



The Pakistan Credit Rating Agency Limited

## Rating Report

### Foundation Power Company Daharki Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-Jan-2022	AA-	A1+	Stable	Maintain	-
01-Feb-2021	AA-	A1+	Stable	Maintain	-
02-Apr-2020	AA-	A1+	Stable	Maintain	-
02-Oct-2019	AA-	A1+	Stable	Maintain	-
30-Apr-2019	AA-	A1+	Stable	Maintain	-
22-Nov-2018	AA-	A1+	Stable	Maintain	-
30-Apr-2018	AA-	A1+	Stable	Maintain	-
16-Oct-2017	AA-	A1+	Stable	Upgrade	-
24-Mar-2017	A+	A1	Positive	Maintain	-
24-Mar-2016	A+	A1	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

The ratings took comfort from strong business profile of Foundation Power Company Daharki Limited (Foundation Power) emanating from the demand risk coverage under Power Purchase Agreement and company's association with Fauji Foundation (FF). Meanwhile, the Implementation Agreement provides sovereign guarantee for cashflows, given adherence to agreed performance benchmarks. The ratings incorporate low operational risk, a result of the performance of KEPCO - the O&M operator. Fuel of the plant is 'low BTU' gas, which is supplied by an associate –Mari Petroleum Company Limited (40% owned by Fauji Foundation). Supplier being a sister concern reduces fuel supply risk. Significant increase in account receivables create a challenge to working capital management. However, the risk is substantially mitigated through aligning payments to fuel supplier with energy billing related receipts. Short-term borrowing lines of PKR 410 million stands at end Sept-21, out of which 61% are utilized. Rating reflects the low financial risk of the company as all the project related long term loan has been repaid.

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 is ably supported by sponsor who remains committed towards commercial obligations. Further the Company is on priority list of NTDC's payment merit order because of low unit cost of electricity.

#### Disclosure

<b>Name of Rated Entity</b>	Foundation Power Company Daharki 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-21)
<b>Rating Analysts</b>	Anam Waqas Ghayour   anam.waqas@pacra.com   +92-42-35869504

## The Pakistan Credit Rating Agency Limited

### Profile

**Plant** Foundation Power Company Daharki Limited (Foundation Power), a public limited company, is operating a combined cycle power plant on a build-own-operate (BOO) basis with a net initial capacity of 180MW (7.8MW auxiliary consumption)

**Tariff** Foundation Power key source of earnings is the generation tariff from the power purchaser, NTDC. The reference generation tariff comprises a capacity charge component and an energy charge component. Foundation Power's levelized tariff is US¢ 6.55/kWh.

**Return On Project** The dollar IRR of Foundation Power, as agreed with NEPRA is 15%.

### Ownership

**Ownership Structure** Foundation power is majority owned by Daharki Power Holdings Limited (DPHL), which, in turn is owned by Fauji Foundation (FF) (81%) and Asian Development Bank (ADB) (19%).

**Stability** Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. However, Company's association with Fauji Foundation group and Asian Development Bank will continue to provide comfort.

**Business Acumen** Sponsor groups have significant experience in the generation and selling of energy, fertilizer, cement and chemicals.

**Financial Strength** Fauji Foundation (also known as Fauji Group), is amongst the largest business conglomerate in Pakistan. The financial strength of the sponsor is considered strong as the sponsor has well diversified profitable businesses.

### Governance

**Board Structure** The six-member Board, comprising five representatives from Fauji Foundation and one from Asian Development Bank provides adequate guidance to the company.

**Members' Profile** Fauji Foundation's strong professional profile assists the management in terms of strategic guidance and implementation of strong control framework.

**Board Effectiveness** The experiences of board will help guiding the management in developing effective operational and financial policies. The board has formulated Audit and HR Committee to ensure smooth and effective monitoring of operations. Participation of all board members during board meetings remained satisfactory.

**Financial Transparency** A.F. Ferguson & Co. has been engaged as Foundation Power's external auditors. The auditors expressed an unqualified opinion on financial statements of the company for the year ended June 30, 2021.

### Management

**Organizational Structure** Foundation Power has a lean management structure, mainly comprises finance, administration and technical staff. The management control of the company vests with Daharki Power Holdings Limited (DPHL), which, in turn is owned by Fauji Foundation (FF), being largest shareholder.

