JCR-VIS Credit Rating Company Limited Rating Report

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

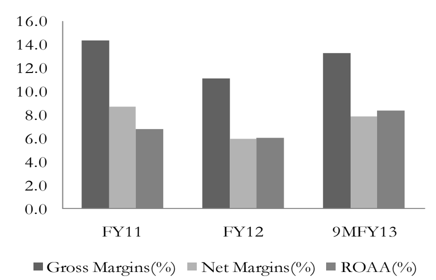
Kot Addu Power Company Limited

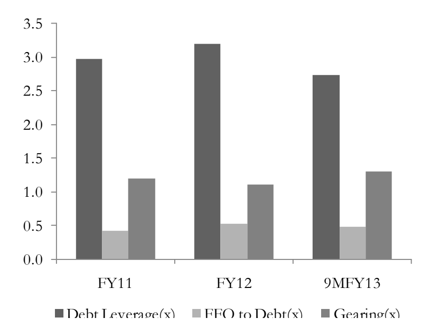
Chairman: Mr. Syed Raghib Abbas Shah; Chief Executive: Mr. Aftab Mahmood Butt

Sept 20, 2013

Analysts: Maimoon Rasheed
Hammad Malik

Category	**Latest**	**Previous**
Entity	**AA+/A-1+**	**AA+/A-1+**
	Sept 20,'13	*Apr 21, '12*
Outlook	***Stable***	***Stable***
	Sept 20,'13	*Apr 21,'12*





(Rs. billion)	FY11	FY12	9M13
Net Sales*	74.4	100.5	94.8
Net Profit *	6.5	6.1	7.5
Equity	23.9	23.6	23.9
Total Debt	28.6	26.1	31
Gearing (x)	1.19	1.10	1.3
Debt Leverage (x)	2.98	3.20	2.74
FFO*	12	13.5	15
FFO/Total Debt (%)*	42	52	48
ROAE (%)*	28.1	25.5	30.9
ROAA (%)*	7.6	6.2	8.4

**Annualized*

Rating Rationale

The introduction of Independent Power Producer (IPPs) in the power generation process in Pakistan has added to the total installed capacity of electricity generation. IPPs reported total capacity of 5,822MW in FY07 which increased to over 8,000MW by end-FY12. This increase in capacity highlights the significance of IPPs, including KAPCO, in the country's power sector. During FY12, actual production increased to 10,886MW (FY11: 10,805MW), despite lower electricity added to the national grid by relatively inefficient WAPDA thermal plants. The increase in generation was mainly an outcome of higher production by IPPs and addition of about 2,500 GWh by 325MW Chasma Nuclear Power Plant, which started production in late FY11. Currently, power generated through oil and gas is the major source of generation in Pakistan. The government is planning to increase the proportion of electricity generated through cheaper means including hydel and coal. These initiatives are expected to take some time for completion and be able to have positive impact for the economy as a whole.

Kot Addu Power Company Limited (KAPCO) is the second largest IPP in the country, with Government of Pakistan (GoP) holding a major stake (40%) in the company through Water and Power Development Authority (WAPDA). Recently, International Power Plc. has divested its 36% stake in KAPCO through its subsidiary, National Power (Kot Addu) Limited, which has mostly been acquired by local financial institutions. KAPCO accounted for 6.5% (FY11: 6.2%) of the country's total power generation in FY12. The company was able to increase net output in FY12 despite delayed payments from WAPDA. Other operational metrics that include thermal efficiency, load factor, and plant utilization also showcased improvement. The company added 5,521 GWh of electricity to the national grid in FY13, lower than the level in FY12. Returns guaranteed by the Government of Pakistan, contingent on a minimum level of electricity generation remains a key rating factor.

The country has been facing acute power shortage for a number of years. Some of the major reasons for gap in supply and demand are over-reliance on expensive fuel, line losses, and non-payment by consumers. All of the above reasons have contributed to the accumulation of inter-corporate debt. Recently, the government has taken initiative in settling the said debt, paying about Rs. 322 billion to various IPPs and other companies in oil and gas sector. KAPCO received around Rs. 41 billion as part of the settlement. The funds have been utilized to settle its outstanding payables to Pakistan State Oil Company Limited (PSO) and retire short-term bank borrowings.

On annualized basis, revenues during 9MFY13 stood at Rs. 95 billion (FY12: Rs. 100.5b). Gross margins improved to 13.3% (FY12: 11.2% & FY11: 14.4%) in 9MFY13 due to operational efficiencies related to infrequent switching between furnace oil and gas for power generation. Historically, cash flows of the company have remained under pressure due to accumulation of receivables. During 9MFY13, trade debts declined to Rs. 61.4b (FY12: Rs. 69.3b); trade payables also experienced significant reduction to Rs. 30.7b (FY12: Rs. 45.7b) though short term borrowings were higher at Rs. 26.0b (FY12: Rs. 20.0b). Annualized funds from operations (FFO) were higher at Rs. 15b (FY12: Rs. 13.5b; FY11: Rs. 12b) during 9MFY13, however increase in borrowings led to a slight decrease in FFO to debt which stood at 0.48x. With significant recent payment to KAPCO, debt coverage indicators are expected to have improved. However, reliance on bank credit lines and payables to finance working capital requirements is expected to continue as inter-corporate debt begins to pileup again, till such time a more long term solution is enacted.

Overview of the Institution

KAPCO was incorporated in April 1996. The company was listed at Karachi, Islamabad and Lahore Stock Exchanges in April 2005. The principle activities of the company are to own, operate and maintain a multi-fuel fired power station with fifteen generating units having a nameplate capacity of 1,600 MW. Financial statements for FY13 have been audited by A. F. Ferguson & Co. – Chartered Accountants JCR-VIS

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		RATING TYPE: Entity		
20-Sep-13	AA+	Stable	A-1+	Reaffirmed
03-May-12	AA+	Stable	A-1+	Reaffirmed
21-Feb-11	AA+	Stable	A-1+	Initial