RATING REPORT

Rousch (Pakistan) Power Limited

REPORT DATE:
May 22, 2024

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	*Upgrade*		*Downgrade*	
Rating Date	*22nd May'24*		*15th May'23*	

COMPANY INFORMATION

Incorporated in 1994	**External auditors:** Grant Thornton Anjum Rahman
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

Applicable Rating Criteria: Corporates
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

APPLICABLE RATING SCALE

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.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 DEL Processing (Private) Limited.

Profile of the CEO

Mr. Waqar Ahmad Khan has been working in the water and power sector for the last three decades. In the early part of his career, 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 held the position of 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 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).

RATING RATIONALE

Rousch (Pakistan) Power Limited ('RPPL' or 'the Company') is principally involved in the generation and supply of electricity to the Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) through its combined cycle thermal power plant, having a gross capacity of 450 MW. The assigned ratings incorporate the Company's robust sponsorship profile which include the Power Management Company (Private) Limited (a part of the Descon Group) as well as international shareholders, namely, Siemens Project Ventures of Germany and the Electric Supply Board of Ireland (ESBI). The ratings also take into account the manageable operational risk in view of the satisfactory Operations and Maintenance (O&M) arrangement in place and adequate insurance coverages. Additionally, demand risk is mitigated through guaranteed payments with CPPA-G in case electricity is not purchased as per the Power Purchase Agreement (PPA). However, the same has been extended by about 501 days on account of non-availability of RLNG under the interim Gas Supply Agreement (GSA) by Sui Northern Gas Pipelines Limited (SNGPL) and resolution of liquidated damages issue between the Company and CPPA for 2013 and 2017 period; the term of PPA will now end in April 2031. Moreover, fuel supply risk will be mitigated upon finalization of long-term GSA.

The ratings also incorporate lower plant availability over the review period due to the lack of energy production owing to lower demand from the off-taker and RLNG curtailments. While this has resulted in lower topline, the profitability and margins have improved given higher component of capacity payments in the revenue mix. The Company's liquidity position is underpinned by periodic payments from the counterparty against trade receivables; moreover, the counterparty risk is considered very low. Cash flows remained adequate. Moreover, the ratings factor in strong capitalization levels owing to absence of debt on the balance sheet. Going forward, the assigned ratings will remain sensitive to improvement in operational performance, clearance of outstanding receivables and finalization of long-term gas supply agreement. Additionally, maintenance of profitability and capitalization metrics as well as internal cash flows will be considered important.

Corporate Profile

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 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, 4 members from Descon group and remaining are representatives of other holding companies.

Project Details

The Company initially setup 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 a foreign currency loan from a consortium of international financial institutions. The last installment of debt financing was paid in Dec'19. Presently, the primary fuel to generate electricity is imported RLNG.

<u>Key Rating Drivers:</u>

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 the 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.

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.

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 signed an addendum to continue with the same arrangement. The terms of this agreement will be effective up to the date of the signing of a long-term Gas Supply and Purchase Agreement (GSPA). The fuel supply risk will be mitigated upon finalization of the long-term GSA.

Master Agreement and PPA Amendment Agreement

On January 23, 2021, the Company and CPPA initialed a Master Agreement and a PPA Amendment Agreement (collectively referred to as the 'Agreements'). 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; 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 due as on Nov 30, 2020 in two tranches. CPPA made the first tranche of payment (40%) amounting to Rs 5,689.14 million on June 4, 2021, whereas the second tranche of payment (60%) amounting to Rs. 8,533.72 million was released on Nov 29, 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% has also been applied 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.

The PPA has been extended by a period of 323 days as of June 30, 2023, owing to non-compliance of RLNG under interim GSA. In addition, in 2021, the Company and CPPA signed the Settlement Agreement as part of the PPA Amendment Agreement, whereby both parties decided to resolve the issue of liquidated damages (LDs) amicably as per the agreed terms. According to the terms, the Company had to refund the capacity payments already received from the CPPA, which

pertained to the 2013 LDs period along with the 50% of the late payment interest accrued on these capacity payments, the impact of which amounted to Rs. 1.6b and was charged in the statement of profit or loss during FY21. The event was treated as Other Force Majeure Event (OFME) and the PPA was extended by another 112 days on account of 2013 and 2017 LDs period. As a result, the PPA will now end in February, 2031.

Decline in plant availability factor

RPPL's plant availability witnessed a downtrend over the rating review period; however, this was largely on account of planned outages. During FY23, the Company completed the second phase of replacement of gas turbine control system necessitated by obsolescence and discontinuation of existing control system which resulted in major planned outage of 52 days resulting in the availability factor declining to 84.8%. Furthermore, during 1HFY24, availability stood at 88% on account of scheduled maintenance outage during Nov'23; the same is expected to improve following completion of full year of operations.

