RATING REPORT

Engro Powergen Qadirpur Limited

REPORT DATE:
September 04, 2024

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
Outlook/Rating Watch	Stable		Positive	
Rating Action	Maintained		Maintained	
Rating Date	*September 04, 2024*		*October 24, 2023*	

COMPANY INFORMATION	
Incorporated in 2006	**External Auditors:** A.F. Ferguson & Co, Chartered Accountants
Public Listed Company	**CEO:** Ms. Semeen Akhter
Key Shareholders (with stake 10% or more):	**Chairman of the Board:** Mr. Nadir Salar Qureshi
Engro Energy Limited ~68.89%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria Methodology – Industrial Corporates
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

RATING SCALE(S)
VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Engro Powergen Qadirpur Limited

OVERVIEW OF THE INSTITUTION

Engro Powergen Qadirpur Limited is a public listed company, incorporated in Pakistan and its shares are quoted on the Pakistan Stock Exchange Limited. The Company is a subsidiary of Engro Energy Limited, which is a wholly owned subsidiary of Engro Corporation Limited.

RATING RATIONALE

Corporate Profile

Engro Powergen Qadirpur Limited ('EPQL' or 'the Company') was incorporated in 2006 as a private limited company and operates as an Independent Power Producer under the Power Policy, 2002. The Company manages a 226.52 MW (gross) combined cycle power plant that began commercial operations on March 27, 2010. The electricity generated was transmitted to the National Transmission and Dispatch Company (NTDC) initially under a Power Purchase Agreement (PPA) established in 2007, which is valid for 25 years from the Commercial Operations Date. However, in February 2021, agreements with NTDC have been novated to the Central Power Purchasing Agency (CPPA-G) following the signing of Master Agreement with the government. EPQL was listed on the Pakistan Stock Exchange in 2014, with Engro Corporation Limited holding a 68.9% majority stake through Engro Energy Limited (EEL). The remaining shares are held by the general public and institutions.

The plant, located near Qadirpur, Sindh, features a 1+1+1 configuration with one Gas Turbine, one Heat Recovery System Generator, and one Steam Turbine. It converts low BTU, high Sulphur content permeate gas, previously wasted, into electricity. Permeate gas serves as the primary fuel, with High-Speed Diesel (HSD) as a backup source. The project was financed with a 73:27 debt-to-equity ratio, using a foreign currency loan, fully repaid in 2020, from a consortium of international financial institutions. The National Electric Power Regulatory Authority (NEPRA) approved a tariff based on net output of 217.3 MW for permeate gas and 212.9 MW for HSD.

Group Profile

Engro Corporation Limited ('the Holding Company') is a conglomerate, publicly listed at PSX and acts as the holding company for Engro Group. The principal activity of the Company is to manage investments in subsidiary companies, associated companies and joint ventures, engaged in fertilizers, petrochemicals, food, energy, terminals and telecommunications infrastructure businesses.

Acquisition by Liberty Power Holding (Private) Limited

EPQL announced via notice to PSX dated 04/04/2024 that Engro Corp has entered into definitive agreement to sell its entire shareholding (68.89%) in EPQL to Liberty Power Holdings (Pvt.) Ltd, Soorty Enterprises (Pvt.) Ltd and Procon Engineering (Pvt.) Ltd. subject to regulatory clearance.

Brief Profile of Acquirers.

Liberty Power Holding (Private) Limited, a subsidiary of Liberty Mills Limited, operates as the holding entity for Liberty Group's power generation portfolio. Liberty Mills Limited is a prominent entity in the textile sector.

Soorty Enterprises (Pvt) Limited, with nearly four decades in textile manufacturing and export, is recognized for its global, vertically integrated denim production. The Company is owned by Mr. Shahid Soorty, Ms. Nargis Soorty, and Mr. Asad Soorty.

Procon Engineering (Private) Limited, part of the Master Group of Industries, focuses on the production of automotive parts and components. The Master Group, initially involved in the foam industry, has diversified into textile, automobile, engineering, and energy sectors, marking its presence as one of Pakistan's prominent business conglomerates.

<u>Key Rating Drivers</u>

"Take or Pay" Nature of PPA insulates Company from any volatility in offtake from CPPA-G.

