The Pakistan Credit Rating Agency Limited

Rating Report

Lucky Electric Power Company Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-Aug-2019	A	A1	Stable	Maintain	-
08-Feb-2019	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Lucky Electric Power Company Limited is setting up a 1x660MW (gross) local coal fired super critical power plant at Port Qasim, Karachi, Sindh. The project achieved financial close (FC) in June-18 and the project's contracted COD shall not occur earlier than 90 days prior to RCOD. RCOD is 1st March, 2021 as per PPA and delay LDs will apply if this date is exceeded. As at end-Jun19, the actual project progress, issued by EPC was ~22% based on the shorter 33-month schedule. Lucky Electric's management is positive on achieving RCOD as agreed. Nevertheless, in case of any delays, LDs will be paid by the EPC contractors. The primary fuel is Thar Coal; a coal supply agreement is signed with Sindh Engro Coal Mining Company (SECMC), which is constructing a coal mine in Thar Block-II (Phase III). Company is also in a process of negotiating imported coal supply agreement from International supplier of a good repute. Plant would be run on imported coal in case of non-availability of local coal. It is pertinent to mention that Yunus Brother Group through its trading company, Lucky Commodities, has vast experience in import of coal. The onshore EPC contract is with SEPCO III Electric Power Construction Corporation and offshore EPC contract is with Tie Jun International. Comfort is drawn from the experience of these contractors. The ratings incorporate the project’s exposure to the completion risks of affiliated infrastructure projects needed for the successful commissioning of the plant. Once completed, the Company’s main challenge would be to keep the plant operational. DSRA will be fully funded through tariff and ROE component may be diverted to DSRA account, if required to make balance equivalent to debt servicing due for the upcoming nine months. Off take agreement is with CPPA-G, which will, upon plant’s availability as per contract, provide capacity payments even if no purchase order is placed. The Government of Pakistan has given payment guarantee against dues from CPPA-G. The business risk of the company is exposed to the specifications of Thar Coal, which is being used for the first time. Rating takes benefit from the company’s association with one of the largest conglomerate of the country.

Ensuring timely commissioning of the project is important. Moreover, timely completion of the affiliated infrastructure projects needed to make the plant operational and the viability of local Coal is a consideration. External factors such as any adverse changes in the regulatory framework or material delay in achieving COD may impact the ratings.

Disclosure

Name of Rated Entity	Lucky Electric Power Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_IPP_FY19(Jun-19),PACRA_Crtieria_LT ST Relationship_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study | Power(Jan-19)
Rating Analysts	Faizan Arif | faizan.sufi@pacra.com | +92-42-35869504

Profile

Plant: Lucky Electric Power Company Limited (Lucky Electric) Limited is setting up a 1x660MW (gross) local coal fired super critical power plant at Port Qasim, Karachi, Sindh. Plant will be developed on a Build-Own-Operate ("BOO") basis with an estimated cost of USD 883.30 Million in a debt to equity ratio of 75:25.

Tariff: Lucky Electric has been provided a levelized tariff of 9.2100 US¢ per KWh. The tariff is divided into two components; Capacity Payments and Energy Payments. In case of Thar Lignite, if the Plant is available, capacity payments and the fixed fuel costs will be provided even if no purchase order is placed by CPPA-G. The tariff control period is 30 years.

Return On Project: The PKR/KWh Return on Equity (ROE) of Lucky Electric, as agreed with NEPRA, is 1.4575.

Ownership

Ownership Structure: Lucky Cement Limited through its wholly owned subsidiary LCL Holdings owns 100% shareholding of Lucky Electric, incorporated in Pakistan on June 13, 2014 as public unlisted company. The registered office of the company is situated at 6-A, Muhammad Ali Housing Society, Karachi, Sindh.

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

Business Acumen: Incorporated in 1993, Lucky Cement Limited stands as the flagship company of Yunus Brothers Group (YBG). Lucky Cement is one of the largest producers and leading exporters of quality cement in Pakistan. YBG is one of the biggest conglomerates in Pakistan with diversified interests in textiles, building materials, real estate, power generation, chemicals, pharmaceuticals, food and automotive.

Financial Strength: Yunus Brother Group (YBG) has a long history spanning over 50 years, operating in various segments, with group's turnover of ~USD 2,038mln with net profit of ~USD 262mln during 2018. Hence, financial strength considered strong.

Governance

Board Structure: The board is dominated by the sponsor's representatives. The company's board of directors comprises of six directors including CEO. All the board members represents Lucky Cement Limited.

Members' Profile: Mr. Muhammad Ali Tabba, the Chairman has been associated with the Group in different capacities for more than twenty eight years and is currently chairing the Board with his visionary leadership and vast experience. All board members are highly qualified and competent enough for effective leadership.

