RATING REPORT

Rousch (Pakistan) Power Limited

REPORT DATE:
July 08, 2020

RATING ANALYSTS:

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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	AA	A-1	AA-	A-1
Rating Outlook	*Stable*		*Stable*	
Rating Date	*8th Jul'20*		*28th Jun'19*	

COMPANY INFORMATION

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

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (May 2019)
https://www.vis.com.pk/kc-meth.aspx

Rousch (Pakistan) Power Limited

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 the CEO

Mr. Mubashar Majeed has been associated with the company since May 2013. Prior to the post of CEO, he had been worked as Chief Technical Officer at RPPL since 2010. Mr. Majeed is a Mechanical Engineer by profession, graduated from University of Engineering & Technology Lahore in 1986.

Financial Snapshot

Total Equity: end-9MFY20: Rs. 27.3b; end-FY19: Rs. 27.6b; end-FY18: Rs. 26.5b.

Assets: end-9MFY20: Rs. 30.9b; end-FY19: Rs. 35.7b; end-FY18: Rs. 34.6b.

Net Profit: 9MFY20: Rs. 2.9b; Rs. FY19: Rs. 3.1b; FY18: Rs. 3.6b.

RATING RATIONALE

Rousch (Pakistan) Power Limited (RPPL) was incorporated on August 4, 1994 as a public unlisted company. The company commenced commercial operations on December 11, 1999. The principal activity of the company is to generate and supply electricity to Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) through its 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 7 members with two members representing Siemens, two members from Descon group, and remaining are representatives of other sponsors.

Project Details

The company initially set-up a 412 MW fuel oil based combined cycle power plant. However, in 2004, the project was converted into 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 is mainly made by Siemens. The primary fuel to generate electricity is imported RLNG with ability to operate on high-speed diesel (HSD) as well. Rank in economic merit order was 22/130 in June'20, 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 long-term borrowings was paid in Dec'19.

Power Purchase Agreement (PPA) and Implementation Agreement (IA)

Initially in Feb'1995, RPPL signed a PPA with WAPDA having a term of 30 years commencing from December 11, 1999. In May'17, 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'95 between RPPL and GoP and defines rights and responsibilities of both parties for the development, construction and operation of the project.

Operations & Maintenance Contractor

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 June 30, 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.

Long Term Maintenance Service Agreement (LTMSA)

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 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. On July 31, 2019, the Economic Coordination Committee approved the extension of interim GSA of the company with SNGPL and CPPA-G. The interim GSA has been signed by CPPA-G, while approval from SNGPL is awaited.

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. The PPA has been extended by a period of 177 days as of March 31, 2020, owing to non-supply of RLNG under interim GSA. The term of PPA will end in June 2030.

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' (OFME) 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.

Decline in net revenue led by lower energy purchase price owing to reduced dispatch demand from off-taker
RPPL reported lower net revenue of Rs. 8.0b during 9MFY20 (FY19: Rs. 19.5b; FY18: Rs. 29.8b) with further dip in energy purchase price to Rs. 2.8b (FY19: Rs. 12.7b; FY18: Rs. 23.7b) due to lower dispatch demand from off-taker and 55 days of OFME. Electricity delivered to CPPA-G declined to 209 GWh (FY19: 1,036 GWh; FY18: 2,592 GWh). Resultantly, load and utilization factors were recorded lower at 10.1% (FY19: 41.5%; FY18: 76.2%) and 9.8% (FY19: 45.1%; FY18: 85.5%) respectively. Given the decline in load factor, net efficiency of the plant also depicted slight weakening during the period. However, capacity payments and other supplemental charges remained intact and amounted to Rs. 4.4b (FY19: Rs. 5.7b; FY18: Rs. 5.8b) and Rs. 0.8b (FY19: Rs. 1.1b; FY18: Rs. 0.7b) respectively during 9MFY20.

Gross profit decreased to Rs. 3.1b during 9MFY20 (FY19: Rs. 4.3b; FY18: Rs. 4.6b). Gross margin, however, improved to 39.5% (FY19: 21.8%; FY18: 15.4%) owing to increased proportion of capacity payments. Administrative expense amounted to Rs. 118m (FY19: Rs. 175m; FY18: Rs. 200m) due to some reduction in other employment benefits, while other income was reported at Rs. 123m (FY19: Rs. 150m; FY18: Rs. 220m) which mainly pertained to bank deposit markup income of Rs. 61m (FY19: Rs. 97m; FY18: Rs. 81m), exchange gain (on foreign currency loan) of Rs. 51m (FY19: nil) and adjustment in fair value of interest rate swaps amounting to Rs. 8m (FY19: Rs. 37m; FY18: Rs. 112m). Finance cost amounted to Rs. 271m during 9MFY19 (FY19: Rs. 1.1b; FY18: Rs. 1.0b). Net profit was reported at Rs. 2.9b (FY19: Rs. 3.1b; FY18: Rs. 3.6b) with higher net margin of 35.9% (FY19: 15.9%; FY18: 12.1%).

