

## RATING REPORT

### KotAddu Power Company Limited

**REPORT DATE:**

December 05, 2016

**RATING ANALYSTS:**

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#### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AA+	A-1+	AA+	A-1+
Rating Outlook	Stable		Stable	
Rating Date	11/28/2016		11/20/2015	

#### COMPANY INFORMATION

Incorporated in 1996	External auditors: A.F. Ferguson & Co, Chartered Accountants
Public Limited Company	Chairman: Lt. General (R) Muzammil Hussain
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Aftab Mehmood Butt
WAPDA- 40.3%	
Allied Bank Limited- 10.0%	
United Bank Limited- 9.0%	
KAPCO Employees Empowerment Trust- 5.5%	

#### APPLICABLE METHODOLOGY(IES)

Rating Methodology: Industrial Corporate (May 2016)

<http://www.jcrvis.com.pk/kc-meth.aspx>

## KotAddu Power Company Limited (KAPCO)

OVERVIEW  
OVERVIEW OF THE  
INSTITUTION

## RATING RATIONALE

KAPCO owns, operates and maintains a multi-fuel fired power plant in District, Muzaffargarh, Punjab with a nameplate capacity of 1600MW and dependable capacity of 1342MW. The Company is listed on Pakistan Stock Exchange (PSX). Financial statements for FY16 have been audited by A.F. Ferguson & Co. – Chartered Accountants.

Ratings assigned to KAPCO takes into account its low business risk emanating from its strategic importance in the power sector given its size, guaranteed power off take from the purchase upon meeting certain performance benchmark and indexation of tariff. The company continues to face liquidity management challenges as a result of delays in payments by WAPDA which is managed partly through delay in payments to fuel suppliers and by availing short-term borrowing facility available to the company; overall impact on company's profitability remained positive.

**Profitability:** Net sales of the company decreased to Rs. 64.2b (FY15: Rs. 101.5b) in FY16 on account of lower fuel prices, however gross margin improved to 20.9% (FY15: 14.9%) on account of operational efficiencies emanating from reliance on cheaper fuel for electricity generation and shift in auxiliary power generation to coal. Sustained thermal efficiency also reflected positively on gross margin. Finance cost reduced to Rs. 3.2b during FY16 (FY15: Rs. 6.2b) due to decline in benchmark rates and lower quantum of payables and borrowings. Accounting for taxation, the company reported profit after tax of Rs. 9.1b (FY15: Rs. 9.8b) in FY 16.

**Liquidity and Cash flows:** At end-1QFY17, receivables of the company increased to Rs. 77.2b (FY16: 69.4b) with 88.2% of receivables classified as overdue. As majority of asset base of the company is tied up in receivables, liquidity position of the company continues to remain stressed. Funds from Operations (FFO) of the company increased to Rs. 10.0b (FY15: Rs. 8.9b) in FY16 owing to reduced finance cost. Debt service coverage ratio reflects strong capacity of the company to meet timely debt obligations.

**Expansion Plans:** As part of its expansion plans, KAPCO intends to setup a 660MW coal based power plant. During FY 16, project feasibility and interconnection and environmental social impact study was completed and approved by relevant authorities. National Transmission and Despatch Company Limited (NTDC) issued consent letter to evacuate power from project site and National Electric Power Regulatory Authority (NEPRA) issued upfront tariff for the project. The total cost of the project is estimated at USD 950 million and will be funded through debt to equity mix of 75:25. Funding for the said project may increase the overall debt levels of KAPCO; comfort is drawn from low leveraged balance sheet and strong cash flows.

**Liquidation Damages:** WAPDA has raised invoices for liquidated damages to KAPCO amounting to Rs. 27.9b (FY15: Rs. 22.9b) at end-FY16. The company rejects these claims on the premise that its failure to dispatch electricity was due to WAPDA's non-payment of dues. In this regard, the company has initiated dispute resolution procedures specified in the PPA. The company has not booked any provision for these liquidated damages.

**Shareholding Change:** Government of Pakistan intends to divest its residual shareholding in KAPCO i.e. 40.3% shareholding of WAPDA; developments on this transaction will be monitored by JCR-VIS.

**JCR-VIS Credit Rating Company Limited**

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

**KotAddu Power Company Limited****Appendix 1**

<b>FINANCIAL SUMMARY</b> <i>(amounts in PKR millions)</i>			
<b><u>BALANCE SHEET</u></b>	<b>30-Sep-16</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>
Fixed Assets	12,500	12,756	14,894
Stock-in-Trade	3,519	3,135	3,539
Trade Debts	77,248	69,377	71,069
Cash & Bank Balances	697	597	675
Total Assets	101,053	92,210	96,262
Trade and Other Payables	24,172	16,397	29,034
Long Term Debt <i>(*incl. current maturity)</i>	996	1,003	1,552
Short Term Debt	40,188	41,346	32,872
Total Equity	33,273	30,955	29,729
<b><u>INCOME STATEMENT</u></b>	<b>30-Sep-16</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>
Net Sales	17,725	64,178	101,481
Gross Profit	3,339	13,408	15,146
Operating Profit	4,314	16,920	21,036
Profit After Tax	2,318	9,071	9,799
<b><u>RATIO ANALYSIS</u></b>	<b>30-Sep-16</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>
Gross Margin (%)	18.8	20.9	14.9
Net Working Capital	23,623	21,142	18,896
FFO to Total Debt (x)	0.33	0.24	0.26
FFO to Long Term Debt (x)	13.7	10.0	5.70
Debt Servicing Coverage Ratio (x)	6.47	3.64	1.79
ROAA (%)	9.6	9.6	10.2
ROAE (%)	28.9	29.9	34.6

**Medium to Long-Term**

**AAA**

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

**AA+, AA, AA-**

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

**A+, A, A-**

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

**BBB+, BBB, BBB-**

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

**BB+, BB, BB-**

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

**B+, B, B-**

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

**CCC**

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

**CC**

A high default risk

**C**

A very high default risk

**D**

Defaulted obligations

**Short-Term**

**A-1+**

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

**A-1**

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

**A-2**

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

**A-3**

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

**B**

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

**C**

Capacity for timely payment of obligations is doubtful.

**Rating Watch:** JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. [www.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.com.pk/images/criteria_watch.pdf)

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. [www.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.com.pk/images/criteria_outlook.pdf)

**(SO) Rating:** A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. [www.jcrvis.com.pk/images/policy\\_ratings.pdf](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES					Appendix 3	
<b>Name of Rated Entity</b>	KotAddu Power Company Limited (KAPCO)					
<b>Sector</b>	Power Companies					
<b>Type of Relationship</b>	Solicited					
<b>Purpose of Rating</b>	Entity Rating					
<b>Rating History</b>		Medium to Long Term		Short Term	Rating Outlook	Rating Action
	Rating Date	RATING TYPE: ENTITY				
	11/28/2016	AA+	A-1+	Stable	Reaffirmed	
	11/20/2015	AA+	A-1+	Stable	Reaffirmed	
	12/29/2014	AA+	A-1+	Stable	Reaffirmed	
	9/20/ 2013	AA+	A-1+	Stable	Reaffirmed	
	5/3/2012	AA+	A-1+	Stable	Reaffirmed	
	2/21/2011	AA+	A-1+	Stable	Reaffirmed	
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