RATING REPORT

Rousch (Pakistan) Power Limited

REPORT DATE:
May 15, 2023

RATING ANALYSTS:

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RATING DETAILS	Final	Preliminary
	Short-term	Short-term
Islamic Commercial Paper (Rs. 1.070b)	A-1	A-1
Rating Action	*Final*	*Preliminary*
Rating Date	*May 15, 2022*	*Nov 21, 2022*

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 Action	*Downgrade*		*Reaffirmed*	
Rating Date	*15th May'23*		*20th May'22*	

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 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') 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 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.

Key Rating Drivers:

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 has 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).

Master Agreement and PPA Amendment Agreement

On February 11, 2021, the Company and CPPA have signed and executed a Master Agreement and PPA Amendment Agreement. Pursuant to the terms of these Agreements, the Company and CPPA have agreed to the following matters:

(1) Mechanism of settlement of outstanding
(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 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 Jun 4, 2021, whereas 2nd 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, 2022, 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, and the term of PPA will now end in February 2031.

Operating performance: During 1HY23, net power generation dispatched to the offtaker was 50 GWh against 265 GWh delivered in SPLY. Reduced generation was primarily on account of curtailment of RLNG as well as reduced demand. The RLNG curtailments has largely been the outcome of Russia-Ukraine war and the subsequent sanctions disrupting supplies from Russia and the resultant driving up global prices. In addition, the Europe's entry into the market with the ability to meet any cost in securing limited worldwide supplies, has put Pakistan in an even more unfavorable position. Pakistan relies on imported gas for a third of its electricity output and albeit, LNG prices have fallen from last year's record highs, the fuel is still much expensive to buy for our country amidst massive devaluation of local currency. Going forward, due to the improvement in LNG prices, the supply of RLNG to the Company's power plant is likely to improve.

Nonetheless, the demand risk is limited due to guaranteed capacity payments from the Govt. in case electricity is not purchased. Plant availability remained over 90% over the years, meanwhile, in the ongoing year, the Company carried major outage activities for 52 days resulting in lower availability factor. Please note that the last major overhaul was carried out in 2017. A snapshot of operating performance of the plant is presented below:

	FY20	FY21	FY22	HY23
Load Factor (%)	7.4	9.1	28.4	3.1
Utilization Factor (%)	7.1	8.7	27.8	3.0
Availability Factor (%)	97.7	96.5	91.4	71.7
Reliability Factor (%)	100	99.1	99.6	100
Net Efficiency (%)	43.3	44.8	44.4	45.1

During 1HY'23, RPPL reported ~27% decrease in net revenue vis-à-vis CPLY owing to dip in energy purchase price in line with 101 days of OFME and lower dispatch demand from off-taker. However, gross profit was recorded higher along with an increase in gross margins as a result of higher contribution of capacity payments.

Fuel supply risk will be mitigated upon finalization of long-term GSA. Under the 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. Given the plant's lower position in the dispatch order and the likely impact of the government's inability to purchase spot LNG cargoes on the LNG supply chain, the capacity utilization level would remain marginal.

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

The Company continues to face the issue of receivable build up despite the MOU signed with the Government. Trade debts augmented to Rs. 14.4b (FY22: Rs. 13.0b; FY21: Rs. 15.8b) by the end-HY'23. These include an aggregate amount of Rs. 3.6b (FY22: Rs. 1.2b) relating to capacity revenue not acknowledged by CPPA. Of this, the amount Rs. 248m (FY22: Rs. 248m) has not been acknowledged by CPPA on the pretext that no gas was available during the period from Dec 19, 2019, to Jan 1, 2020, and hence, the period should be treated as an OFME by the company. The management is of the view that CPPA's contention is not justified as 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 with the gas availability. Whereas the remaining amount of Rs. 3.4m (FY22: Rs. 908m) pertains to the amount included in the revenue recognized during the current year is disputed by CPPA for 102 days (FY22: 34 days) in the months from Jul'22 to Oct'22 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 contest 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 that is contrary to the terms of agreement. Furthermore, gas was provided to other power plants in violation of the preferred right of RPPL on gas as given in its Implementation Agreement with the GoP.

Based on the above grounds and on the advice of the legal counsel on these matters, no provision for the disputed amounts has been recognized in the financial statements. The buildup of receivables is a concern, as the same may translate into higher liquidity risk going forward; however, the rating incorporates very low risk on receivables from GoP. Due to expected signing of staff level Agreement with IMF, it is hoped that further buildup of circular debt will be curtailed due to timely increases in tariff and payments to the Company from the off-taker will improve.

