RATING REPORT

Rousch (Pakistan) Power Limited

REPORT DATE:
June 24, 2021

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	*Stable*		*Stable*	
Rating Date	*24th June'21*		*8th Jun'20*	

COMPANY INFORMATION

Incorporated in 1994	**External auditors:** A.F. Ferguson & Co. Chartered Accountants
Public Limited (Unlisted) Company	**Chairman:** Mr. Taimur Dawood **CEO:** Mr. Faisal Dawood
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

Faisal Dawood is the Vice Chairman of Descon Engineering Limited. He is also a member of the company's Board of Directors. Since joining Descon in 2000, Faisal has served in a variety of engineering and chemicals management positions and executive management positions around the world..

Financial Snapshot

Equity: H1'FY21: Rs. 30.0b; FY20: Rs. 28.7b; FY19: Rs. 27.6b.

Assets: H1'FY21: Rs. 33.6b; FY20: Rs. 32.0b; FY19: Rs. 35.7b .

Profit/(Loss) After Tax: H1'FY21: Rs. 1. 3b; FY20: Rs. 4.2b; FY19: Rs. 3.1b

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 (i.e. the O&M service provider), and remaining are representatives of other holding companies.

Project Details

The company initially set-up a 412 MW 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 was imported from Siemens. 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 was paid in Dec'19.

Presently, the primary fuel to generate electricity is imported RLNG. As per NTDC's revised merit order issued in Jan'21, RPPL's standing in the merit order has dropped to 42/124, from 22/130 as of Jun'20. As per management, the drop in merit order is mainly a result of induction of newer more efficient thermal plants to the national capacity in the past year.

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 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.

Long Term Maintenance Service Agreement (LTMSA)

The company 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. However, on 21st July, 2020; the RPPL, CPPA and SNGPL has signed an addendum to continue with the same arrangement.

Business Update

Power Purchase Agreement (PPA) and Recent Amendments

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.

- In Aug'2020, RPPL and the Committee for Negotiation with IPPs formed by Government of Pakistan, executed a Memorandum of Understanding (MoU). Salient features of this MoU included the following:
  - RPPL to have the option to participate on GoP's Competitive Trading Arrangement (CTA), once CTA is implemented and becomes fully operational.
  - CPPA-G will assist RPPL in securing a firm Gas Supply Agreement with the Gas Supplier by end-Dec'21.
  - CPPA-G and the company has resolved the dispute of Liquidated Damages (LDs) levied by CPPA-G on RPPL in 2013 & 2016, with the company agreeing to pay settlement expense of Rs. 1.66b to CPPA-G. Consequently, the term of PPA increased by 112 days.
  - GoP related outstanding receivables of RPPL, as Nov'20, would be paid in two-installments of 40% and 60% respectively. The payment will be made in equal parts of cash, PIBs & Ijarah Sukuk.
  - Subsequent to the receipt of installment, RPPL shall submit its invoices providing the following discount in tariff comprising
    - Existing capacity payments and variable O&M shall be reduced by 11%;
    - USD exchange rate and US CPI indexations shall apply on reduced O&M and 50% of the reduced Escalable Component of the Capacity Purchase Price .
    - On the remaining 50% of the reduced Escalable Component of the Capacity Purchase Price, the current indexation shall continue to be applied until the date that the applicable exchange rate under the Tariff reaches Rs. 168.6/USD, after which it would cease to escalate.
    - In lieu of the tariff discount, any heat rate sharing by RPPL per ts existing arrangement under PPA shall cease to exist.
- In accordance with the MoU, the CPPA-G trade debt as of Nov'20, was gauged at Rs. 14.2b, of which 40% or Rs. 5.7b has been settled as of June 4, 2021.

Capacity Utilization has dropped as a result of capacity enhancement in the National Grid

- As a result of a drop in the company's positioning in the economic merit order, capacity utilization of RPPL dropped. However, with RPPL's business model being devoid of any demand risk, the company's profitability has not be affected.

	FY18	FY19	FY20	H1'FY21
Load Factor (%)	76.2	41.5	7.4	1.09
Utilization Factor (%)	85.5	45.1	7.1	1.05
Availability Factor (%)	93.1	91.1	97.71	94.95
Reliability Factor (%)	96.4	96.0	100	100
Net Efficiency (%)	46.7	45.2	43.3	42.8
RoAE	13.6	11.%	15.1	9.0*
* Annualized				

Rating Drivers

Ratings derive support from the absence of demand risk and guaranteed payments from GoP, in accordance with signed PPA

RPPL's business model is devoid of any demand risk. During the period under review, the company's capacity utilization dropped notably. Nevertheless, the bottom line posted improvement and RoAE remained unhindered.

