19,046	16,786	14,290
B INCOME STATEMENT				
1 Sales	29,145	12,371	10,696	16,102
a Cost of Good Sold	*(24,879)*	*(8,250)*	*(5,358)*	*(10,586)*
2 Gross Profit	4,266	4,121	5,338	5,516
a Operating Expenses	*(451)*	*(380)*	*(329)*	*(259)*
3 Operating Profit	3,814	3,741	5,009	5,257
a Non Operating Income or (Expense)	*(3,869)*	*5*	*0*	*1*
4 Profit or (Loss) before Interest and Tax	(54)	3,745	5,009	5,259
a Total Finance Cost	*(1,842)*	*(1,463)*	*(2,512)*	*(1,719)*
b Taxation	*-*	*(1)*	*(0)*	*(0)*
6 Net Income Or (Loss)	(1,896)	2,281	2,497	3,539
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*3,456*	*4,565*	*5,835*	*6,070*
b Net Cash from Operating Activities before Working	*1,815*	*3,095*	*3,243*	*4,464*
c Changes in Working Capital	*4,237*	*(1,704)*	*(4,060)*	*(3,511)*
1 Net Cash provided by Operating Activities	6,052	1,391	(818)	953
2 Net Cash (Used in) or Available From Investing Ac	(6,492)	(1,125)	(168)	(48)
3 Net Cash (Used in) or Available From Financing A	447	(395)	1,104	(1,016)
4 Net Cash generated or (Used) during the period	7	(129)	118	(111)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	135.6%	15.7%	-33.6%	-13.5%
b Gross Profit Margin	14.6%	33.3%	49.9%	34.3%
c Net Profit Margin	-6.5%	18.4%	23.3%	22.0%
d Cash Conversion Efficiency (FCFO adjusted for W	26.4%	23.1%	16.6%	15.9%
*e Return on Equity [Net Profit Margin * Asset Turnc*	-11.8%	12.6%	15.5%	25.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	278	703	688	376
b Net Working Capital (Average Days)	239	674	671	345
c Current Ratio (Current Assets / Current Liabilities)	4.7	10.0	25.8	12.0
3 Coverages				
a EBITDA / Finance Cost	1.9	3.2	2.3	3.5
b FCFO / Finance Cost+CMLTB+Excess STB	1.3	1.8	1.7	2.1
c Debt Payback (Total Borrowings+Excess STB) / (F	4.0	1.5	2.0	0.7
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholde	54.5%	48.6%	52.3%	54.8%
b Interest or Markup Payable (Days)	101.5	69.0	40.7	0.0
c Entity Average Borrowing Rate	9.2%	8.0%	13.7%	9.9%

Credit Rating

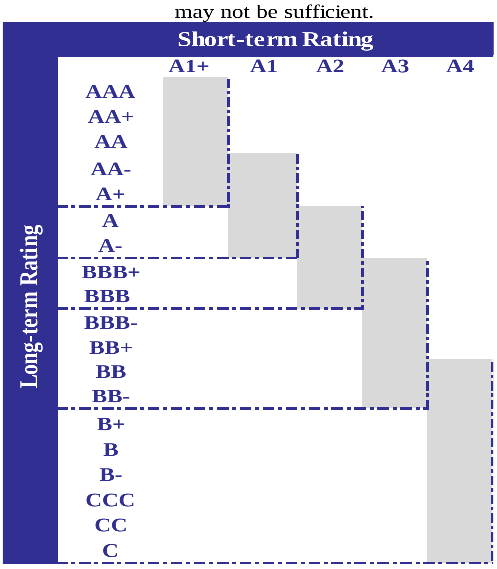
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ 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.
A+ 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.
BBB+ 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.
BB+ 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.
B+ 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.
CCC CC C	**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.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



The correlation shown is indicative and, in certain cases, may not hold.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill 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):

Entities
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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 | 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)
Proprietary Information