# RATING REPORT

# Rousch (Pakistan) Power Limited (RPPL)

**REPORT DATE:**
June 28, 2019

**RATING ANALYST:**

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| RATING DETAILS | | |
|---|---|---|
| | Initial Rating | |
| **Rating Category** | **Long-term** | **Short-term** |
| **Entity** | **AA-** | A-1 |
| **Rating Outlook** | Stable | |
| ***Rating Date*** | *28 June 2019* | |

| COMPANY INFORMATION | |
|---|---|
| **Incorporated in 1994** | **External auditors:** A.F. Ferguson & Co. Chartered Accountants |
| **Public Unlisted Company** | **Chairman:** Taimur Dawood |
| **Key Shareholders (with stake 5% or more):** | **CEO:** Mubashar Ahmed Majeed |
| *Power Management Company (Private) Ltd- 59.98%*<br>*Siemens Project Ventures of Germany- 26%*<br>*Electricity Supply Board of Ireland (ESBI)- 7.33%* | |

| APPLICABLE METHODOLOGY(IES) |
|---|
| **VIS Entity Rating Criteria** *Industrial Corporates (May 2016)*<br>***http://www.vis.com.pk/docs/Corporate-Methodology-201605.pdf*** |

## Rousch (Pakistan) Power Limited (RPPL)

### OVERVIEW OF THE INSTITUTION

Rousch (Pakistan) Power Limited is a public unlisted company, incorporated in Pakistan. The company is a subsidiary of Power Management Company (Private) Limited which is a wholly owned subsidiary of Altern Energy Limited. Further, the ultimate parent company is Descon Processing (Private) Limited.

**Profile of CEO**
Mr. Mubashar Majeed is associated with the company since May 2013. Prior to the post of CEO, he worked as Chief Technical Officer at RPPL since 2010. During his long career in power sector since 1987 he has served in WAPDA, International Power, ESBI, AES Inc., and Rousch Power in Pakistan, Qatar and Jordan. Mr. Majeed is a Mechanical Engineer by profession, graduated from University of Engineering & Technology Lahore in 1986. Mr. Majeed has a rich experience of over twenty eight years in Power sector both in Pakistan and overseas in progressing and diverse roles from O&M, business

### RATING RATIONALE

Rousch (Pakistan) Power Limited (RPPL) was incorporated in Pakistan on August 4, 1994 as a public unlisted company. The company commenced operations on December 11, 1999. The principal activities of the company are to generate and supply electricity to Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) through a combined cycle thermal power plant having a gross capacity of 450 MW situated near Sidhnai Barrage, Abdul Hakim Town, Khanewal District, Punjab. Power Management Company (Private) Limited (PMCL) possesses the majority shareholding of 59.98% followed by Siemens Project Ventures of Germany (26%) and Electricity Supply Board of Ireland (ESBI) (7.33%). The board of Directors comprises 8 members with two members representing Siemens and three members from Descon group. Remaining members include representatives of other holding companies.

**Project Details**

The company initially set up a 412 MW fuel oil based combined cycle power plant. However, in 2004, the project was converted to a gas based plant under GoP policy encouraging conversion of fuel oil plants to natural gas. Consequently, post conversion, the Dependable Capacity was achieved at 403.83 MW enhancing gross (ISO) capacity of the plant from 412 MW to 450 MW. The plant is configured with two gas turbines, one steam turbine, two on-load hot gas bypass dampers, and two heat recovery steam generators and associated equipment. Installed equipment at the complex was imported from Siemens. The primary fuel to generate electricity is imported RLNG with ability to operate on high speed diesel (HSD). Rank in economic merit order was 47/131 in June'2019 as per NTDC report. Project cost was US$ 560m funded through a debt to equity ratio of 67:33. For debt financing, RPPL obtained foreign currency loan from a consortium of international financial institutions. Last installment of debt financing is due in Dec'2019.

<u>Power Purchase Agreement (PPA) and Implementation Agreement (IA)</u>

Initially in Feb'1995, RPPL signed a PPA with WAPDA having a term of 30 years commencing from December 11, 1999. In May'2017, the company executed a Novation Agreement with CPPA-G resulting in transfer of rights and obligations from WAPDA to CPPA-G. Under the agreement, RPPL is required to ensure availability equivalent to the Dependable Capacity of the plant. Monthly capacity payments are to be paid equal to the Capacity Purchase Price (CPP) in effect for that month at 60% of the Dependable Capacity. Monthly energy payments are to be paid in accordance with the electricity output for that month. IA was signed in June'1995 between RPPL and GoP and defines rights and responsibilities of both parties for the development, construction and operation of the project.

