



The Pakistan Credit Rating Agency Limited

Rating Report

Atlas Power 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
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	-
30-Oct-2015	AA-	A1+	Stable	Upgrade	-
05-Mar-2015	A+	A1	Positive	Maintain	-
24-Jan-2014	A+	A1	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect strong business profile of Atlas Power Limited (Atlas Power) emanating from the demand risk coverage under Power Purchase Agreement signed between National Transmission & Despatch Company (NTDC) and the company. Meanwhile, the Implementation Agreement provides sovereign guarantee for cashflows, given adherence to agreed performance benchmarks. Nevertheless, delayed payments from the power purchaser remained a challenge. Despite higher receivable days the entity managed to sustain its financial strength. The company served 90 days termination notice on Operations and Maintenance Agreement with MAN Diesel Pakistan with effect from 01 August 2019, which is planned to be taken up by the company internally; the management of associated risks is crucial. Fuel supply risk is considered adequate as they procure from different suppliers with good credit terms. Atlas Power continues to meet its availability (~95%) and efficiency (45%) benchmarks. Although there are delays in payments from power purchaser, the company manages the impact by aligning the payments to fuel supplier with its receipts. This keeps working capital needs under check. Short term borrowing lines are available and mainly used to fund any short-fall in working capital requirements. As of June-19, short term lines utilization stood at 74%. Given the liquidity situation, utilization is imputed to go up. Settlement of overdue receivables is crucial. Sound financial profile of Atlas Group; the major sponsor, provides comfort to the ratings.

Sustained good financial discipline and upholding strong operational performance in line with agreed performance levels remain important. Accumulation of circular debt would pose threat to the company's ability to continue with this practice. However, the management ably supported by sponsors' remains committed to sustain improvement in management of commercial obligations and timely debt repayments.

Disclosure

Name of Rated Entity	Atlas Power Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_IPP_FY19(Jun-19),PACRA_Criteria_LT ST Relationship_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study Power(Jan-19)
Rating Analysts	Taimoor Ahmad taimoor.ahmad@pacra.com +92-42-35869504

The Pakistan Credit Rating Agency Limited

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 agreed with NEPRA, is 15%.

Ownership

Ownership Structure The principal sponsor of the company is Shirazi Investments (Pvt.) Limited (85%). Allied Bank Limited and National Bank of Pakistan hold (7.5%) shares each. MAN Diesel SE previously had 34% stake (no. of shares: 161mln) 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 nine members, including the CEO, with Six representatives of Shirazi Investments, one representative of ABL and two independent directors.

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-Dec18.

Management

Organizational Structure The management's role in an IPP is confined largely to financial matters and regulatory interaction. In light of this, The company has a small workforce of around 50 individuals. Most of the staff is engaged in finance-related activities as the operations of the plant have been outsourced to MAN Diesel. The workforce is in place, with individuals moving in from other set-ups within the group to the company.

Management Team Mr. Razi-ur-Rahman has replaced Mr. Maqsood Ahmad as new CEO of APL effective from 01 April 2019, whereas Mr. Maqsood Ahmad has joined the board as an executive director effective from 18 March 2019. Mr. Razi has been associated with the group for ~25 years. He is supported by a team of qualified and competent individuals.

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 served 90 days termination notice on Operations and Maintenance Agreement (O&M) with MAN Diesel Pakistan with effect from 01 August 2019. As a result the risk of any decrease in efficiency factor against required benchmark would be borne by the company itself if the company plans to manage it O&M in house.

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, Total Parco, BE Energy and Hascol 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 Pakistan total power generation is increasing on the back of new power projects under CPEC. During July - March FY2019, installed capacity of electricity reached 34,282 MW, which was 33,433 MW in corresponding period last year, thus, posting a growth of 2.5 percent. Although electricity generation varies due to availability of inputs and other constraints, the generation increased from 82,011 GWh to 84,680 GWh, posting a growth of 2.1 percent during the period under discussion.

Generation During FY19, Atlas Power generated 668GWh of electricity as compared to 1,246GWh during FY18. This decrease (~46%) is mainly attributable to lower electricity demand from the power purchaser. During FY19, the average capacity factor stood at 35.37% as compared to 66.22% during FY18. During FY19, average plant availability has been maintained according to agreed parameter.

Performance Benchmark During FY19 the sales of the company declined to PKR 16,102mln as compared to PKR 18,613mln during FY18, owing to the lower power generation on account of lower power demand by the power purchaser. The effect of decrease in power generation trickled down to operating costs, which declined from PKR 13,931mln during FY18 to PKR 10,586mln during FY19, and thus boosting the profit margins of the company.

Financial Risk

Financing Structure Analysis The project capital structure comprises 25% equity and 75% debt. Project related debt was PKR 14,124mln. The tenor of the project was 10 years with Forty (40) Consecutive Quarterly payments, started from July-2009. Profit rate on the borrowed amount is 3-month KIBOR + 3%. By end-Jun 19, PKR 12,917mln has been paid off, while total principal outstanding is PKR 1,207mln as at end Jun-19

Liquidity Profile As at end June-19, total receivables of the company stood at PKR 16,998 mln (FY18: PKR 14,144mln), an increase of around ~20%. 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. However, the government efforts in cutting distribution losses and the issue of Pakistan Energy Sukuk-II worth Rs200bln reiterates the government commitment to overcome the crisis.

