RATING REPORT

National Power Parks Management Company (Private) Limited (NPPMCL)

REPORT DATE:
December 30, 2022

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+
Rating Outlook	*Rating Watch Developing*		*Rating Watch Developing*	
Rating Date	*December 30, '22*		*December 24, '21*	

COMPANY INFORMATION

Incorporated in 2015	**External auditors:** KMPG Taseer Hadi & Co., Chartered Accountants
Private Limited Company – Public Sector	**Chairman of the Board:** Mr. Muhammad Irfan Akram **CEO:** Mr. Dhanpat Kotak
Key Shareholders (with stake 5% or more):	
Government of Pakistan through Pakistan Development Fund Limited – 99.97%	

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates (August 2021) & Government Supported Entities (July 2020)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf
https://docs.vis.com.pk/docs/Meth-GSEs202007.pdf

National Power Parks Management Company (Private) Limited

OVERVIEW OF THE INSTITUTION

National Power Parks Management Company (Private) Limited (NPPMCL) was incorporated in 2015 under the companies' ordinance, 1984. NPPMCL is a wholly owned company of Government of Pakistan (GoP) through Pakistan Development Fund Limited (PDFL). The company has established two RLNG-based Combined Cycled power plants at Balloki and Haveli Bahadur Shah, under the Power Generation Policy, 2015.

Profile of Chairman

Mr. Muhammad Irfan Akram joined NPPMCL's Board in January 2020. Currently sits on the boards of 6 public/hybrid companies including GENCO Holding Company Ltd. (GHCL), Northern Power Generation Company Ltd. (NPCGL), Jamshoro Power Company Ltd. (JPCL), Lakhra Power Generation Company Ltd. (LPGCL), Lahore Electric Supply Company Ltd. (LESCO), and National Engineering Services Pakistan (NESPAK). He has been a member of these boards of

RATING RATIONALE

Established in 2015, National Power Parks Management Company (Private) Limited (NPPMCL) owns and operates two Re-Liquefied Natural Gas (RLNG)-based power plants in Punjab. Both power plants operate under the Power Generation Policy, 2015, which offers a guaranteed equity Internal Rate of Return (IRR), cost indexation and pass-through structure. Commercial Operations of both the plants commenced in mid-2018. In FY22, two members of the Board of Directors (BoD), Waseem Mukhtar Chaudhry and Shaheryar Arshsad Chishty (Chairman), vacated their seats.

Ratings of the company are placed on 'Rating Watch-Developing' status because the company is on the active privatization list by the Government of Pakistan (GoP). On September 06, 2022, Board of Privatization Commission (PC) approved the proposal for expediting the transaction-related matters of NPPMCL. During 3QFY22, an initiative was taken to recapitalize part of the company's equity in the form of bank financing to bring the capital structure in line with NEPRAs guidelines. For that, a syndicate of local banks showed interest in project financing of Rs. 110b. The delay in materialization of the same was due to non-fulfillment of certain conditions precedent (CPs) involving requirement of inter-ministerial resolution, for which PC is already in the process of resolution with relevant stakeholders.

Rating Drivers

Business risk profile is supported by strong sponsor profile and favorable nature of Power Purchase Agreement (PPA).

The assigned ratings take into account strong sponsor profile of the company being wholly owned and controlled by the Government of Pakistan (GoP) via its representative Pakistan Development Fund Limited (PDFL). The ratings also draw strength from the company's strong business profile, with demand risk mitigated by Power Purchase Agreement (PPA) signed with Central Power Purchase Agency (Guarantee) Limited (CPPA) under the 'take or pay' arrangement. As of December 15, 2022, both plants of the company being placed in top 20 projects in the merit order determined by National Transmission & Depsatch Company (NTDC), and being categorized as must-run projects provides support to the business risk profile of the company.

Operational performance.

- NPPMCL owns, operates and maintains two combined-cycle gas-fired power plants, namely Haveli Bahadur Shah (HBSPP) power plant located in district Jhang and Balloki power plant (BPP) located in district Kasur.
- HBSPP has a gross electricity generation capacity of 1,230 MW, while for BBP it is 1,223 MW.
- Both power plants are fully operational and supplying electricity to the national gird.
- During FY22, HBSPP generated 7,489 GWh (FY21: 7,682 GWh) of electricity, whereas BPP generated 7,187 GWh (FY21: 6,033 GWh) of electricity with the former being lower because of scheduled outages.
- Efficiency levels of both the plants remained above the benchmark (62.18.% for HBSPP and 61.70% for BPP) during the review period.

directors since 2016.