With the MoU signed with GoP, liquidity risk has been addressed albeit at the cost of a slight drop in future revenue stream

	Jun'19	Jun'20	Dec'20
Fixed Assets	**17,280**	**15,570**	**14,800**
Current Assets	**18,446**	**16,398**	**18,752**
- *Trade Debts*	14,640	13,559	16,029
- *Others*	3,806	2,838	2,723
Total Assets	**35,726**	**31,968**	**33,552**
Equity	**27,556**	**28,699**	**30,017**
Liabilities	**8,170**	**3,269**	**3,535**
- ***Debt***	**5,040**	**2,290**	**2,576**
○ ***Long-Term***	**2,113**	**-**	**-**
○ ***Short Term***	**2,927**	**2,290**	**2,576**

In accordance with the MoU signed with the government, RPPL has been paid Rs. 5.7b as of Jun'21. As a result, liquidity risk has reduced on a timeline. However, this has been achieved on the back of decrease in future revenue stream, as discussed above. As a result, the RoAE, which has averaged above 13% during the past 3-year period. Subsequent to revised agreement with GoP, RPPL's RoAE is projected to fall below 11% during the rating horizon.

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.

Improved capitalization, coverage and liquidity indicators with no more long term debt on balance sheet

- Capitalization ratios including gearing and leverage has declined as the long term debt of the company has been fully paid off.

- FFO has increased in line with the increase in PBT during FY20. Going forward, FFO and coverage indicators will stay at adequate levels.

Rousch (Pakistan) Power Limited Annexure I

Financial Summary (*Amount in Million)*

BALANCE SHEET	FY18	FY19	FY20	H1'FY21
Property, Plant & Equipment	18,436	17,280	15,570	14,800
Store and Spares	544	622	657	665
Fuel Oil Inventory	469	465	461	459
Trade Debts	12,817	14,640	13,559	16,029
Tax Refund Due from Govt.	437	504	797	888
Other Assets	329	271	619	632
Cash & Bank Balance	1,550	1,945	304	78
Total Assets	34,582	35,726	31,968	33,552
Short-term Borrowings	1,657	2,927	2,290	2,576
Long-Term Finances *(Inc. current mur)*	4,685	2,113	-	-
Total Debt	6,342	5,040	2,290	2,576
Trade & Other Payables	742	2,223	470	402
Total Liabilities	8,061	8,170	3,269	3,535
Total Equity	26,522	27,556	28,699	30,017
Paid-Up Capital	8,622	8,622	8,622	8,622

INCOME STATEMENT	FY18	FY19	FY20	H1'FY20	H1'FY21
Net Sales	29,823	19,473	10,314	6,854	4,734
Gross Profit	4,596	4,252	4,722	2,694	3,202
Operating Profit	4,395	4,077	4,555	2,615	3,089
Profit Before Tax	3,598	3,130	4,330	2,540	1,319
Profit After Tax	3,596	3,102	4,244	2,524	1,318

OPERATING METRICS	FY18	FY19	FY20	H1'FY21
Load Factor (%)	76.2	41.5	7.4	1.09
Utilization Factor (%)	85.5	45.1	7.1	1.05
Availability Factor (%)	93.1	91.1	97.71	94.95
Reliability Factor (%)	96.4	96.0	100	100
Net Efficiency (%)	46.7	45.2	43.3	42.8

RATIO ANALYSIS	FY18	FY19	FY20	H1'FY21
Gross Margin (%)	15.4	21.8	45.8	67.6
Net Margin (%)	14.7	15.9	41.2	27.8
FFO	5,666	5,330	5,902	2,049
FFO to Total Debt	0.89	1.06	2.58	1.59
Debt Servicing Coverage Ratio (x)	1.83	1.45	2.63	14.17*
Gearing (x)	0.24	0.18	0.08	0.09
Debt Leverage (x)	0.30	0.30	0.11	0.12
Current Ratio	2.49	2.26	5.04	5.33

**Annualized*

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				
06/24/2021	AA	A-1	Stable	Reaffirmed
07/08/2020	AA	A-1	Stable	Upgrade
06/28/2019	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.
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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Junaid Asghar	CFO	May 31, 2021