The assigned ratings to EPQL consider the Company's low business risk profile, which is supported by the signing of a 25-year long PPA with CPPA-G from COD (March 2010). Furthermore, the Implementation Agreement (IA) was signed between the Government of Pakistan (GoP) through Private Power and Infrastructure Board (PPIB) and EPQL in 2007. The presence of a long-term PPA with capacity payments guaranteed by the Government of Pakistan (GOP) helps mitigate the offtake risk since the power purchaser's obligations are backed by a sovereign guarantee. Additionally, the IA ensures repayment of the Company's receivables in case of default by the power purchaser, CPPA-G and in case of any delayed payments, CPPA-G pays interest on it.

Indexation of Tariffs largely reduce Risks emanating from Macro-economic environment.

According to NEPRA's tariff determination, EPQL benefits from indexation. Both fixed and variable local O&M tariff components approved by NEPRA, are indexed to the Pakistan Consumer Price Index (CPI). Meanwhile, foreign fixed and variable O&M components, approved by NEPRA, are indexed to the US-CPI and the PKR/USD exchange rate in line with the agreements. Additionally, the cost of working capital tariff component is indexed with KIBOR in line with the agreements. This indexation occurs quarterly, which mitigates macroeconomic risk on these components. Withholding tax on dividends and insurance costs are treated as pass-through items. Furthermore, the Company is exempt from taxation on its income from the power project. Following the Master Agreement signed in 2021, the indexation of the ROE /ROEDC components of the tariff with USD/PKR has ended.

Gas Supply Agreement (GSA)

The Company holds a long-term Gas Supply Agreement (GSA) with Sui Northern Gas Pipelines Limited (SNGPL) for 25 years, contingent on permeate gas availability. Fuel costs are incorporated into the tariff and adjusted based on change in prices, mitigating risks to margins. Due to declining gas reserves in the Qadirpur field, the Company has made its plant available on a mixed mode, utilizing both gas and HSD. Under the Implementation Agreement (IA), if gas curtailment reaches a specific threshold, the Company is permitted to use an alternative fuel. While operating on mixed mode, the Company can recover full-capacity payments. To address gas depletion issue, a Gas Depletion Mitigation Plan (GDMP) was submitted to the PPIB, including alternate fuel sourcing strategies.

In 2022, the Company secured 8-13 MMSCFD supply of local gas from the Badar gas field, operated by Petroleum Exploration Limited (PEL). Subsequently, the Company requested modifications to its generation license and tariff, approved by NEPRA in December 2023 and February 2024, respectively, setting a reference gas price of USD 5.6127/MMBTU, subject to changes as per the NEPRA tariff determination. Since the gas field is located near the plant, the associated capex was minimal. Furthermore, the Company is exploring additional local fuel options.

Strong Operational and Financial Performance in CY-23 amidst industry challenges.

During 2023, EPQL's electricity generation and delivery to the national grid increased to 870,380 MWh (2022: 768,202 MWh), resulting in higher revenue of Rs. 13.26b (2022: Rs. 10.03b). This revenue increase was driven by higher availability and energy dispatch along with increased tariffs, with the Energy Purchase Price and Capacity Purchase Price rising accordingly. The improvement in margins is largely due to higher dispatch (load factor increased to 46% in 2023 vs 41% in 2022), higher availability and increase in tariffs.

In 1Q'2024, EPQL maintained a 100% availability factor, delivering a net electrical output of 216 GWh to the national grid with a load factor of 45% (56% in 1QCY23). Revenue decreased slightly to Rs. 3.1b (1Q'2023: Rs. 3.4b) due to lower dispatch volumes. Profit after tax for 1Q'2024 increased to Rs. 584.6m (1Q'2023: Rs. 438.3m), primarily driven by higher net finance income. Power demand is expected to remain subdued due to macroeconomic conditions, including inflation, power prices hikes and lower economic growth

Liquidity is considered adequate despite Circular Debt challenges in the energy sector. Sovereign guarantee on receivables provides support to ratings.

The liquidity profile is considered adequate with a three-year average current ratio of 1.32x; the current ratio was reported higher at 1.45x at end-1QCY24 (CY23: 1.43x, CY22: 1.16x), which can be attributed to lower borrowing requirements to finance working capital. The Cash Conversion Cycle (CCC) of the company though improved remained high at 213 days (FY22: 348 days) mainly due to higher trade payables and lower trade debts. Generally, high CCC in the power sector is common due to late payments by the Government.

