RATING REPORT

National Power Parks Management Company (Private) Limited

REPORT DATE:
December 06, 2024
RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	AA+	A1+	AA+	A1+
Rating Date	*December 06, 2024*		*December 28, 2023*	
Rating Outlook/Watch	Stable		RW -Developing	
Rating Action	Maintained		Reaffirmed	

APPLICABLE METHODOLOGIES
VIS Entity Rating Criteria: Corporates https://docs.vis.com.pk/docs/CorporateMethodology.pdf **Government Supported Entities** https://docs.vis.com.pk/docs/Meth-GSEs202007.pdf **Rating Scale & Definitions:** https://docs.vis.com.pk/docs/VISRatingScales.pdf

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%	

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. The appointment of the new CEO is under process.

RATING RATIONALE

Company Profile

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.

Update on Privatization: Ratings of the Company are removed from 'Rating Watch-Developing' status because the Company is no longer on the privatization list by the Government of Pakistan (GoP).

Operational Profile

During FY24, energy delivered were lower for Balloki Power Plant, while HBS's reported higher energy, as per their respective demands. Operating metrics of both plants remained within benchmarks. Maintenance of plants occurs every 50,000 hours worked, which ensured efficiency of Balloki & HBS at 61.7% and 62.2%, respectively. Operational indicators are as follows:

Balloki			
	FY22	**FY23**	**FY24**
Plant availability	88.9%	95.4%	95.4%
Total energy delivered (GWh)	7,187	6,864	6,685
Efficiency	61.7%	61.7%	61.7%
HBS			
	FY22	**FY23**	**FY24**
Plant availability	83.4%	77.1%	88.7%
Total energy delivered (GWh)	7,489	6,520	7,931
Efficiency	62.2%	62.2%	62.2%

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

	(Rs. /KWh)	Reference Tariff (May 2020)		Revised Tariff (Oct to Dec 2024)	
		RLNG	**HSD**	**RLNG**	**HSD**
HBS	Capacity charge	1.3401	1.5292	2.7924	3.1862
	Energy charge	7.7171	14.2113	20.7979	41.3700
Balloki	Capacity charge	1.3180	1.4526	2.7136	2.9909
	Energy charge	9.0067	17.1248	21.0044	39.3905

Auditor's Qualified Opinion: The Company holds a long-term loan from PDFL, a lender and shareholder, with a carrying amount of Rs. 16.94b (FY23: Rs. 23.29b). Over the year, the Company repaid all overdue principal; however, as of June 30, 2023, Rs. 3.87b of principal remained overdue, alongside Rs. 3.64b in unpaid mark-up (June 30, 2023: Rs. 8.12b). According to applicable accounting standards in Pakistan, the non-current portion of the long-term loan, amounting to Rs. 12.43b (FY23: Rs. 16.07b), should be reclassified as a current liability. However, this reclassification was not reflected in the financial statements, forming the basis of a qualified audit opinion.

The qualified opinion stems from a disagreement regarding whether the missed payments constitute an event of default under the loan agreements. While the lender theoretically holds the right to demand full repayment due to non-payment, the Company's government ownership and public-interest mandate, combined with PDFL's status as both lender and government-owned shareholder, complicate the matter. PDFL has since withdrawn all repayment demands and confirmed that NPPMCL may settle the balance as CPPA-G releases funds. A legal opinion further supports management's stance that an event of default has not been triggered, validating the current liability classification.

Renegotiation of Take or Pay Contracts: The Government of Pakistan has established a dedicated task force to renegotiate "take-or-pay" contracts with Independent Power Producers (IPPs). While the task force had requested data from NPPMCL, no follow-up discussions have taken place to date.

Key Rating Drivers

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 the Power Purchase Agreement (PPA) signed with Central Power Purchase Agency (Guarantee) Limited (CPPA) under the 'take or pay' arrangement. As of December 01, 2024, HBS and Balloki were placed in the 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.

Long-term & experienced O&M contracts mitigate operational risk: The O&M contracts of HBS & Balloki are made for 12 years with SEPCO III and TNB, respectively. The contracts are based on a 92-95% plant availability & are subject to liquidity damages in case of dilution of availability.

Asset base majorly comprised trade debts followed by operating fixed assets: Operating fixed assets declined to Rs. 133.2b (FY23: Rs. 139.6b) due to an exchange gain on liabilities to EPC contractors being capitalized in FY24, along with the year's depreciation expense. Long-term deposits and prepayments primarily reflect funds in escrow accounts held with the National Bank of Pakistan, per the GSAs with SNGPL for RLNG supply to both plants. Trade debts rose to Rs. 319.8b (FY23: Rs. 263.7b, FY22: Rs. 234.6b) by the close of FY24 due to delayed payments from CPPA-G.

Profitability profile supported by tariff indexation and delayed payment charges: NPPMCL's net sales increased to Rs. 410.0b (FY23: Rs. 354.6b) during FY24 on account of tariff indexation & higher energy delivered. Resultantly, HBS's and Balloki's sales stood higher at Rs. 219.0b (FY23: Rs. 169.7b) & Rs. 191.0b (FY23: Rs. 184.9b), respectively.

Given the higher proportion of capacity indexation, gross margin increased to 14.7% (FY23: 11.9%) during FY24. NPPMCL recorded other income of Rs. 43.8b (FY23: Rs. 30.2b) mainly due to higher delayed payment charges of Rs. 43.0b (FY23: Rs. 29.3b) from the CPPA-G during FY24. As a result, on the back of higher sales and other income during FY24, the Company's net profit increased to Rs. 76.8b (FY23: Rs. 44.9b).