Moreover, net power generation dispatched to the off-taker during 1HFY24 dropped to nil against 40 GWh delivered in SPLY owing to reduced demand given slowdown in industrial activity and higher electricity tariffs. Additionally, curtailment of RLNG also contributed to reduction in offtake. The RLNG curtailments have largely been the outcome of elevated global spot prices owing to supply shortages following the Russia-Ukraine war. Additionally, as European countries entered the market with the ability to meet any cost in securing limited worldwide supplies, Pakistan has been put in an even more unfavorable position. Furthermore, despite recent moderation in global RLNG prices, sharp currency devaluation and current account deficit over the rating review period has created further hinderances in procurement of supplies. Nonetheless, the demand risk is limited due to guaranteed capacity payments from the government in case electricity is not purchased. Breakdown of operational metrics is tabulated below:

	FY20	FY21	FY22	FY23	1HFY24
Load Factor (%)	7.4	9.1	28.4	5.90	-
Utilization Factor (%)	7.1	8.7	27.8	5.66	-
Availability Factor (%)	97.7	96.5	91.4	84.8	88.0
Reliability Factor (%)	100	99.1	99.6	98.9	100.0
Net Efficiency (%)	43.3	44.8	44.4	42.7	NA

During July'23, the Company and the CPPA resolved their disagreement over OFME days as per the provisions of the PPA. Consequently, 66.5 OFME days were registered during 1HFY24. Additionally, as per the PPA, the tenure of the same is extended by the number of OFME days while RPPL does not invoice any capacity payments during this period.

Decline in the topline on the back of lower energy payments; however, uptick in profitability metrics exhibited

The Company's topline stood considerably lower over the rating review period, dropping by 25.2% to Rs. 4.8b during 1HFY24 vis-à-vis SPLY (FY23: Rs. 16.8b, FY22: Rs. 18.8b). The same is largely due to lack of energy purchase payments on the back of nil offtake as well as reduction in capacity payments due to 66.5 OFME days. Breakdown of topline can be seen below:

	FY22	FY23	1HFY24
Capacity Purchase Payments (CPP)	27.1%	54.0%	74.8%
Energy Purchase Payments (EPP)	66.1%	31.8%	0.0%
Interest on late charges accrued	6.7%	14.2%	25.2%
Total	**100.0%**	**100.0%**	**100.0%**

However, with the majority of revenue emanating from capacity payments and interest on late charges due to lack of energy production, gross margins increased notably to 64.4% during 1HFY24 (FY23: 49.3%, FY22: 18.2%). Moreover, the bottom-line was also supported by decline in finance costs to Rs. 23.3m (FY23: Rs. 344.5m, FY22: Rs. 167m) in line with lower debt drawdown alongside uptick in other income to Rs. 422.4m (FY23: Rs. 17.5m, FY22: Rs. 98.9m) mainly owing to interest income on short-term investments amidst high policy rate environment. Consequently, the net margin increased to 68.3% during the ongoing year (FY23: 43.9%, FY22: 16.4%).

Going forward, the management expects continued underutilization of available production capacity due to lower power demand, high international RLNG prices and the government's efforts to increase reliance on indigenous fuels. Therefore, as the revenue mix is projected to remain largely a function of capacity payments and no further debt is expected to be mobilized, profitability margins are likely to remain sound despite the subdued topline.

Substantial receivables from GoP remain a concern; however, intermittent payments have kept the outstanding amount of these receivables in check

The Company continues to face sizeable buildup of trade debts which amounted to Rs. 12.7b at end-Dec'23 (FY23: Rs. 15.2b, FY22: Rs. 13b); however, Rs. 5.5b and Rs. 1.5b (FY23: Rs. 5.5b, Rs. 751 m) related to capacity revenue and delayed markup payments thereon, respectively, are not acknowledged by the CPPA-G. Of these amounts, Rs. 247.6m (FY23: Rs. 247.6m) is disputed by CPPA-G on the pretext that no gas was available during the period from Dec 19, 2019 to Jan 1, 2020 and hence, the period has not been treated as OFME by RPPL. However, the management is of the view that the plant could not be operated during this period due to technical start-up limits under the PPA being exceeded and as such this has no relevance to the gas availability. Moreover, the remaining sum of Rs. 5.3b (FY23: Rs. 5.3b) is contested on a similar pretext that gas was not available and hence, this period should also be treated as OFME by the Company. However, the management is of the view that CPPA's claim is not justified since there are meritorious grounds to challenge this dispute as the plant was technically available during these times, but the gas was not provided by SNGPL due to intervention by National Power Control Centre (NPCC) which is not even party to the interim GSA, contrary to the terms of the agreement. Furthermore, gas was provided to newer power plants in violation of the preferred right of RPPL as given in its Implantation Agreement with the GoP.