**Management Team** Maj Gen Muhammad Junaid, HI(M) (Retd) is the Managing Director and CEO of Foundation Power Company. He had a distinguished career in the Pakistan Army. The management team is experienced and is ably handling the affairs of the company.

**Effectiveness** The management of Foundation Power is mostly engaged in the finance related activities. The operations and maintenance of the plant have been outsourced to KEPCO Plant Service & Engineering Company Limited (KEPCO). The management has engaged General Manager Plant, Manager Maintenance and Assistant Manager Maintenance who maintain daily correspondence with the O&M team to ensure oversight and liaison with the head office.

**Control Environment** The company maintains an adequate MIS which helps management to keep track of all operations and liaison with O&M operator.

### Operational Risk

**Power Purchase Agreement** Foundation Power's key source of earnings is the revenue generated through sale of electricity to the power purchaser, CPPA-G. The Company will receive the capacity payments if it is at the benchmark availability and is ready to provide electricity, even if no purchase order is placed by Power Purchaser, further there is also a consequence of take or pay, in case of energy billing. The term of the agreement is 25 years from COD.

**Operation And Maintenance** Foundation Power Company has negotiated an O&M contract with KEPCO for a period of 18 years, signed in 2008. KEPCO, the O&M operator, ensures adherence of the plant to meet minimum performance benchmarks (Availability: Actual: 95.34%; Benchmark: 88%, Efficiency: Actual: 48.8%; Benchmark: 48.8%) during FY21.

**Resource Risk** Foundation Power Company has negotiated the GSA with Mari Petroleum, for supply of 65mmcf/d of Low BTU Gas to the plant. The contract is for a period of 25 years. The construction and commissioning of the gas pipeline was completed in February 2009.

**Insurance Cover** Insurance Cover Foundation Power has adequate insurance coverage for property damage and business interruption.

### Performance Risk

**Industry Dynamics** Pakistan's energy mix is shifting towards Solar/Gas/and coal from Furnace Oil and other expensive sources. The total installed generation capacity of the country, including CPPA-G and KE Systems as on 30-06-2021 was 39,772 MW, against 38,719 MW on 30-06-2020 showing a net increase of 1,053 MW. The total installed generation capacity of public sector power plants in the country was 20,820 MW while the installed generation capacity of private sector power plants, including KE, was 18,952 MW. During FY 2020-21, the total electricity generation in the country including the power plants connected with NTDC and KE Systems was recorded as 143,090.64 GWh compared to 133,727.20 GWh electric power generation of FY 2019-20 showing increase of 9,363.44 GWh.

**Generation** The plant generated a total of 997,281MWH of electricity for FY21, against 769,751 MWH in FY20 depicting a higher demand from power purchaser in the latest year.

**Performance Benchmark** The required availability for Foundation Power under the PPA is 88%. During FY21, Foundation Power Daharki's efficiency and availability has been maintained according to agreed parameters. Meanwhile, the efficiency of the plant was at par with the required benchmark of 48.8%.

### Financial Risk

**Financing Structure Analysis** Foundation Power's project cost (75%) was financed through a syndicated term finance loan. The loan size, PKR 11,565mln, was priced at 6-month KIBOR + 2.93% p.a. which was fully paid in Mar20.

**Liquidity Profile** At Sept 21, trade receivables of the company stood at PKR 17,391mln (FY21: PKR 17,012mln). These represent receivables from CPPA-G against capacity purchase price (PKR 5,691mln) and energy purchase price (PKR 11,699mln). As circular debt continues to be an issue for companies operating in power sector. Consequently, IPPs have to manage their liquidity requirements from internal cash generation and short-term borrowings.

**Working Capital Financing** Company has short term credit lines of PKR 410mln out of which PKR 250mln (61%) remain utilized as at end Sept 21. Net working capital days have surged to 126 days as at end Sept 21 (FY21: 99 days) owing to the increase in outstanding receivables days recorded at 411 days (FY21: 401 days).

**Cash Flow Analysis** FPCDL's improved profits have resulted from high demand of low cost electricity and in turn have also resulted in improved free cashflows from operations (FCFO) at FY21: 4,658mln (FY20: 4,495mln). During FY21, owing to reduced finance cost of PKR 193mln (FY20: PKR 524mln) and improved FCFO's, the company's coverages reflects significant improvement.

