RATING REPORT

Rousch (Pakistan) Power Limited

REPORT DATE:
May 20, 2022

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 Action	*Reaffirmed*		*Reaffirmed*	
Rating Date	*20th May'22*		*24th June'21*	

COMPANY INFORMATION

Incorporated in 1994	**External auditors:** A.F. Ferguson & Co. Chartered Accountants
Public Limited (Unlisted) Company	**Chairman:** Mr. Faisal Dawood **CEO:** Mr. Waqar Ahmed Khan
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: Corporate Rating Methodology (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

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. Waqar Ahmad Khan has been working in the water and power sector for the last 29 years. In the early part of his career, for 13 years, he worked as professional engineer with Pakistan WAPDA on Controls, Protection, Instrumentation and SCADA Software. Since 2005, he has been working on the senior management positions in the IPP sector. He has been Chief Technical & Commercial Officer for Star Power Generation Limited (Abdullah Alghurair group, UAE) from 2005 to 2009, and for Star Hydro Power Limited (Korea Water Resources Corporation, South Korea) from 2009 to 2011. In 2012, he was promoted to the position of Chief Executive Officer of Star Hydro Power Limited, a position he held till 2021. In September 2021, Mr. Khan was appointed Chief Executive Officer

RATING RATIONALE

Rousch (Pakistan) Power Limited ('RPPL' or 'the Company') 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 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 2 members representing Siemens, 2 members from Descon group 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 2003, 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 2 gas turbines, 1 steam turbine, 2 on-load hot gas bypass dampers, and 2 heat recovery steam generators and associated equipment. Installed equipment at the complex was imported from Siemens. Project cost was USD 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 May'22, RPPL's standing in the merit order has dropped from to 48/121 as of Jun'21, to 54/122, as of May'22.

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 4 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 agreement, the plant was 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.

of Rousch (Pakistan) Power Limited.

Mr. Khan has academic qualifications in Electrical Engineering (BSc, UET Peshawar, Pakistan), MSc Control & IT (Manchester, UK) and Business Administration (MBA, LUMS, Pakistan).

Financial Snapshot

Equity: H1'FY22: Rs. 23.0b; FY21: Rs. 32.6b; FY20: Rs. 28.7b.

Assets: H1'FY22: Rs. 27.2b; FY21: Rs. 33.6b; FY20: Rs. 32.0b.

Profit/(Loss) After Tax: H1'FY22: Rs. 2. 5b; FY21: Rs. 3.9b; FY20: Rs. 4.2b

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.

On January 23, 2021, the Company and CPPA initialed a Master Agreement and a PPA Amendment Agreement. Subsequently, after the approval of the Federal Cabinet, the members of the Company approved the signing and execution of the Agreements. Accordingly, on February 11, 2021, the Company and CPPA have signed and executed the Agreements. Pursuant to the terms of these Agreements, the Company and CPPA have agreed to the following matters:

(1) Mechanism of settlement of outstanding receivables;
(2) Discount in Tariff components;
(3) Resolution of dispute of Liquidated Damages as stated in note 1.4.2; and
(4) Option to the Company to participate in GoP's scheme to create competitive power market.

Under the aforesaid agreement, CPPA-G released payment amounting to Rs 14,222.86 million in two tranches. CPPA made the first tranche of payment (40%) amounting to Rs 5,689.14 million on June 4, 2021 whereas 2nd tranche of payment (60%) amounting to Rs. 8,533.72 million was released on 29th November 2021. Accordingly, the Company has started raising Capacity Purchase Price ('CPP') invoices according to the revised Tariff as per the terms of the Agreement. The tariff reduction of 11% will also apply to Variable Operations and Maintenance portion of Energy Purchase Price ('EPP') invoicing starting from the date of receipt of first tranche i.e. June 4, 2021.

Satisfactory operating track record

- Performance of the plant has remained satisfactory. Plant availability has remained in excess of 90%. Load factor and availability of the plant is presented in the table below:

Table 1: Operating Performance

	FY19	FY20	FY21	H1'FY22
Load Factor (%)	41.5	7.4	9.1	20.5
Utilization Factor (%)	45.1	7.1	8.7	19.9
Availability Factor (%)	91.1	97.7	96.5	91.3
Reliability Factor (%)	96.0	100	99.1	99.5
Net Efficiency (%)	45.2	43.3	44.8	44.5
RoAE	11.%	15.1	N/A	N/A
* Annualized				

Rating Drivers

Ratings derive support from the absence of demand risk given a 30-year PPA with CPPA-G that will expire in 2030.