Sound liquidity and capitalization profiles: The liquidity position of the Company is underpinned by adequate cash flows in relation to outstanding obligations. Moreover, the balance sheet has remained long-term debt free and there are no plans to raise additional debt in foreseeable future. The Company has standby working capital lines of Rs. 5.5b. Additionally, the Company has raised Islamic commercial paper upto the amount of Rs. 1.1b from Islamic capital market in Dec'22. This instrument carries markup at 6 months KIBOR plus 1.1% per annum. With growth in equity base on the back of internal capital generation, gearing and debt leverage have improved over the years.

Islamic Commercial Paper Issuance

- RPPL has raised an unsecured Islamic Commercial Paper (ICP) amounting to Rs. 1.070b to finance working capital requirements of the Company on Dec 1, 2022
- 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).
- Rate on the ICP is 6-month KIBOR + 110 bps.
- Mandated lead advisor and arranger (MLAA) is BankIslami Pakistan Limited.
- The maturity of the instrument falls on May 31, 2023;
- Upon review of executed legal documents and issuance of the instrument, rating has been finalized.

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

FINANCIAL SUMMARY (*amounts in PKR millions*)

BALANCE SHEET	FY21	FY22	1HFY23
Property, Plant, and Equipment	14,051.4	12,589.2	12,426.4
Stores, Spares. And Loose Tools	636.4	638.8	657.5
Inventory of fuel Oil	457.1	454.3	445.8
Trade Debts- secured	15,784.9	13,002.3	14,428.8
Other Receivables	333.1	275.3	443.3
Tax Refund Due from Government	952.5	1,136.3	1,221.2
Other Assets	20.7	21.8	31.1
Short Term Prepayments	65.4	78.8	18.6
Cash and Bank Balances	1,302.1	606.9	16.7
Total Assets	**33,603.6**	**28,803.7**	**29,689.3**
Employee retirement benefits	8.7	10.0	10.1
Trade and Other Payables	446.2	1,648.8	886.8
Short-Term Borrowings	4.4	2,819.7	220.4
Accrued Liabilities	450.4	558.6	421.4
Islamic Commercial Papers-Unsecured	0.0	0.0	981.6
Accrued markup on short-term debt	58.5	111.6	62.3
Total Liabilities	**974.9**	**5,155.5**	**2,589.5**
Paid-Up Capital	8,621.6	8,621.6	8,621.6
Tier-1 Equity/Total Equity	**32,628.7**	**23,648.2**	**27,099.8**

INCOME STATEMENT	FY21	FY22	1HFY23
Net Sales	12,206.1	18,814.6	6,362.3
Gross Profit	5,994.5	3,420.8	3,792.2
Finance Cost	245.9	167.0	199.3
Other Income	64.4	98.9	9.3
Other Expenses	24.3	90.0	55.4
Profit Before Tax	3,934.8	3,116.9	3,452.7
Profit After Tax	3,922.4	3,091.2	3,451.6
FFO	7,071.6	12,535.7	8,256.4

RATIO ANALYSIS	FY21	FY22	1HFY23
Gross Margin (%)	49.1%	18.2%	59.6%
Net Margin (%)	32.1%	16.4%	54.3%
Net Working Capital	18,581.9	11,057.9	14,669.2
Current Ratio (x)	20.23	3.15	6.69
FFO to Long-Term Debt	-	-	-
FFO to Total Debt	1624.2	4.4	37.5*
Debt Servicing Coverage Ratio (x)	27.5	111.1	14.7
ROAA (%)	12.0%	9.9%	22.5%*
ROAE (%)	12.8%	11.0%	24.8%*
Gearing (x)	0.00	0.12	0.01
Debt Leverage (x)	0.03	0.22	0.10

**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 DISCLOSURE Appendix III

Name of Rated Entity	Rousch (Pakistan) Power Limited
Sector	Powers
Type of Relationship	Solicited
Purpose of Rating	ICP Rating
Rating History	see below
Instrument Structure	**Rousch (Pakistan) Power Limited – ICP:** RPPL has raised a Privately Placed Islamic Commercial Paper (ICP) amounting to Rs. 1.070b to finance working capital requirements of the company. Tenor of the instrument is 6 months, with repayment by way of bullet payment. The mode of transaction for the ICP is Musharakah (Shirkat ul Aqd) and rate on the instrument is 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	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information.

Rating History

Rating Date	Short Term	Rating Outlook	Rating Action
RATING TYPE: ICP (Rs. 2b)			
15-May-2023	A-1	-	Final
21-Nov-2022	A-1	-	Preliminary

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Muhammad Junaid Asghar	CFO & Company Secretary	April 11 & May 12, 2023