



Rating Action

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Analyst

Hira Sajjad
(+92-42-35869504)
hira.sajjad@pacra.com
www.pacra.com

PACRA ASSIGNS ENTITY RATINGS TO FOUNDATION POWER COMPANY (DAHARKI) LIMITED

The Pakistan Credit Rating Agency (PACRA) has assigned long-term entity rating of "AA-" (Double A Minus) and short-term rating of "A1+" (A one plus) to Foundation Power Company (Daharki) Limited (FPCDL). These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

The ratings reflect strong financial profile and demonstrated support of key sponsor - Fauji Foundation (FF) - who also has experience of running another IPP. Given the current structure of power policy, the financial risk is low owing to guaranteed cash flow stream by GoP, subject to adherence to agreed performance parameters under PPA. The operational risk is mitigated through outsourcing of O&M to an international O&M operator - Korean Power Services (KPS). Although KPS possesses extensive international experience in running power plants, given limited previous exposure in Pakistan, its ability to ensure effective O&M operations remains to be seen. The fuel supply risk is mitigated by entering into long-term gas supply contract with Mari Gas. The key sponsor of FPCDL is also a major shareholder in Mari Gas. Nevertheless, weak financial discipline of the sole power purchaser and prevailing circular debt remains a concern.

The plant has lately been commissioned, after experiencing significant delays. The tariff is yet to be finalized. In this regard, favorable outcome of ongoing negotiations with stakeholders including EPC contractor, Insurance Company and regulator would remain important. Furthermore, external factors such as any adverse changes in the regulatory framework and/or inability to adequately manage working capital requirements may impact the ratings.

The Company: FPCDL was established in 2005 with the primary objective of electricity generation. At a total cost of US\$ 217mln, the plant, with net capacity of ~177 MW was commissioned in May 11 under the Power Policy 2002. The current outstanding project debt is PKR 11,565mln. Notably, despite delays in commissioning, the company continues to timely service its debt obligations with funding from Fauji Foundation.

FPCDL is wholly owned by a Special Purpose Vehicle (Daharki Power Holdings Limited), which in turn is owned 81% by Fauji Foundation (FF) and 19% by Asian Development Bank(ADB). FPCDL has seven members Board comprising of five representatives from FF and two from ADB

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