Working Capital Financing Cash cycle days stood at 391 days during FY19 (FY18: 256days, FY17: 192days). During FY19, Atlas Power has available working capital lines of PKR 19,010mln (FY18: PKR 18,660mln) of which ~74% (FY18: 65%) has been utilized.

Cash Flow Analysis Atlas Power shown an improvement in debt coverage ratio [FCFO pre WC / Gross Interest +CMLTD], which increase to 2.1x during FY19 (FY18:1.4x, FY17: 1.3x). This is attributable to the increase profitability.

Capitalization Atlas Power leveraging for FY19 remained moderate at ~54.8% (FY18: 61%). STD comprised 89% and LTD stood 11% of total debt financing.



Atlas Power Limited

BALANCE SHEET

	30-Jun-19	30-Jun-18	30-Jun-17	30-Jun-16
	FY19	FY18	FY17	FY16
Non-Current Assets	12,406	13,157	13,909	14,686
Investments (Others)	-	1	1	1
Current Assets	20,983	18,468	14,152	10,687
Inventory	2,370	2,298	1,888	1,481
Trade Receivables	16,998	14,144	10,420	7,745
Other Current Assets	1,599	1,898	1,623	1,437
Cash & Bank Balances	17	128	222	24
Total Assets	33,389	31,627	28,061	25,374
Debt	17,329	17,753	15,589	12,967
Short-term	14,122	12,153	9,438	5,060
Long-term (Inlc. Current Maturity of long-term debt)	3,207	5,601	6,151	7,907
Other Short term liabilities (inclusive of trade payables)	1,748	2,512	2,277	3,149
Other Long term Liabilities	22	17	15	12
Shareholder's Equity	14,290	11,345	10,181	9,245
Total Liabilities & Equity	33,389	31,627	28,061	25,374

INCOME STATEMENT

Turnover	16,102	18,613	17,336	14,730
Gross Profit	5,516	4,682	4,814	4,480
Other Income	1	(0)	1	(10)
Financial Charges	(1,719)	(1,218)	(1,209)	(1,125)
Net Income	3,539	3,180	3,308	3,144

Cashflow Statement

Free Cashflow from Operations (FCFO)	6,070	5,195	5,306	5,068
Net Cash changes in Working Capital	(3,511)	(4,164)	(4,611)	(1,541)
Net Cash from Operating Activities	953	(194)	(477)	2,317
Net Cash from Investing Activities	(48)	(46)	(14)	(5)
Net Cash from Financing Activities	(1,016)	150	689	(2,410)
Net Cash generated during the period	(111)	(91)	198	(98)

Ratio Analysis

Performance

Turnover Growth	-13.5%	7.4%	17.7%	-35.3%
Gross Margin	34.3%	25.2%	27.8%	30.4%
Net Margin	22.0%	17.1%	19.1%	21.3%
ROE	24.8%	28.0%	32.5%	34.0%

Coverages

Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	2.1	1.4	1.4	1.8
Interest Coverage (X) (FCFO/Gross Interest)	3.5	4.3	4.4	4.5
FCFO Pre-WC/Gross interest+CMLTD	2.1	1.4	1.3	1.8
FCFO POST-WC/Gross interest+CMLTD	0.9	0.3	0.2	1.2

Liquidity

Net Cash Cycle	391	256	192	155
----------------	-----	-----	-----	-----

Capital Structure (Total Debt/Total Debt+Equity)

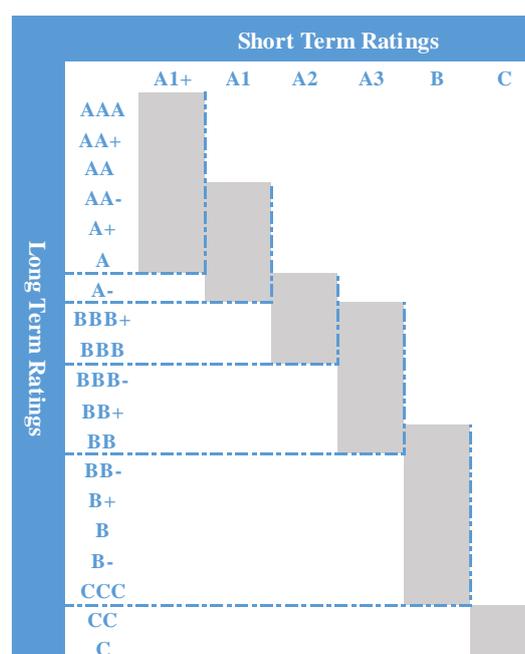
54.8%	61.0%	60.5%	58.4%
-------	-------	-------	-------

Atlas Power Limited

Credit Rating Scale & Definitions

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 Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) 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.

Disclaimer: PACRA’s ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA’s opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security’s market price or suitability for a particular investor.

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.
- (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

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent