RATING REPORT

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

REPORT DATE:
December 28, 2023

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating Long-term	Latest Rating Short-term	Previous Rating Long-term	Previous Rating Short-term
Entity	AA+	A-1+	AA+	A-1+
Rating Outlook	*Rating Watch Developing*		*Rating Watch Developing*	
Rating Date	*December 28, '23*		*December 30, '22*	

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. Muhammad Akram Kamal
Key Shareholders (with stake 5% or more):	
Government of Pakistan through Pakistan Development Fund Limited – 95.50%	

APPLICABLE METHODOLOGIES

VIS Entity Rating Criteria: Corporates (May 2023)
https://docs.vis.com.pk/docs/CorporateMethodology.pdf
Government Supported Entities (July 2020)
https://docs.vis.com.pk/docs/Meth-GSEs202007.pdf
Rating Scale & Definitions:
https://docs.vis.com.pk/docs/VISRatingScales.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. Additionally, he sits on the boards of public/hybrid companies including GENCO Holding Company Ltd. (GHCL), Jamshoro Power Company Ltd. (JPCL), Lakhra Power Generation Company Ltd. (LPGCL). He has been a member of these boards of directors since 2016.

Profile of CEO
Additional charge of CEO has been given to Mr. Muhammad Akram Kamal (Chief Engineer) on September 25, 2023 after retirement of the previous CEO. Appointment of the new CEO is under process.

RATING RATIONALE

Established in 2015, National Power Parks Management Company (Private) Limited ('NPPMCL' or the 'company') owns, operates and maintains two combined-cycle gas-fired power plants, namely Haveli Bahadur Shah (HBS) power plant located in district Jhang and Balloki power plant located in district Kasur. 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. Both plants achieved commercial operations in 2018. NPPMCL is a GSE (government supported entity), owned by the Government of Pakistan (GoP) through Pakistan Development Fund Limited (PDFL), a NBFC incorporated in 2014.

Ratings of the company are placed on 'Rating Watch-Developing' status because the company is on the privatization list by the Government of Pakistan (GoP). Recapitalization of the company's equity through bank borrowings has been postponed.

Auditor's Qualified Opinion: The company has long term loan from PDFL (the lender & shareholder) with carrying amount of Rs. 23.3b (FY22: Rs. 30.3b). The company did not pay principal amount of Rs. 3.9b (FY22: Rs. 7.8b) along with markup of Rs. 8.2b (FY22: Rs. 10.4b) which were due for payment. This nonpayment was an event of default under loan agreements which was not waived off by the lender as at June 30, 2023 and June 30, 2022. As a consequence of default, the lender has right to demand the repayment of entire amount of loan and as at June 30, 2023 and June 30, 2022, the company did not have an unconditional right to defer its settlement for at least twelve months. Accordingly, non-current portion of carrying amount of long-term loan of Rs. 16.1b (FY22: Rs. 19.4b) should have been classified as current liability in accordance with accounting and reporting standards as applicable in Pakistan which has not been classified as current in the financial statements. Had the said liabilities been classified as current in the financial statements, total non-current liabilities would have been lowered by Rs. 16.1b (FY22: Rs. 19.4b) with a corresponding increase in current liabilities. The auditor's opinion on the financial statements for year ended June 30, 2022 was also qualified accordingly.

According to the management, the company has not received sufficient funds from the CPPA-G on account of circular debt issue and therefore, due amounts could not be paid to PDFL. The company has paid an amount of Rs. 7.0b against principal and Rs. 7.8b against markup. Requests from the PDFL were withdrawn on March 06, 2022. On March 21, 2022, the legal advisor of the company, based on correspondence with PDFL, opined that an Event of Default has not yet occurred under the loan agreements hence the company's obligation to discharge its liability to repay the loans in terms of Illustrative Payment Schedule continues. Accordingly, the company has recorded overdue amount of Rs. 3.9b along with Rs. 3.3b due in next financial year under the current liabilities and Rs. 16.1b which was not yet due at the year-end is reflected under non-current liabilities.

Update on ongoing legal proceedings: In the matter of disputed Take or Pay (ToP) invoices of SNGPL, LCIA (London Court of International Arbitration) arbitrator made its final and binding arbitral awards, a sole and exclusive remedy under the GSAs, on December

12, 2021 in favor of the company. In light of the LCIA awards, the company, during the year ended 30 June 2022, has set off the total receivable claim aggregating to Rs. 15.5b with the gas payables and communicated the same to SNGPL vide its letter dated December 15, 2021. Whereas, SNGPL while rejecting the company's set-off letter challenged LCIA awards by filing an appeal with the High Court of Justice, King's Bench Division Commercial Court, London. The High Court of Justice has given its judgement in favor of the Company through order dated February 15, 2023. The management based on the opinion of its legal advisors believes that all ToP invoices issued by SNGPL till August 2020 have been settled under the LCIA awards.

Business risk profile is supported by strong sponsor profile and favorable nature of Power Purchase Agreements (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 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 01, 2023, HBS and Balloki were placed in top 25 projects in the merit order determined by National Transmission & Despatch Company (NTDC) and being categorized must-run projects provides support to the business risk profile of the company.

Operating metrics during outgoing period: During FY23, available capacity and subsequently energy delivered were lower as HBS's GT1 was unavailable for 78 days due to a technical problem. Balloki reported no major outages during the reporting period. Operating metrics of both plants remained within benchmarks. Operational indicators are as follows:

Balloki

	FY22	FY23	1QFY24
Plant availability	88.9%	95.4%	97.1%
Total energy delivered (GWh)	7,187	6,864	1,891
Efficiency	61.7%	61.7%	61.7%

HBS

	FY22	FY23	1QFY24
Plant availability	83.4%	77.1%	93.5%
Total energy delivered (GWh)	7,489	6,520	1,889
Efficiency	62.2%	62.2%	62.2%

Fuel price adjustment is indexed in tariff for both plants. Latest rate of revised tariff is as below:

	(Rs. /KWh)	Reference Tariff (May 2020)		Revised Tariff (Oct to Dec 2023)	
		RLNG	HSD	RLNG	HSD
HBS	Capacity charge	1.4460	1.6501	3.1783	3.6266
	Energy charge	7.7171	14.2113	22.0356	41.3791
Balloki	Capacity charge	1.4214	1.5666	3.1170	3.4357
	Energy charge	9.0067	17.1248	22.2523	37.2711

Asset base mostly comprised trade debts and operating fixed assets: Operating fixed assets increased to Rs. 139.6b (FY22: Rs. 136.7b) as exchange loss arisen on liabilities towards EPC contractors were capitalized in FY23. Long-term deposits and prepayments mainly represent amount deposited in escrow accounts maintained with National Bank of Pakistan, under the terms of GSAs signed with SNGPL, for the supply of RLNG to both plants. Stock-in-trade increased to Rs. 9.3b (FY22: Rs. 5.6b) mainly due to impact of higher fuel prices in FY23. Trade debts increased to Rs. 290.0b (FY23: Rs. 263.7b, FY22: Rs. 234.6b) by end-1QFY24 on account of delayed payments from the CPPA-G. Given higher trade debts and WWF & WPPF, total asset base increased to Rs. 484.4b (FY23: Rs. 453.9b, FY22: 415.4b) by end-1QFY24.

Profitability profile supported by tariff indexation and delayed payment charges: NPPMCL's net sales increased to Rs. 354.6b (FY22: Rs. 297.2b) during FY23 on account of tariff indexation. HBS faced outages from Aug'23 to Oct'23 for a period of 78 days due to a technical issue in auxiliary transformers. HBS's sales stood higher at Rs. 51.8b (1QFY23: Rs. 35.5b) during 1QFY24. Balloki's sales decreased slightly to Rs. 52.9b (1QFY23: Rs. 54.8b) on account of lower demand during 1QFY24.

Given higher proportion of capacity indexation, gross margin increased to 11.9% (FY22: 9.5%) during FY23. Gross margins increased further to 14.3% during 1QFY24. Despite high inflationary impact, administration expenses decreased slightly to Rs. 488.9m (FY22: Rs. 505.8m) mainly due to lower legal and professional charges. Other charges increased mainly due to higher foreign exchange loss of Rs. 676.9m (FY22: Rs. 282.9m). NPPMCL recorded other income of Rs. 9.6b (FY23: Rs. 30.2b, FY22: Rs. 17.5b) mainly due to higher delayed payment charges from the CPPA-G in FY23 and 1QFY24. Financial charges increased to Rs. 7.0b (FY23: 26.1b, FY23: Rs. 11.6b) in FY23 and 1QFY24 on account of hike in interest rates in the outgoing year. The company's net profit increased to Rs. 17.3b (1QFY23: Rs. 9.7b; FY23: Rs. 44.9b, FY22: Rs. 33.3b) on the back of higher sales and other income during FY23 and 1QFY24.

Liquidity and coverages remained sound: Trade debts billed to the CPPA-G included Rs. 37.9b (FY23: Rs. 42.3b) which are neither overdue nor impaired and Rs. 230.5b (FY23: Rs. 200.6b) which are overdue but not impaired at end-1QFY24. Unbilled trade debts included Rs. 1.2b (FY23: Rs. 2.6b) pertaining to capacity components, Rs. 20.4b pertaining to unbilled delayed payment charges and reversal of Rs. 27.7m amounts related to other fuel price adjustments at end-1QFY24. Given increasing energy sector's circular debt in the country which has reached Rs. 2.6t mark by end-1QFY24, delays in payments by CPPA-G translate into liquidity pressures for power producers. Trade debts being secured by Government guarantee and application of late payment surcharge provides comfort to the ratings. Aging profile of trade debts as follows:

	FY22	FY23	1QFY24
Upto 3 months	50%	48%	54%
Upto 6 months	7%	9%	10%
More than 6 months	43%	43%	36%

FFO increased to Rs. 10.6b (FY23: Rs. 30.3b, FY22: Rs. 29.8b) during 1QFY24 owing to higher revenue from core operations. FFO to total debt remained sound on a timeline basis. Debt servicing coverage, though decreasing on a timeline basis, increased to 3.2x (annualized) in 1QFY24. Current ratio increased to 1.9x (FY22: 1.6x) on account of impact of higher trade debts, advances, prepayments and other receivables and stock-in-trade on current assets at end-FY23. Trade debts and stock-in-trade provide sound coverages against short-term borrowings (1QFY24: 7.0x, FY23: 6.4x, FY22: 5.8x). Trade debts as percentages of net sales, though remained high, have decreased slightly on timeline basis (1QFY24: 69.2%; FY23: 74.4%; FY22: 78.9%).