Liquidity faces pressure due to delay in payments by CPPA-G; coverage remained sound: Trade debts billed to CPPA-G at end-FY24 comprised Rs. 44.3b (FY23: Rs. 42.3b) in non-overdue, unimpaired amounts, and Rs. 241.9b (FY23: Rs. 200.6b) in overdue yet unimpaired amounts. With circular debt in the energy sector reaching Rs. 2.66t by end-FY24, delayed payments from CPPA-G exert liquidity pressure on power producers. However, the government guarantee on trade debts, coupled with the late payment surcharge, provides a stabilizing factor for the ratings. The aging profile of these trade debts is as follows:

	FY22	FY23	FY24
Upto 3 months	50%	48%	37%
Upto 6 months	7%	9%	8%
More than 6 months	43%	43%	55%

FFO rose to Rs. 85.8b in FY24 (FY23: Rs. 60.2b, FY22: Rs. 29.6b), driven by increased revenue from core operations. By the end of FY24, FFO provided full coverage for both long-term and total debt, reflecting an improvement over time. Debt servicing coverage increased on a timeline basis, to 2.6x (FY23: 2.5x; FY22: 2.1x) in FY24 as liquidity improved due to improved cashflows on the basis of higher subsidies & better recoveries. Trade debts as percentages of net sales have remained high on a timeline basis as payments from CPPA-G get delayed (FY24: 78.0%; FY23: 74.4%; FY22: 78.9%). As a result, the current ratio increased to 2.5x (FY23: 1.9x. FY22: 1.7x). However, trade debts and stock-in-trade provide sound coverages against short-term borrowings (FY24: 7.3x, FY23: 6.1x, FY22: 5.8x).

Sound capitalization levels: Equity base enhanced to Rs. 346.0b (FY23: 269.2b, FY22: Rs. 224.3b) on account of profit retention by end-FY24. Short-term borrowings stood at Rs. 45.2b (FY23: Rs. 45.2b, 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. Given the increase in equity base and gradual repayment of debt, gearing and debt leverage remained low. Ratings remain dependent on the maintenance of the overall financial indicators.

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

FINANCIAL SUMMARY

Balance Sheet (PKR Billions)	FY22A	FY23A	FY24A
Property, plant and equipment	136.71	139.59	133.23
Stock-in-trade	5.59	9.29	9.40
Trade debts	234.56	263.73	319.85
Cash & Bank Balances	2.55	2.46	7.54
Other Assets	0.04	0.04	0.05
Total Assets	415.36	453.91	515.08
Creditors	91.06	50.27	41.44
Long-term Debt (incl. current portion)	46.21	46.99	34.46
Short-Term Borrowings	41.38	45.25	45.23
Total Debt	87.59	92.25	79.68
Other Liabilities	0.01	0.04	0.05
Total Liabilities	191.08	184.70	169.08
Paid up Capital	116.50	55.50	55.50
Revenue Reserve	107.78	152.71	229.50
Other Equity (excl. Revaluation Surplus)	0.00	0.06	0.06
Equity (excl. Revaluation Surplus)	224.28	269.21	346.00

Income Statement (PKR Billions)	FY22A	FY23A	FY24A
Net Sales	297.18	354.63	409.99
Gross Profit	28.22	42.35	60.32
Operating Profit	44.98	71.30	103.64
Finance Costs	11.63	26.06	26.49
Profit Before Tax	33.35	45.24	77.15
Profit After Tax	33.33	44.93	76.81

Ratio Analysis	FY22A	FY23A	FY24A
Gross Margin (%)	9.49%	11.94%	14.71%
Operating Margin (%)	15.14%	20.11%	25.28%
Net Margin (%)	11.21%	12.67%	18.74%
Funds from Operation (FFO) (PKR Billions)	29.59	60.23	85.79
FFO to Total Debt* (%)	33.78%	65.29%	107.67%
FFO to Long Term Debt* (%)	64.03%	128.15%	249.00%
Gearing (x)	0.39	0.34	0.23
Leverage (x)	0.85	0.69	0.49
Debt Servicing Coverage Ratio* (x)	1.47	1.70	2.71
Current Ratio (x)	1.65	1.89	2.47
(Stock in trade + trade debts) / STD (x)	5.84	6.07	7.32
Return on Average Assets* (%)	9.07%	10.34%	15.85%
Return on Average Equity* (%)	16.05%	18.21%	24.97%
Cash Conversion Cycle (days)	149.42	182.53	221.66

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

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/ Watch	Rating Action
06/Dec/2024	**AA+**	**A1+**	**Stable**	**Maintained**
28/Dec/2023	AA+	A1+	Rating Watch Developing	Reaffirmed
30/Dec/2022	AA+	A1+	Rating Watch Developing	Reaffirmed
24/Dec/2021	AA+	A1+	Rating Watch Developing	Reaffirmed
30/Dec/2020	AA+	A1+	Rating Watch Developing	Reaffirmed
31/Dec/2019	AA+	A1+	Rating Watch Developing	Maintained
31/Dec/2018	AA+	A1+	Stable	Reaffirmed
24/Dec/2017	AA+	A1+	Stable	Initial

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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Tariq Mahmood	Manager – Budget & Accounts	11-Nov-2024
Mr. Kamran Jamshed	General Manager – Finance	