**Capitalization** Foundation Power has a low leveraged capital structure (Total Debt/Total Debt+Equity) as at Sept 21 stood at 1.6% (FY21: 1.7%).



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Financial Summary  
PKR mln

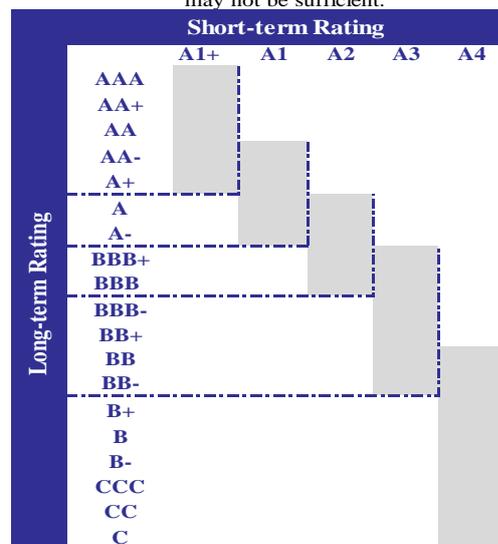
Foundation Power Company Dharaki Limited Power	Sep-21 3M	Jun-21 12M	Jun-20 12M	Jun-19 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	10,440	10,630	11,374	12,140
2 Investments	600	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	18,698	17,958	14,528	11,218
a Inventories	66	68	58	39
b Trade Receivables	17,391	17,013	13,464	10,271
5 Total Assets	29,738	28,588	25,902	23,358
6 Current Liabilities	12,427	12,097	11,905	8,859
a Trade Payables	12,135	11,820	11,288	8,488
7 Borrowings	268	274	254	2,930
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	60	63	73	62
10 Net Assets	16,983	16,154	13,670	11,506
11 Shareholders' Equity	16,983	16,154	13,670	11,506
<b>B INCOME STATEMENT</b>				
1 Sales	3,821	13,863	13,055	12,870
a Cost of Good Sold	(2,947)	(9,746)	(9,113)	(9,232)
2 Gross Profit	874	4,116	3,942	3,639
a Operating Expenses	(44)	(202)	(198)	(315)
3 Operating Profit	830	3,915	3,744	3,323
a Non Operating Income or (Expense)	5	33	84	34
4 Profit or (Loss) before Interest and Tax	834	3,948	3,828	3,358
a Total Finance Cost	(53)	(193)	(524)	(608)
b Taxation	-	(9)	(22)	(15)
6 Net Income Or (Loss)	782	3,746	3,283	2,735
<b>C CASH FLOW STATEMENT</b>				
a Free Cash Flows from Operations (FCFO)	1,011	4,658	4,495	4,212
b Net Cash from Operating Activities before Working Capital Changes	1,011	4,658	3,969	3,708
c Changes in Working Capital	(30)	(3,409)	(454)	(441)
1 Net Cash provided by Operating Activities	982	1,250	3,515	3,267
2 Net Cash (Used in) or Available From Investing Activities	(597)	34	54	31
3 Net Cash (Used in) or Available From Financing Activities	(6)	(1,444)	(3,791)	(3,255)
4 Net Cash generated or (Used) during the period	379	(161)	(222)	43
<b>D RATIO ANALYSIS</b>				
1 Performance				
a Sales Growth (for the period)	10.2%	6.2%	1.4%	27.9%
b Gross Profit Margin	22.9%	29.7%	30.2%	28.3%
c Net Profit Margin	20.5%	27.0%	25.1%	21.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	25.7%	9.0%	31.0%	29.3%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity) ]	18.8%	24.3%	25.3%	25.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	412	403	333	243
b Net Working Capital (Average Days)	126	99	57	46
c Current Ratio (Current Assets / Current Liabilities)	1.5	1.5	1.2	1.3
3 Coverages				
a EBITDA / Finance Cost	19.4	24.3	8.7	7.0
b FCFO / Finance Cost+CMLTB+Excess STB	18.3	22.1	8.6	1.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.0	0.8
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	1.6%	1.7%	1.8%	20.3%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0

**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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- 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.
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- (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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- (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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