Improved debt coverage ratios on account of full repayment of long-term debt, while funds from operations (annualized) remained around at the same level
Cash and bank balance declined to Rs. 13m by end-9MFY20 (FY19: Rs. 1.9b; FY18: Rs. 1.6b) primary due to higher dividend payment. Funds from operations (FFO) amounted to Rs. 4.0b (FY19: Rs. 5.3b; FY18: Rs. 5.7b) during 9MFY20. With lower debt and interest payment and largely stable FFO, debt servicing coverage ratio increased to 1.83x (FY19: 1.45x; FY18: 1.83x) during 9MFY20. FFO-to-total debt ratio also improved to 1.89x (FY19: 1.06x; FY18: 0.89x), indicating sound debt servicing ability. Maintenance capex is projected to be funded through internal cash flows. Total overdue receivables amounted to Rs. 12.7b at end-9MFY20 (FY19: Rs. 14.6b; FY18: Rs. 12.8b), all of which pertained CPPA-G. Overdue receivables included capacity

payments of Rs. 7.4b, delayed payment charges of Rs. 3.9b and energy purchase payments of Rs. 1.4b.

Subsequent to issuance of Pakistan Energy Sukuk (PES) II of Rs. 200b by Power Holding Limited (PHL), RPPL has received Rs. 1b against overdue receivables in June '20, which has relieved some liquidity pressure. However, persistency of inter-corporate debt issue is expected to remain a major liquidity challenge for the company, going forward. Tax refund due from government also accumulated to Rs. 844m (FY19: Rs. 504m; FY18: Rs. 437m).

Further improvement in leverage indicators despite slight decrease in equity base due to dividend payment

Equity base of the company decreased slightly to Rs. 27.3b by end-9MFY20 (FY19: Rs. 27.6b; FY18: Rs. 26.5b) due to cash dividend payment. Total debt on the balance sheet decreased to Rs. 2.8b (FY19: Rs. 5.0b; FY18: Rs. 6.3b) on account of scheduled repayment of long-term borrowings. Long-term debt has been fully repaid and there no plan to mobilize new long-term debt for the foreseeable future. Utilization of short-term borrowings for working capital requirements amounted to Rs. 2.8b at end-9MFY20 (FY19: Rs. 2.9b; FY18: Rs. 1.7b). The company has running finance lines of Rs. 5.5b and non-funded facilities of Rs. 6.0b for working capital requirements. With decrease in debt levels, gearing and debt leverage ratios improved on a timeline basis to 0.10x (FY19: 0.18x; FY18: 0.24) and 0.13x (FY19: 0.30x; FY18: 0.30x) respectively, by end-9MFY20.

Rousch (Pakistan) Power Limited Annexure I

Financial Statement (*Amount in Million)*

BALANCE SHEET	FY18	FY19	9MFY20
Property, Plant & Equipment	18,436	17,280	15,985
Store and Spares	544	622	651
Fuel Oil Inventory	469	465	461
Trade Debts	12,817	14,640	12,650
Tax Refund Due from Govt.	437	504	844
Other Assets	329	271	342
Cash & Bank Balance	1,550	1,945	13
Total Assets	34,582	35,726	30,947
Short-term Borrowings	1,657	2,927	2,811
Long-Term Finances *(Inc. current mur)*	4,685	2,113	-
Total Debt	6,342	5,040	2,811
Other Liabilities	981	908	443
Trade & Other Payables	738	2,223	386
Total Liabilities	8,061	8,170	3,641
Total Equity	26,522	27,556	27,307
Paid-Up Capital	8,622	8,622	8,622
INCOME STATEMENT	FY18	FY19	9MFY20
Net Sales	29,823	19,473	7,954
Gross Profit	4,596	4,252	3,139
Operating Profit	4,395	4,077	3,021
Profit Before Tax	3,598	3,130	2,873
Profit After Tax	3,596	3,102	2,855
FFO	5,666	5,330	3,994
OPERATING METRICS	FY18	FY19	9MFY20
Load Factor (%)	76.2	41.5	10.1
Utilization Factor (%)	85.5	45.1	9.8
Availability Factor (%)	93.1	91.1	97.0
Reliability Factor (%)	96.4	96.0	100.0
Net Efficiency (%)	46.7	45.2	43.5
RATIO ANALYSIS	FY18	FY19	9MFY20
Gross Margin (%)	15.4	21.8	39.5
Net Margin (%)	14.7	15.9	35.9
FFO to Total Debt	0.89	1.06	1.89
Debt Servicing Coverage Ratio (x)	1.83	1.45	1.83
Gearing (x)	0.24	0.18	0.10
Debt Leverage (x)	0.30	0.30	0.13
ROAA	9.9	8.8	11.4
ROAE	13.8	11.5	13.9
Current Ratio	2.49	2.26	4.13

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
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
RATING TYPE: ENTITY				
08/07/2020	AA	A-1	Stable	Upgrade
06/28/2017	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. Zeeshan Ul Haq	Manager – Finance	June 24, 2020