<u>Operations & Maintenance Contractor</u>

RPPL has outsourced its Operations & Maintenance (O&M) services to Descon Power Solutions (Private) Limited with the contract signed in 2017. The term of the contract shall continue till 30th June 2025. The operator is responsible and liable for provision of O&M Management Services to RPPL in respect of Power Plant and Colony. All maintenance in the normal course of business is the responsibility of the O&M Contractor.

<u>Long Term Maintenance Service Agreement (LTMSA)</u>

The company has also signed an LTMSA with Siemens Open Consortium in which the contractor is responsible for long term maintenance of the plant and equipment every four years including major development, construction, contract negotiation and management.

outages. Moreover, Siemens is also responsible for scheduled yearly outage services and solving any unexpected breakdown at the complex.

Gas Supply Agreement

In 2003, when the plant was undergoing conversion to a gas plant, RPPL entered into a Gas Supply Agreement (GSA) with Sui Northern Gas Pipelines Company Limited (SNGPL) whereby SNGPL committed to supply natural gas to the Company for an initial term of 12 years. The agreement expired on August 18, 2015. Under an interim GSA signed after expiry of the aforementioned, the plant is allocated 85 MMSCFD of RLNG on 'as-available' basis which expired in June'2018. Post expiry of the GSA and interim GSA, negotiations for long term GSA are underway. Furthermore, Ministry of Energy (Power Division) with the consultation of Ministry of Energy (Petroleum division) agreed that arrangement under the interim RLNG Agreement signed between RPPL, SNGPL and CPPA-G may be extended till the time formal approval of ECC is obtained.

## Key Rating Drivers

**Demand Risk is limited due to take or pay tariff awarded and 30 year PPA with CPPA-G which will expire in 2030.**

In case electricity is not purchased, RPPL is eligible for guaranteed capacity payments from the Government. In addition, the IA guarantees repayment of receivables of the Company in case the power purchaser defaults on its payments.

**Satisfactory operating track record.**

Performance of the plant has remained satisfactory over the last four years. Dip in availability factor during FY17 was attributable to scheduled maintenance. During the ongoing year, there has been a dip in load factor primarily due to commencement of power projects who are relatively better positioned in the economic merit order vis-à-vis RPPL and partly due to unavailability of RLNG. Given the decline in load factor, net efficiency of the plant has depicted slight weakening in the ongoing year. Decline in load and dispatch factor is not expected to have material impact in RPPL's capacity to service its obligations given that capacity payments are guaranteed.

| | FY16 | FY17 | FY18 | 2018-19 |
|---|---|---|---|---|
| **Load Factor** | 85.70% | 83.00% | 76.20% | 40.80% |
| **Utilization Factor** | 88.00% | 94.60% | 85.50% | 44.60% |
| **Availability Factor** | 91.90% | 80.20% | 93.10% | 89.90% |
| **Reliability Factor** | 95.10% | 96.00% | 96.40% | 95.20% |
| **Net Efficiency** | 47.20% | 47.20% | 46.70% | 45.40% |

**Fuel supply risk will be mitigated upon finalization of long-term GSA.**

While extension of interim GSA by Ministry of Energy (Power and Petroleum Divisions) has been working smoothly in terms of availability of RLNG, finalization of a long-term gas supply arrangement is considered important from a ratings perspective. Under PPA, non-supply of RLNG for any reason other than non-payment of gas expense shall be treated as 'Other Force Majeure' event and shall extend the tenure of the PPA for the number of days in which gas was unavailable. Moreover, RPPL does not invoice for capacity payments during this period.

**Operational Risk is considered manageable in view of satisfactory O&M arrangement in place and adequate insurance cover.**

As part of the O&M agreement, various performance guarantees are in place to mitigate operational risk of the project. Liquidated damages have also been built in the O&M contract in case performance guarantees are not complied with. Comfort is also drawn from adequate insurance arrangement in place.

**Low leverage capital structure is a positive rating driver. Leverage indicators to remain within manageable levels**

Equity base of the company was reported higher at Rs. 26.5b (FY17: Rs. 25.5b) at end-FY18 owing to internal capital generation. Dividend payout ratio stood at 72% (FY17: 91%) in FY18. Equity base declined slightly at end-Mar'2019 due to payment of dividend. Debt carried on the balance sheet at end-Mar'2019 amounted to Rs. 5.1b (FY18: 6.3b), around three-fifth of which is short term in nature. Short term debt to the tune of Rs. 2.9b at end-Mar'2019 has been withdrawn against an available running finance facility of Rs. 3b. RPPL plans to attain further running finance lines to manage its working capital cycle due to overdue receivables. Long term debt is expected to be fully paid by end-1HFY20. With decline in debt levels due to repayment of long term debt, gearing and leverage indicators stood lower at 0.19x (FY18: 0.24x) and 0.25x (FY18: 0.30x) at end-Mar'2019.

