RATING REPORT

Rousch (Pakistan) Power Limited

REPORT DATE:
November 21, 2022

RATING DETAILS	Preliminary
	Short-term
Islamic Commercial Paper (Rs. 2.0b)	A-1
Rating Action	*Preliminary*
Rating Date	*November 21, 2022*

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity Rating	AA	A-1	AA	A-1
Rating Outlook	*Stable*		*Stable*	
Rating Action	*Reaffirmed*		*Reaffirmed*	
Rating Date (Entity)	*20th May 2022*		*24th Jun 2021*	

COMPANY INFORMATION

Incorporated in 1994	**External auditors:** M/s. A.F. Ferguson & Co, Chartered Accountants.
Public Limited (Unlisted) Company	**Chairman:** Mr. Faisal Dawood
Key Shareholders (with stake 5% or more):	**CEO:** Mr. Waqar Ahmed Khan

- 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 : *Industrial Corporates (April 2021)*
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Rating The Issue (November 2021)
https://docs.vis.com.pk/docs/Notchingtheissue202007nov.pdf

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 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

Shareholding

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.

Business Update

Table 1: Operating Performance

	FY21	*FY22*	*Q1'FY23*
Load Factor (%)	9.1	28.4	19.3
Utilization Factor (%)	8.7	27.8	20.4
Availability Factor (%)	96.5	91.4	100.0
Reliability Factor (%)	99.1	100.0	100.0
Net Efficiency (%)	44.8	44.3	46.1
RoAE	12.9%	11.0%	28.6%*

** Annualized*

- Capacity utilization of the plant has increased in FY22 on account of changes in merit order hierarchy. As per National Transmission and Despatch Company Limited (NTDC) revised merit order issued in Nov'22, RPPL's standing in the merit order has risen from 54/122, as of May'22, to 27/71, as of Nov'22. Load & Availability factors are presented in the table above.

Table 2: Income Statement Extract

Rs in million	*FY21*	*FY22*	*Q1'FY23*
Net Sales	12,206	18,815	3,706
Gross Margin	49.1%	18.2%	51.6%
Operating Margins	47.3%	16.9%	50.4%
PBT Margin	32.2%	16.6%	47.3%
PAT Margin	32.1%	16.4%	47.2%

- The issue of non-recognition of revenue by CPPA poses a downside risk to potential cash inflows envisaged through the rating horizon. In FY22, revenues of Rs. 772m were not recognized by CPPA, during the period April-June'22, which comprises 4.1% of the Company's revenue. For the period Q1'FY23, Rs. 2b of revenue is not recognized by CPPA, which comprises 54% of the revenue booked for the period. CPPA contends that as gas was not available to RPPL during this period, this event should be treated as Other Force Majeure Event ('OFME'). However, the management contends that plant was technically available during these times but gas was not provided by SNGPL, due to intervention by National Power Control Centre, which is not a party to the interim gas Supply Agreement (GSA) and is contrary to the terms of the agreement.

Table 3: Balance Sheet Extract (All Figures in PKR' Millions, unless stated otherwise)

	Jun'21	*Jun'22*	*Sept'22*
Fixed Assets	**14,056**	**12,600**	**12,240**
Current Assets	**19,548**	**16,203**	**15,688**
- *Trade Debts*	15,785	13,002	12,701
- *Others*	3,763	3,201	2,987
Total Assets	**33,604**	**28,804**	**27,927**
Equity	**32,629**	**23,648**	**25,399**
Liabilities	**975**	**5,156**	**2,529**

- ***Debt***	**4**	**2,820**	**1,697**
o ***Long-Term***	**-**	**-**	**-**
o ***Short Term***	**4**	**2,820**	**1,697**

- Short term debt of the Company have risen as of June'22 vis-à-vis last year due to higher working capital requirements, though it is in-line with the past trend.
- Going forward, gearing and leverage indicators are projected to remain the same, as of Jun'23, at 0.08x and 0.10x respectively.

Islamic Commercial Paper Issuance

- RPPL is raising an unsecured Islamic Commercial Paper (ICP) amounting to Rs. 2b (inclusive of green shoe option of Rs. 1b) to finance working capital requirements of the Company.
- Tenor of the instrument is 6 months, with repayment by away of bullet payment. The mode of transaction for the ICP would be Musharakah (Shirkat ul Aqd).
- Indicative rate on the ICP would be 6-month KIBOR + 110 bpts.
- Mandated lead advisor and arranger (MLAA) is BankIslami Pakistan Limited.