Profile of CEO Mr. Danpat Kotak is an Electrical Engineer from University of Engineering & Technology, Jamshoro, Pakistan. He holds over thirty years of experience at national and international level in Development, Design, Construction, Management Testing, Commissioning, and Operation & Maintenance of Mega Power Plants. He joined NPPMCL in January 2016.

- As for plant availability, it was reported lower at 85.36% for HBSPP (FY21: 95.9%) because of scheduled outages during the period, while for BPP it stood higher at 88.9% (FY21: 80.8%) as the plant was unavailable for only 4 days as compared to 122 days last year due to repair and maintenance works.
- Both the O&M contractors have been providing satisfactory operations, maintenance and repair services, hence, no performance security deposits were encashed during the year

Update on ongoing Legal Proceedings with Sui Northern Gas Pipeline Limited (SNGPL)

The company entered into gas Supply Agreements (GSAs) with SNGPL for the supply of RLNG to its power plants in October 2016. The agreements were based on the Take or Pay (ToP) arrangement, as part of which the company was expected to make payments to SNGPL for any unutilized gas. With regard to invoices raised by SNGPL against ToP during the period November 2017 to August 2020 amounting Rs. 13.9b, NPPMCL had a disagreement with SNGPL on multiple factual, legal, and contractual grounds. Despite the disagreement on invoices, SNGPL partially recovered an amount of Rs. 10.4b via encashment of Standby Letter of Credit (SBLCs) of the company which was recorded as a receivable from SNGPL in NPPMCL's FY21 accounts.

For that matter, the entity filed a petition in Lahore High Court and the case was later taken to London Court of International Arbitration (LCIA). LCIA decided in favor of NPPMCL and instructed SNGPL to repay the amount wrongfully drawn down, markup at the rate of 1 month KIBOR +2% and costs of arbitration proceedings. Accordingly, NPPMCL has set off the total receivable claim aggregating Rs. 15.5b (Rs. 10.4b improper drawdown, Rs. 5.1b interest and Rs. 66.5m for arbitration proceedings) with gas payables and communicated the same to SNGPL. However, SNGPL rejected the company's set-off letter and challenged LCIA decision by filing an appeal with the High Court of Justice, Queen's bench Division Commercial Court. Hearing of the same is expected in Februray'23.

In line with the opinion of its legal advisor, the management has strong reasons to believe that the decision will ultimately be in favor of the company. Accordingly, the amount of Rs. 10.4b was adjusted against undisputed gas payable and interest charged along with cost of arbitration (Rs. 5.1b) was recorded as other income in FY22 accounts.

Topline of the company escalated in FY22 on account of tariff indexation and higher available capacity.

NPPMCL's revenue was recorded for FY22 was recorded significantly higher at Rs. 297.2 (FY21: Rs. 148.3b) comprising net energy purchase price (EPP) of Rs. 259.4b (FY21: Rs. 115.4b) from combined cycle operations and capacity purchase price (CPP) of Rs. 36.1b (FY21: 29.7). The uptick was mainly attributable to an increase in the fuel cost component of tariff. For the quarter Oct'22-Dec'22, tariff was set at Rs. 21.15 per kW/h for HBSPP (EPP Rs. 18.55 + CPP Rs. 2.6) and at Rs. 21.36 per kW/h for BPP (EPP Rs. 18.63 + CPP Rs. 2.43).

Gross margins declined to 9.5% (FY21: 16.1%) during FY22 with higher percentage increase in costs in relation to revenues. Other income to the tune of Rs. 17.5b (FY21: Rs. 7.1b) comprising higher delayed payment charges from Central Power Purchasing Agency (CPPA) and interest charged to SNGPL on the amount improperly drawn supported overall profitability of the company in FY22. Elevated finance costs were a function of higher policy rate in the outgoing year. With reduction in

gross margins, net margins were reported lower at 11.2% (FY21: 16.4%) during FY22. Going forward, margins are expected to remain range-bound due to the regulated nature of tariffs.

Adequate liquidity profile

In line with higher quantum of profit earned in FY22, cash flow coverages against outstanding obligations witnessed with FFO to Total Debt, FFT Long-term Debt and Debt Servicing Coverage reported higher at 34% (FY21: 23%, FY20: 33%), 65% (FY21: 45%, FY20: 53%) and 2.1x (FY21: 1.8x, FY20: 3.9x), respectively. Trade debts and stock in trade also provided strong coverage against short-term borrowing (FY22: 5.7x, FY21: 3.2x), while current ratio remained at sufficient levels. Trade debts of the company increased in absolute terms at end-FY22 to Rs. 234.6b (FY21: Rs. 132.0b); however the same being secured by Government guarantee and application of late payment surcharge provides comfort to the ratings. Trade payables of the company did not increase in the same proportion as receivables because of adjustment of Rs. 15b disputed amount receivable from SNGPL. The delay in receivables is inherent in the power sector due to circular debt escalation. Furthermore, given the cash flows position, NPPMCL also has adequate capacity to discharge its net liabilities to the EPC contracts.

A conservative capital structure.

As opposed to the usual mix, financing arrangement for the projects under management consisted a greater proportion of equity as compared to debt. Equity base of the entity has further strengthened due to profit retention and was reported at Rs. 224b at end-FY22 (FY21: Rs. 191b). With debt levels increasing marginally, gearing ratio was reported lower at 0.39x (FY21: 0.46x) while leverage ratio increased to 0.85x (FY21: 0.67x) at end-June'22 due to higher trade payables. Post privatization and recapitalization through debt may alter the capitalization profile of the company going forward which will be reviewed by VIS.

FINANCIAL SUMMARY *(amounts in PKR millions)*			*Annexure I*		
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**
PP&E	75,254	149,469	144,501	137,966	136,693
Trade Debts	28,989	65,345	94,679	132,037	234,560
Cash & Bank Balance	13,174	2,708	5,232	4,389	2,550
Total Assets	211,947	251,858	287,841	319,569	415,356
Trade & Other Payables	16,771	30,190	28,507	33,066	91,055
Short-term Borrowings	32,614	37,134	29,551	41,528	41,382
Long-Term Borrowings *(Inc. current maturity)*	32,738	32,738	47,873	45,470	46,209
Total Debt	65,352	69,872	77,424	86,998	87,590
Total Liabilities	92,171	113,092	121,147	128,598	191,076
Paid Up Capital		53,000	55,500	55,500	55,500
Total Equity	116,500	138,766	166,695	190,971	224,281
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**
Net Sales	30,321	145,612	162,673	148,249	297,177
Gross Profit	3,103	22,614	30,853	23,850	28,216
Profit Before Tax	2,109	15,497	28,058	24,196	33,349
Profit After Tax	2,109	15,497	27,932	24,282	33,327
FFO	1,117	18,988	25,395	20,345	29,852
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**
Gross Margin (%)	10.2%	15.5%	19.0%	16.1%	9.5%
Net Margin (%)	7.0%	10.6%	17.2%	16.4%	11.2%
FFO to Long-Term Debt	3.4%	58.0%	53.0%	44.7%	64.6%
FFO to Total Debt (x)	2%	27%	33%	23%	34%
Debt Servicing Coverage Ratio (x)		6.2	3.9	1.8	2.1
Short-term Debt Coverage	0.9	1.8	3.2	3.2	5.7
ROAA (%)		7%	10%	8%	9%
ROAE (%)		12%	18%	14%	16%
Gearing (x)	0.56	0.50	0.46	0.46	0.39
Debt Leverage (x)	0.79	0.81	0.73	0.67	0.85
Current Ratio (x)	1.24	1.00	1.12	1.55	1.76

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Annexure III

Name of Rated Entity	**National Power Parks Management Company (Private) Limited (NPPMCL)**
Sector	Power
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
30/12/2022	AA+	A-1+	Rating Watch Developing	Reaffirmed
24/12/2021	AA+	A-1+	Rating Watch Developing	Reaffirmed
30/12/2020	AA+	A-1+	Rating Watch Developing	Reaffirmed
31/12/2019	AA+	A-1+	Rating Watch Developing	Maintained
31/12/2018	AA+	A-1+	Stable	Reaffirmed
24/10/2017	AA+	A-1+	Stable	Initial

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.

Probability of Default: VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.

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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Tariq Mehmood	Manager Budget & Accounts	05-Dec-2022