Moreover, trade debts amounting to Rs. 9.53b at end-1QCY24 (CY23: Rs. 8.77b, CY22: Rs. 9.80b), are mainly receivables from the CPPA-G which are secured by sovereign guarantee, providing comfort in terms of credit risk and are exempted from Expected Credit Loss (ECL). Moreover, the Company is earning delayed payment interest on its overdue receivables.

Conservative capitalization profile.

The Company's capitalization profile is characterized by short-term debt that it utilizes to meet the liquidity gap caused by the circular debt problem in the energy sector. The Company has no outstanding long-term debt on its books. The overall capitalization profile of the Company is considered conservative, with gearing and leverage of 0.26x (CY23: 0.27x, CY22: 0.46) and 0.60x (CY23: 0.59x, CY22: 0.84) at end-1QCY24, respectively.

Engro Powergen Qadirpur Limited Appendix I

Financial Summary

Balance Sheet (PKR Millions)	**FY20A**	**FY21A**	**FY22A**	**FY23A**
Property, plant and equipment	12,685.73	11,814.96	11,112.55	10,609.43
Stock-in-trade	853.34	544.47	844.30	943.250
Trade debts	7,040.06	11,842.55	9,800.24	8,767.85
Cash & Bank Balances	13.04	44.44	80.12	270.18
Other Assets	4,918.12	3,198.23	2,324.44	2,486.77
Total Assets	25,510.29	27,444.64	24,161.65	23,077.48
Creditors	1,258.97	1,744.32	1,497.00	2,382.42
Long-term Debt (incl. current portion)	0.00	0.00	0.00	0.00
Short-Term Borrowings	3,618.45	4,752.44	6,014.46	3,863.82
Total Debt	3,618.45	4,752.44	6,014.46	3,863.82
Other Liabilities	4,996.16	4,770.07	3,545.41	2,348.63
Total Liabilities	9873.57	11,266.83	11,056.86	8,594.87
Paid up Capital	3,238.00	3,238.00	3,238.00	3,238.00
Equity (excl. Revaluation Surplus)	15,636.73	16,177.81	13,104.79	14,482.61

Income Statement (PKR Millions)	**FY20A**	**FY21A**	**FY22A**	**FY23A**
Net Sales	8,097.82	10,203.78	10,026.88	13,256.38
Gross Profit	1,738.92	1,383.02	1,711.29	2,662.74
Operating Profit	2,094.25	2,240.56	1,478.79	2,522.34
Profit Before Tax	2,094.25	1,596.20	1,478.79	2,522.34
Profit After Tax	2,079.170	1,594.31	1,471.76	2,511.12

Ratio Analysis	**FY20A**	**FY21A**	**FY22A**	**FY23A**
Gross Margin (%)	21.47%	13.55%	17.07%	20.09%
Operating Margin (%)	25.86%	21.96%	14.75%	19.03%
Net Margin (%)	25.66%	15.62%	14.68%	18.94%
Funds from Operation (FFO) (PKR Millions)	2,646.11	2,510.28	2,456.04	3,345.99
FFO to Total Debt* (%)	73.13%	52.82%	40.84%	86.60%
FFO to Long Term Debt* (%)				
Gearing (x)	0.23	0.29	0.46	0.27
Leverage (x)	0.63	0.70	0.84	0.59
Debt Servicing Coverage Ratio* (x)	6.28	4.38	6.71	4.25
Current Ratio (x)	1.43	1.37	1.16	1.43
(Stock in trade + trade debts) / STD (x)	2.18	2.61	1.77	2.51
Return on Average Assets* (%)	7.84%	6.02%	5.70%	10.63%
Return on Average Equity* (%)	14.04%	10.02%	10.05%	18.20%
Cash Conversion Cycle (days)	166.50	300.59	348.06	213.40

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Engro Powergen Qadirpur Limited
Sector	Power
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see table below
Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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Due Diligence Meeting Conducted	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
04/09/2024	AA-	A-1	Stable	Maintained
24/10/2023	AA-	A-1	Positive	Maintained
14/7/2022	AA-	A-1	Stable	Reaffirmed
23/6/2021	AA-	A-1	Stable	Reaffirmed
5/6/2020	AA-	A-1	Stable	Reaffirmed
23/4/2019	AA-	A-1	Stable	Initial

Due Diligence Meeting Conducted

Name	Designation	Date
Mohsin Waqas	Manager-Finance & Planning	19/8/2024
Noor Huda	AM- Finance & Planning	