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 term of PPA will end in February 2031.

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

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 stood at Rs. 12.7b as of Sep'22. 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 interim GSA with SNGPL has been extended for availability of RLNG, finalization of a long-term GSA 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.

Adequate 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.
- Going forward, as such there are no plans to raise additional debt, balance sheet is envisaged to be free of any long term debt with envisaged debt being only short term in nature and required in order to manage delayed cash inflows from CPPA.

Financial Summary

(Amount in Million)

BALANCE SHEET	June'19	June'20	June'21	June'22	Sept'23
Property, Plant & Equipment	17,280	15,570	14,051	12,598	12,238
Store and Spares	622	657	636	639	648
Fuel Oil Inventory	465	461	457	454	453
Trade Debts	14,640	13,559	15,785	13,002	12,701
Tax Refund Due from Govt.	504	797	952	1,136	1,170
Other Assets	271	619	421	368	681
Cash & Bank Balance	1,945	304	1,302	607	36
Total Assets	35,726	31,968	33,604	28,804	27,927
Short-term Borrowings	2,927	2,290	4	2,820	1,697
Long-Term Finances *(Inc. current mur)*	2,113	-	-	-	-
Total Debt	5,040	2,290	4	2,820	1,697
Trade & Other Payables	2,223	470	446	1,649	232
Total Liabilities	8,170	3,269	975	5,156	2,529
Total Equity	27,556	28,699	32,629	23,648	25,399
Paid-Up Capital	8,622	8,622	8,622	8,622	8,622
INCOME STATEMENT	FY19	FY20	FY21	FY22	Q1'FY23
Net Sales	19,473	10,314	12,206	18,815	3,706
Gross Profit	4,252	4,722	5,995	3,421	1,911
Operating Profit	4,077	4,555	5,776	3,185	1,867
Profit Before Tax	3,130	4,330	3,935	3,117	1,752
Profit After Tax	3,102	4,244	3,922	3,091	1,751
OPERATING METRICS	FY19	FY20	FY21	FY22	Q1'FY23
Load Factor (%)	41.5	7.4	9.1	28.4	19.3
Utilization Factor (%)	45.1	7.1	8.7	27.8	20.4
Availability Factor (%)	91.1	97.7	96.5	91.4	100
Reliability Factor (%)	96.0	100	99.1	100	100
Net Efficiency (%)	45.2	43.3	44.9	44.3	46.1
RATIO ANALYSIS	FY19	FY20	FY21	FY22	Q1'FY23
Gross Margin (%)	21.8	45.8	49.1	18.2%	51.6%
Net Margin (%)	15.9	41.2	32.1	16.4%	47.2%
FFO	5,330	5,902	7,072	12,536	2,116
FFO to Total Debt	1.06	2.58	-	4.45	4.99
Debt Servicing Coverage Ratio (x)	1.45	2.63	27.45	111.11	17.80
Gearing (x)	0.18	0.08	0.00	0.12	0.07
Debt Leverage (x)	0.30	0.11	0.03	0.22	0.10
Current Ratio	2.26	5.04	20.23	3.15	6.23

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 DISCLOSURE	Appendix III
Name of Rated Entity	Rousch (Pakistan) Power Limited
Sector	Powers
Type of Relationship	Solicited
Purpose of Rating	ICP Rating
Rating History	

Rating Date	Short Term	Rating Outlook	Rating Action
RATING TYPE: ICP (Rs. 2b)			
21-Nov-2022	A-1	-	Preliminary

Instrument Structure	**Rousch (Pakistan) Power Limited – ICP:** RPPL is raising a Privately Placed Islamic Commercial Paper (ICP) amounting to Rs. 2b (inclusive of green shoes option of Rs. 1b) to finance working capital requirements of the company. Tenor of the instrument is 6 months, with repayment by away of bullet payment. The mode of transaction for the ICP would be Musharakah (Shirkat ul Aqd). Indicative rate on the instrument would be 6-month KIBOR + 110 bpts.
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.
Disclaimer	

Due Diligence Meetings Conducted	Name	Designation	Date
	Mr. Zeeshan-ul-Haq Butt	Manager Finance	November 08, 2022