Board Effectiveness: Board members meets quarterly or conduct regular board discussions on need basis. Chairman of the board exercises close oversight over the affairs of the company. However, there are no sub-committees. Board has been actively involved in providing strategic guidance to the company. There is no independent director on the board.

Financial Transparency: A.F. Ferguson & CO., Chartered Accountants, a member firm of the PwC network is the external auditor of the company. They have expressed an unqualified opinion on the company's financial statements at end-Jun18.

Management

Organizational Structure: Lucky Electric's management team comprises qualified professionals in areas like technical, commercial and legal specialists with the capability to construct, develop, operate, finance and maintain the project. The company has a well-defined organizational structure with the CEO reporting to the board.

Management Team: Mr. Intisar ul Haq Haqqi, the CEO, completed his Marine Engineering Training from the Pakistan Marine Academy, has been spearheading the company. Mr. Haqqi carries with him over two decades of experience with the captive power industry in Pakistan. Mr. Haqqi is supported by an experienced team of professionals. Mr. Zulfiqar Ali Rana, Chief Operating Officer, brings over 30 years of experience in the power sector ranging energy sector reforms, development, execution, operations and management across multiple power plants. Mr. Naeem Kasbati, the CFO, a fellow member of ICAP, has 30 years of experience with expertise in streamlining operations, cost reduction, strategizing, financial planning & reporting, and funds management including seventeen years in power sector.

Effectiveness: Over the years since incorporation, management played a significant role in empowering the organization through its progressive results and achieved project milestones in a timely and accurate manner.

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

Completion Risk

Engineering And Procurement: Lucky Electric has signed an Onshore EPC Contract with SEPCO III Electric Power Construction Corporation worth ~USD 147mln and an Offshore EPC Contract with Tie Jun International worth ~USD 422mln. The EPC Agreement comprises (i) Agreement for Procurement and Supply of Equipment (Offshore Agreement) and (ii) Agreement for Engineering and Construction (Onshore contract). The capacity guaranteed by EPC contractor is within NEPRA allowed parameters.

Power Purchase Agreement: The electricity generated will be sold to Central Power Purchasing Agency (CPPA-G) under 30 years Power Purchase Agreement (PPA). RCOD as per the PPA is March 01 2021, i.e. 33 months from the Financial Close (FC). However, the construction period allowed in tariff determination is 48 months after FC.

Pre-Commissioning Progress: The project has achieved all its pre-commissioning milestones, including PPA, Implementation Agreement (IA), Coal Supply Agreement (CSA) and FC at June 2018. As at end June 2019, the project is on track. Basic and design engineering has been completed and ~22% of the EPC works are done. RCOD is 1st March, 2021 as per PPA signed with CPPA-G. The agreed time with EPC contractor is 35 months from issuance of NTP (April 2018) i.e. March 2021, thus meeting PPA's RCOD requirement.

Performance Default Risk: Lucky Electric has attained reasonable insurance cover for material damage, third party liability, and delay in startup affecting the profits. Additionally, Marine, Terrorism, and Excess Third Party Liability Insurances are also held.

Performance Risk

Industry Dynamics: Pakistan has total coal reserves of 186bln tonnes. The GoP and GoS are working towards using the indigenous coal at Thar to reduce the electricity short fall in the country. 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

Operation And Maintenance: Lucky Electric's O&M contractor is Kepco Plant Services & Engineering Co, Korea for period of 7 years, automatically renewed for additional 3 years, unless notified. The project revenues and cash flows are primarily dependent upon maintaining plant's availability and capacity factors at the adequate levels.

Coal Supply Agreement: The Coal Supply Agreement (CSA) of Lucky Electric is with SECMC. SECMC is setting up a 13.1 mmpta coal mine in Thar Block–II in three phases. Lucky Electric has contract to receive coal from Phase III. Work on phase I have almost completed. While Financial close of Phase II and Phase III was expected in June 2019 and March 2020 respectively, now delayed by 3 months and hence the expected COD of the project. Company is also in a process of negotiating imported CSA from International coal supplier of good repute. Plant would be run on imported coal in case of non-availability of Thar coal.

Performance Benchmark: Yearly generation capacity is expected to be 5,314GWh with the benchmark efficiency of plant at 39%. The contract availability for the plant over 30 years is agreed to be at 85%. If these aren't met, Lucky Electric would be charged LDs by the Power Purchaser. The contractual remedies under O&M contract has been incorporated to partially cover the damages.

Financial Risk

Financing Structure Analysis: Lucky Electric's capital structure comprises 25% equity and debt financing constitutes 75% of the project cost; USD 883mln, financed from local and foreign financial institutions. Local Facility obtained from consortium of banks led by UBL amounting to USD 452mln has a 10 year tenure starting March 2022 and to be paid in 40 quarterly installments. The foreign facility is USD 210mln. Out of which USD 20mln will be paid quarterly and USD 190mln will be paid semi-annually.