RPPL's business model is devoid of any demand risk. In case electricity is not purchased, RPPL is eligible for guaranteed capacity payment from the Government. The PPA has been extended by a period of 228 days as of December 31, 2021, owing to non-supply of RLNG under the interim GSA. The term of PPA will end in November 2030. During the period under review, the Company's capacity utilization rose considerably. Nevertheless, the bottom line posted improvement and RoAE remained unhindered.

The continuation of receivable buildup from GoP is a concern; albeit the rating incorporates very low risk on receivables from GoP.

Table 2: Balance Sheet Extract (All Figures in PKR' Millions, unless stated otherwise)

	Jun'20	Jun'21	Dec'21
Fixed Assets	**15,570**	**14,056**	**13,304**
Current Assets	**16,398**	**19,548**	**13,881**
- *Trade Debts*	13,559	15,785	10,118
- *Others*	2,838	3,763	3,763
Total Assets	**31,968**	**33,604**	**27,185**
Equity	**28,699**	**32,629**	**23,010**
Liabilities	**3,269**	**975**	**4,175**
- ***Debt***	**2,290**	**4**	**6**
○ ***Long-Term***	**-**	**-**	**-**
○ ***Short Term***	**2,290**	**4**	**6**

In accordance with the MoU signed with the government, RPPL's trade debts as of Nov'20 were settled in full by Nov'21. As a result, liquidity risk had reduced at the cost of a slightly lower future revenue stream. Nevertheless, despite the settlement, the Company continues to face the issue of receivable build up, which had increased to Rs. 10b as of Dec'21. The buildup of receivables is a concern, as the same may translate in higher liquidity risk going forward; however, the rating incorporates very low risk on receivables from GoP.

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 coverages

- 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 long-term debt on balance sheet

- Capitalization ratios including gearing and leverage has improved further, as the long-term debt of the Company has been fully paid off.
- The quantum of equity declined, as the Company paid off the balance received from GoP as dividends to shareholders.
- Going forward, as such there are no plans to raise additional debt, as a result of which balance sheet is likely to remain debt-free.

Rousch (Pakistan) Power Limited Annexure I

Financial Summary

(*Amount in Million)*

BALANCE SHEET		June'19	June'20	June'21	Dec'21
Property, Plant & Equipment		17,280	15,570	14,051	13,301
Store and Spares		622	657	636	631
Fuel Oil Inventory		465	461	457	455
Trade Debts		14,640	13,559	15,785	10,118
Tax Refund Due from Govt.		504	797	952	1,026
Other Assets		271	619	415	473
Cash & Bank Balance		1,945	304	1,302	1,177
Total Assets		35,726	31,968	33,604	27,185
Short-term Borrowings		2,927	2,290	4	6
Long-Term Finances *(Inc. current mur)*		2,113	-	-	-
Total Debt		5,040	2,290	4	6
Trade & Other Payables		2,223	470	446	109
Total Liabilities		8,170	3,269	975	4,175
Total Equity		27,556	28,699	32,629	23,010
Paid-Up Capital		8,622	8,622	8,622	8,622
INCOME STATEMENT	FY19	FY20	FY21	H1'FY21	H1'FY22
Net Sales	19,473	10,314	12,206	4,734	8,726
Gross Profit	4,252	4,722	5,995	3,202	2,556
Operating Profit	4,077	4,555	5,776	3,089	2,477
Profit Before Tax	3,130	4,330	3,935	1,319	2,468
Profit After Tax	3,102	4,244	3,922	1,318	2,451
OPERATING METRICS		FY19	FY20	FY21	H1'FY22
Load Factor (%)		41.5	7.4	9.1	20.5
Utilization Factor (%)		45.1	7.1	8.7	19.9
Availability Factor (%)		91.1	97.7	96.5	91.3
Reliability Factor (%)		96.0	100	99.1	99.5
Net Efficiency (%)		45.2	43.3	44.9	44.5
RATIO ANALYSIS		FY19	FY20	FY21	H1'FY22
Gross Margin (%)		21.8	45.8	49.1	29.3
Net Margin (%)		15.9	41.2	32.1	28.1
FFO		5,330	5,902	7,072	6,398*
FFO to Total Debt		1.06	2.58	-	-
Debt Servicing Coverage Ratio (x)		1.45	2.63	27.45	33.57*
Gearing (x)		0.18	0.08	0.00	0.00
Debt Leverage (x)		0.30	0.11	0.03	0.18
Current Ratio		2.26	5.04	20.23	3.33

**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				
05/20/2022	AA	A-1	Stable	Reaffirmed
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.
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. Muhammad Junaid Asghar	CFO & Company Secretary	April 11, 2022