Sound capitalization levels: Equity base enhanced to Rs. 286.5b (FY23: 269.2b, FY22: Rs. 224.3b) on account of profit retention by end-1QFY24. Short-term borrowings stood at Rs. 42.8b (FY23: Rs. 42.8b, FY22: Rs. 41.4b) and is being availed from a consortium of local commercial banks for managing working capital amidst delays in cash recovery from the CPPA-G. Long-term borrowings decreased to Rs. 35.6b (FY23: 38.0, FY22: Rs. 46.2b) on account of principal repayments during 1QFY24. Given increase in equity base and gradual repayment of debt, gearing and debt leverage remained low. Post privatization and recapitalization & refinancing of debt may alter the capitalization profile of the company going forward which will be reviewed by VIS.

National Power Parks Management Company (Private) Limited **(Annexure I)**

FINANCIAL SUMMARY				*(Rs. in m)*
BALANCE SHEET	**FY21**	**FY22**	**FY23**	**1QFY24**
Operating Fixed Assets	137,966.4	136,693.4	139,563.1	138,355.7
Long-Term Deposits and Prepayments	17,607.5	17,551.6	17,494.1	17,479.7
Stock-In-Trade	3,041.6	5,589.1	9,286.8	9,286.8
Stores, Spares and Tools	1,402.9	1,696.8	1,797.6	1,797.6
Trade Debts – Secured	132,036.8	234,560.2	263,729.4	289,963.7
Advances, Prepayments and Other Receivables	15,744.9	7,327.0	11,062.7	16,269.7
Tax Recoverable from Government	7,360.7	9,366.5	8,490.1	8,753.3
Cash And Bank Balances	4,389.2	2,550.3	2,461.1	2,478.1
Other Assets	19.4	21.6	24.3	24.3
Total Assets	**319,569.4**	**415,356.5**	**453,909.2**	**484,408.3**
Retention Money	3,911.9	-	-	-
Accrued Markup	8,465.5	12,338.0	11,423.5	10,781.0
Trade and Other Payables	29,153.7	91,055.3	92,086.9	108,308.7
Long-Term Borrowing (inc. current portion)	45,469.7	46,208.5	38,037.5	35,584.3
Short-Term Borrowing	41,528.2	41,381.9	42,787.0	42,787.0
Other Liabilities	69.0	260.8	512.5	542.8
Total Liabilities	**128,598.1**	**191,075.8**	**184,701.1**	**197,864.6**
Paid Up Capital	55,500.0	55,500.0	55,500.0	55,500.0
Total Equity	**190,971.3**	**224,280.7**	**269,208.0**	**286,543.7**
INCOME STATEMENT	**FY21**	**FY22**	**FY23**	**1QFY24**
Revenue	148,249.2	297,176.6	354,634.3	104,714.5
Gross Profit	23,850.2	28,215.7	42,355.0	14,937.9
Operating Expenses	302.2	788.7	1,258.6	172.5
Other Income	7,103.0	17,551.2	30,205.5	9,608.3
Finance Cost	6,454.5	11,628.9	26,062.9	7,009.1
Profit Before Tax	24,196.4	33,349.2	45,239.0	17,364.6
Profit After Tax	**24,282.0**	**33,326.6**	**44,930.5**	**17,335.7**
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**	**1QFY24**
Gross Margin	16.1%	9.5%	11.9%	14.3%
Net Margin	16.4%	11.2%	12.7%	16.6%
ROAA	8.0%	9.1%	10.3%	14.8%*
ROAE	13.6%	16.1%	18.2%	25.0%*
Current Ratio (x)	1.8	1.6	1.9	1.9
Trade Debts/Sales (%)	89.1%	78.9%	74.4%	69.2%*
(Stock-In-Trade + Trade Debts)/ST Borrowings (x)	3.3	5.8	6.4	7.0
FFO	20,344.9	29,852.0	30,299.4	10,577.1
FFO To Long-Term Borrowing (x)	0.4	0.9	1.1	1.2*
FFO To Total Borrowing (x)	0.2	0.4	0.4	0.5*
DSCR (x)	2.4	2.1	1.7	3.2*
Gearing (x)	0.5	0.3	0.3	0.2
Leverage (x)	0.7	0.9	0.7	0.7

*Annualized**

REGULATORY DISCLOSURES — Annexure II

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
28/12/2023	AA+	A-1+	Rating Watch Developing	Reaffirmed
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	12-Dec-2023
Mr. Muhammad Aurangzeb	Manager Budget & Accounts	12-Dec-2023