**Healthy cash flow coverages; persistence of circular debt may translate into some liquidity pressures.**

During 9MFY19, Funds from Operations (FFO) amounted to Rs. 4.3b (FY18: Rs. 5.7b, FY17: Rs. 4.4b) while debt payment for the period was Rs. 3b, translating into a Debt Servicing Coverage ratio of 1.4x (FY18: 1.93) indicating satisfactory debt servicing ability. FFO to Total Debt and FFO to Long Term Debt were reported at 0.84x and 1.96x respectively at end-Mar'2019. Maintenance capex is projected to be funded through internal cash flows. Total overdue receivables at end-Mar'2019 amount to Rs. 11.3b (FY18: Rs. 12.8b), allof which related to the single customer CPPA-G. Going forward, persistence of circular debt issue may cause liquidity pressures for the company.

**Rousch (Pakistan) Power Limited (RPPL)** **Appendix I**

| Financial Summary (Rs. m) | | | |
|---|---|---|---|
| **BALANCE SHEET** | **FY17** | **FY18** | **9MFY19** |
| Property, Plant & Equipment | 19,635.3 | 18,430.5 | 17,455.2 |
| Trade Debts | 12,064.8 | 12,817.0 | 11,302.0 |
| Cash & Bank Balances | 4,693.6 | 1,549.9 | 2,003.1 |
| Total Assets | 38,084.2 | 34,582.5 | 32,785.5 |
| Short Term Debt | 0.0 | 1,657.1 | 2,914.5 |
| Current Maturity of Long Term Debt | 2,697.0 | 3,123.4 | 2,196.7 |
| Long Term Debt (inc. Current Maturity) | 6,742.5 | 4,685.1 | 2,196.7 |
| Total Debt | 6,742.5 | 6,342.2 | 5,111.2 |
| Trade and Other Payables | 2,285.9 | 742.3 | 710.0 |
| Total Liabilities | 12,571.7 | 8,060.9 | 6,458.1 |
| Total Equity | 25,512.4 | 26,521.6 | 26,327.4 |
| | | | |
| **INCOME STATEMENT** | **FY17** | **FY18** | **9MFY19** |
| Net Sales | 26,133.4 | 29,822.6 | 11,273.2 |
| Gross Profit | 4,047.5 | 4,595.8 | 2,592.3 |
| Administrative Expenses | 214.5 | 200.5 | 123.0 |
| Other income | 231.2 | 219.7 | 114.7 |
| Finance cost | 1,152.0 | 1,017.5 | 687.9 |
| Profit After Tax | 2,854.5 | 3,595.7 | 1,875.0 |
| | | | |
| **OPERATING METRICS** | **FY17** | **FY18** | **9MFY19** |
| Load Factor | 83.0% | 76.2% | 40.8% |
| Utilization Factor | 94.6% | 85.5% | 44.6% |
| Availability Factor | 80.2% | 93.1% | 89.9% |
| Reliability Factor | 96.0% | 96.4% | 95.2% |
| Net Efficiency | 47.2% | 46.7% | 45.4% |
| | | | |
| **RATIO ANALYSIS** | **FY17** | **FY18** | **9MFY19** |
| Gross Margin (%) | 15.5% | 15.4% | 23.0% |
| Net Margin (%) | 10.9% | 12.1% | 16.6% |
| FFO | 4,422.8 | 5,662.3 | 3,388.3 |
| FFO to Long Term Debt (x) | 0.66 | 1.21 | 2.05 |
| FFO to Total Debt (x) | 0.66 | 0.89 | 0.88 |
| Debt Servicing Coverage (x) | NA | 1.93 | 1.38 |
| Gearing (x) | 0.26 | 0.24 | 0.19 |
| Leverage (x) | 0.49 | 0.30 | 0.25 |
| Current Ratio (x) | 2.17 | 2.49 | 2.38 |

## ISSUE/ISSUER RATING SCALE &DEFINITIONS Appendix 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 | Appendix III |
|---|---|
| **Name of Rated Entity** | Rousch (Pakistan) Power Limited (RPPL) |
| **Sector** | Power |
| **Type of Relationship** | Solicited |
| **Purpose of Rating** | Entity Rating |
| **Rating History** | |
| **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. |
| **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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Rating History:

| Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
|---|---|---|---|---|
| **RATING TYPE: ENTITY** | | | | |
| **6/28/2019** | AA- | A-1 | Stable | Initial |