



Rating Action

Lahore : 22-Sep-2011

Analyst

Aisha Khalid
(+92-42-35869504)
aisha@pacra.com
www.pacra.com

PACRA ASSIGNS PRELIMINARY RATING TO STRUCTURED PPTFCs TO BE ISSUED BY CITY SCHOOLS (PVT.) LIMITED

The Pakistan Credit Rating Agency (PACRA) has assigned the preliminary rating of 'A+' (Single A Plus) to structured privately placed TFCs of PKR 1,150mln to be issued by City Schools (Pvt.) Limited (CSPL). This rating indicates a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments.

The rating primarily draws its strength from the security structure of the instrument. This includes, inter alia, first exclusive charge over dividend receivables from two operational independent power producers - IPPs (~700MW) and assignment of the same in favor of the Agent Bank, and first equitable mortgage over land and building of City Schools with 20% margin. Although the instrument remains exposed to timing mismatch, it would be cushioned through, among other things, considerable dividend retention after debt repayment. Nevertheless, the rating incorporates challenges ensuing from continuing tough socio-economic environment beset particularly with circular debt in energy chain, adding uncertainty to timeliness of cashflows to IPPs.

The rating is dependent on the continued compliance with the predefined security structure of the instrument. Moreover, any significant deterioration in the performance of the IPPs, impacting the projected dividend stream, would have negative implications for the rating.

About the Company: Established in 1978 in Karachi, City Schools is among the leading academic chains in the country. It is owned by Dr. Farzana Firoz, the Chairperson and a highly acclaimed educationalist, and her two sons. The sponsors of City Schools, through a Special Purpose Vehicle - Engen (Pvt.) Limited - fully owned by the sponsors of City Schools and created for this purpose, acquired 20% stake in Pakgen Power Limited (formerly AES Pak Gen (Pvt.) Company) and Lalpir Power Limited (formerly AES Lal Pir (Pvt.) Limited) for a consideration of PKR 2,000mln. Subsequently, 10% stake in Palgen has been offloaded through an offer for sale.

About the PPTFC: To finance this acquisition, City Schools has acquired a loan of PKR 1,150mln from Faysal Bank Limited at the rate of 6 month Kibor plus 225bps payable semi-annually. The loan was a lent with the same cost and repayment schedule to Engen (Pvt.) Limited. The bank loan is for a tenor of five years including grace period of 12 months (on principal only). The principal would be repaid in 9 un-equal, consecutive semi-annual installments, beginning May-11. City Schools and Faysal Bank have agreed to convert the loan into an instrument (privately placed term finance certificates) with no change in the terms and conditions except for a slight downward revision (~15bps) in the spread. The process of issuance of TFCs is at an advanced stage, to be finalized shortly.

Disclaimer

This press release is being transmitted for the sole purpose of dissemination through print/electronic media. The press release may be used in full or in part without changing the meaning or context thereof with due credit to PACRA.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity.

PACRA comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA 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.