Liquidity Profile: DSRA will be maintained by Lucky Electric to provide comfort to lenders regarding debt repayments. DSRA will be fully funded through tariff and ROE component may be diverted to DSRA account, if required to make balance equivalent to debt servicing due for the upcoming nine months.

Working Capital Financing: The Company has agreed to procure working capital commitment of over Rs.3.5 billion from Project Financiers and the documentation in this respect is under finalization.

Cash Flow Analysis: Lucky Electric will meet its debt repayment and mine capacity payments at 65% of availability. Hence, Lucky Electric can generate ample revenue to cover its financial obligations. Lucky Electric, in its off-take agreement with CPPA-G will receive capacity payments, given the plant meets contract availability, even if no purchase order is placed

Capitalization: Lucky Electric leveraging stood at 53.5% at end-March 2019. Total debt of the company stood at PKR ~11,945mln. All debt of the company is long term in nature as company has nill short term borrowings.

Lucky Electric Power Company Limited

PKR mln

BALANCE SHEET	31-Mar-19	31-Dec-18	30-Jun-18
	9M	6M	FY18
Non-Current Assets	**19,310**	**9,731**	**6,204**
Investments (Others)	-	-	-
Equity	-	-	-
Debt	-	-	-
Current Assets	**3,204**	**2,705**	**3,906**
Inventory	-	-	-
Trade Receivables	-	-	-
Other Current Assets	2,826	2,635	1,106
Cash & Bank Balances	378	70	2,800
Total Assets	**22,513**	**12,436**	**10,110**
Debt	**11,945**	**1,976**	-
Short-term	-	-	-
Long-term (Inlc. Current Maturity of long-term debt)	**11,945**	**1,976**	-
Other Short term liabilities (inclusive of trade payables)	162	21	25
Other Long term Liabilities	21	21	12
Shareholder's Equity	**10,386**	**10,419**	**10,073**
Total Liabilities & Equity	**22,513**	**12,436**	**10,110**
INCOME STATEMENT			
Turnover	-	-	-
Gross Profit	-	-	-
Other Income	9	9	8
Financial Charges	(1)	(1)	(2)
Net Income	**(87)**	**(54)**	**(60)**
Cashflow Statement			
Free Cashflow from Operations (FCFO)	(409)	(74)	(53)
Net Cash changes in Working Capital	(1,578)	(1,530)	(1,006)
Net Cash from Operating Activities	(1,980)	(1,604)	(1,061)
Net Cash from InvestingActivities	(13,110)	(3,525)	(4,521)
Net Cash from Financing Activities	12,667	2,400	8,350
Net Cash generated during the period	(2,422)	(2,730)	2,769
Ratio Analysis			
Performance			
Turnover Growth	-	-	-
Gross Margin	-	-	-
Net Margin	-	-	-
ROE	-	-	-
Coverages			
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	-319.9	-109.9	-34.7
Interest Coverage (X) (FCFO/Gross Interest)	-319.9	-109.9	-34.7
FCFO Pre-WC/Gross interest+CMLTD	-92.9	-20.5	-2.7
FCFO POST-WC/Gross interest+CMLTD	-451.2	-445.1	-53.6
FCFO+change in WC+Change in STB/Gross Interest+CMLT	-451.2	-445.1	-53.6
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payabl	-	-	-
Capital Structure (Total Debt/Total Debt+Equity)	53.5%	15.9%	0.0%

Rating Scale

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.

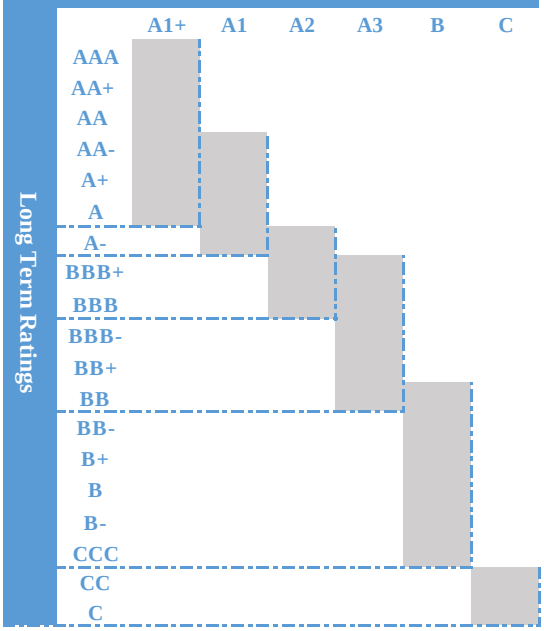
Long Term Ratings

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 Ratings

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.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.

Short Term Ratings



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 surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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