Based on the aforementioned grounds and on the advice of the legal counsel, no provision for the disputed amounts has been recognized in the financial statements. While the buildup of receivables may translate in higher liquidity risk going forward, the rating incorporates very low counterparty risk on government receivables.

Furthermore, RPPL's Funds from Operations (FFO) decreased on an annualized basis to Rs. 3.5b during 1HFY24 (FY23: Rs. 9.2b, FY22: Rs. 4.6) in line with drop in profitability. However, coverages have become meaningless in the absence of any borrowings on the balance sheet.

Moreover, the Company parked excess liquidity primarily in savings accounts and Term Deposit Receipts (TDRs) totaling Rs. 3.3b (FY23: Rs. 2.9b, FY22: Rs. 606.9m) to generate interest income. Additionally, dividends payable of about Rs. 2.1b (FY23: nil) are pending approval from the SBP at end-Dec'24; while the same contributed to some decrease in the current ratio to 7x at end-Dec'23 (FY23: 11.5x, FY22: 3.1x), the overall liquidity position remained sound.

Debt-free balance sheet contributing to strong capitalization levels

The Company's equity base decreased to Rs. 27.4b at end-Dec'23 (FY23: Rs. 31.1b, FY22: Rs. 23.6b) as substantial dividend payments of Rs. 6.9b outweighed profit retention.

On the flipside, the overall debt profile has also decreased to nil over the rating review period. RPPL's balance sheet has remained free in terms of long-term debt on a timeline basis while short-term borrowings were also settled as working capital requirements were met wholly by internal capital; a similar trend is expected moving forward as well. Nonetheless, standby working capital lines of Rs. 5.5b are available for any unforeseen circumstances.

Consequently, capitalization levels have remained comfortable with gearing and leverage levels reducing to nil and 0.1x, respectively at end-Dec'23 (FY23: nil, 0.06x, FY22: 0.12x. 0.22x). Going forward, given that the equity base is expected to expand on the back of internal capital generation coupled with no plans to raise any additional debt, leverage indicators are projected to remain negligible.

Rousch (Pakistan) Power Limited **Annexure I**

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY21**	**FY22**	**FY23**	**1HFY24**
Property, Plant, and Equipment	14,051	12,589	11,600	10,869
Stores, Spares and Loose Tools	636	639	651	671
Inventory of Fuel Oil	457	454	445	443
Trade Debts - secured	15,785	13,002	15,248	12,719
Tax Refund Due from Govt.	952	1,136	1,367	1,472
Cash and Bank Balances	1,302	607	2,894	3,302
Other Assets	420	376	707	700
Total Assets	***33,604***	***28,804***	***32,912***	***30,176***
Short-Term Borrowings	4	2,820	-	-
Trade and Other Payables	446	1,649	944	234
Accrued Liabilities	450	559	865	387
Other Liabilities	74	128	50	2,150
Total Liabilities	***975***	***5,156***	***1,860***	***2,772***
Paid-Up Capital	8,622	8,622	8,622	8,622
Tier-1 Equity/Total Equity	***32,629***	***23,648***	***31,052***	***27,404***
INCOME STATEMENT	**FY21**	**FY22**	**FY23**	**1HFY24**
Net Sales	12,206	18,815	16,845	4,758
Gross Profit	5,995	3,421	8,301	3,065
Finance Cost	246	167	345	23
Other Income	64	99	17	422
Profit Before Tax	**3,935**	**3,117**	**7,406**	**3,343**
Profit After Tax	**3,922**	**3,091**	**7,402**	**3,249**
FFO	**7,061**	**4,606**	**9,179**	**3,529**
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**	**1HFY24**
Gross Margin (%)	49.1%	18.2%	49.3%	64.4%
Net Margin (%)	32.1%	16.4%	43.9%	68.3%
FFO to Long-Term Debt (x)	-	-	-	-
FFO to Total Debt (x)	1621.8	1.6	-	-
Current Ratio (x)	20.2	3.1	11.5	7.0
Short-term Borrowing Coverage (x)	3771.6	4.8	-	-
Debt Servicing Coverage Ratio (x)*	27.4	41.5	22.8	60.5
ROAA (%)*	12.0%	9.9%	24.0%	20.6%
ROAE (%)*	12.8%	11.0%	27.1%	22.2%
Gearing (x)	0.00	0.12	-	-
Debt Leverage (x)	0.03	0.22	0.06	0.10

**Annualized*

REGULATORY DISCLOSURES — Appendix II

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				
05/22/2024	**AA**	**A-1**	**Stable**	**Upgrade**
05/15/2023	AA-	A-1	Stable	Downgrade
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
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Probability of Default
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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Muhammad Junaid Asghar	CFO & Company Secretary	April 29, 2024