The Pakistan Credit Rating Agency Limited

# PRESS RELEASE

## Rating Action

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# PACRA assigns ratings to FFC Energy Limited

The Pakistan Credit Rating Agency (PACRA) has assigned long-term entity rating of **"A"** (Single A ) and short-term rating of **"A1"** (A one) to FFC Energy Limited (FFCEL). These ratings denote a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments.

The ratings reflect robust financial profile of the sponsor - Fauji Fertilizer Company - and established credentials of lead EPC contractor - Nordex, Germany. At the same time, the ratings incorporate FFCEL's exposure to multiple risks in set-up stage including a) weak law and order situation and stressed infrastructure that may disrupt timely availability of requisite resources b) first venture of Nordex in Pakistan, though it is expected to be managed by selection of Descon Engineering as core partner that has sound domestic experience, and c) equipment malfunctioning wherein modular commissioning pattern would be offering swift learning curve, helping in minimizing overall delays.

The management, cognizant of these risks, has built mitigants in arrangements with Nordex - fixed price contract and corporate guarantee. Nevertheless, the company would be exposed to financial risk (scheduled debt repayments) in case material delays occur in CoD. The comfort is drawn from Debt Service Reserve Account and commitment by FFC to make good any shortfall in it; offering cushion against delay upto one installment. This is supplemented by three months favorable gap between agreed and required CoD.

Same EPC contractors are acting as O&M operators. Post commissioning, the nature of the projected cash flow stream is considered stable emanating from a long-term Energy Purchase Agreement, which allows for guaranteed returns subject to adherence to agreed performance benchmarks. Nevertheless, weak financial discipline of the sole power purchaser remains a concern.

Management's ability to effectively manage the construction and operating risks while ensuring timely commissioning of the project would remain critical. Furthermore, external factors such as any adverse changes in the regulatory framework or material delay in achieving CoD may impact the ratings.

**About the Company:** FFCEL is setting up a 49.5 MW power plant based on wind - a renewable energy source. The plant would be located in Gharo, keti Bandar, at Jhimpir Sindh on 1,283 acres of leased land. The company is a wholly owned subsidiary of Fauji Fertilizer Company (FFC). The sponsor - FFC - is a leading fertilizer manufacturing company with robust business profile emanating from high-demand high-margin fertilizer segment, which is supplemented by low leveraged capital structure and strong cash flows and coverages. FFC is well placed to comfortably support the committed financial needs of FFCEL.

FFCEL has seven members FFC nominated board. Lt. General Malik Arif Hayat (retd.), who is also CEO of FFC, is the CEO of the company. FFC's project team is assisting him in setting up this power plant.