

RATING REPORT

Thal Power (Private) Limited

REPORT DATE:

December 29, 2020

RATING ANALYSTS:

Narendar Shankar Lal

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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 Date	December 29, 2020		December 12, 2019	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Initial	

COMPANY INFORMATION

Incorporated in 2014

External auditors: EY Ford Rhodes Chartered Accountants

Private Limited Company

Chief Executive Officer: Mr. Shahid Saleem

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (May, 2019)

<https://s3-us-west-2.amazonaws.com/backupsqjvis/docs/Corporate-Methodology-201904.pdf>

Thal Power (Private) Limited

OVERVIEW OF
THE
INSTITUTION

RATING RATIONALE

In 2014, Thal Power (Private) Limited was incorporated as a public limited company. Registered office of the company is in Karachi. The company has been setup by Thal Limited to invest in ThalNova Power Thar (Private) Limited.

Thal Power (Private) Limited was setup by Thal Limited (THAL) as a wholly-owned subsidiary for the purpose of routing its investment in ThalNova Power Thar (Private) Limited (ThalNova). ThalNova is a joint venture between Thal Power (Private) Limited (TPPL), Nova Powergen Ltd (subsidiary of Novatex Ltd) and Hub Power Company Limited (HUBCO) to set up a 330 MW mine mouth coal-fired power generation plant located at Thar, Sindh. This power plant will be run on indigenous coal extracted from the mine operated by Sindh Engro Coal Mining Company Limited (SECMC). China Machinery & Engineering Corporation (“CMEC”) has been appointed as the EPC contractor. ThalNova has entered into Coal Supply Agreement (CSA) with SECMC to supply 1.9 MTPA of lignite. It has also entered into a Power Purchase Agreement (PPA) with the Central Power Purchase Agency (Guarantee) Ltd. (CPPA) and the Implementation Agreement (“IA”) with Private Power Infrastructure Board (PPIB).

The Power Plant is listed under Priority Projects under the China Pakistan Economic Corridor (CPEC) and its financing is being led by China Development Bank and Habib Bank Ltd. ThalNova achieved its Financial Close on September 30, 2020. The Project is expected to come online in 2022.

Thal Ltd. owns 26% ordinary shareholding in ThalNova through its wholly owned subsidiary Thal Power (Private) Limited. THAL has undertaken to invest an amount of the PKR equivalent of USD 34.26 million in ThalNova through TPPL in order to fulfill ThalNova’s equity investment obligation. Out of the total quantum, USD 12.7 million has been injected by THAL and standby letter of credit has been provided for the remaining amount to be injected.

Key rating drivers:**Strong sponsor profile**

Thal Power (Private) Limited was setup by Thal Limited (THAL) as a wholly-owned subsidiary for the purpose of routing its investment in ThalNova Power Thar (Private) Limited (ThalNova). ThalNova is a joint venture between Thal Power (Private) Limited (TPPL), Nova Powergen Ltd (subsidiary of Novatex Ltd) and Hub Power Company Limited (HUBCO) to set up a 330 MW mine mouth coal-fired power generation plant located at Thar, Sindh. This power plant will be run on indigenous coal extracted from the mine operated by Sindh Engro Coal Mining Company Limited.

THAL is part of House of Habib (HoH), an established conglomerate based in Pakistan and engaged in diversified businesses. HoH’s operations vary across different sectors comprising automobile, building materials, packaging, and financial services. HOH is

known to have equity and technical collaborations with Japanese, European and American companies.

Unlevered capital structure and sponsor support agreement with THAL

As at June 30, 2020, TPPL's outstanding liabilities included Rs. 1,652.3m due to THAL. This represents an interest free loan received from THAL for purchase of shares of ThalNova. The loan will be converted into share capital based on the progress achieved by ThalNova for its underlying project.

Ratings also draw comfort from the unlevered capital structure of TPPL, commitment from TPPL that it will not undertake any debt in future, and the undertaking from THAL that it will be liable for all existing and future liabilities of TPPL.

FINANCIAL SUMMARY		<i>(amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>		FY18	FY19	FY20
Property Plant and Equipment		-	-	-
Long term deposits		0.7	0.7	0.7
Long term investments		558.8	589.8	1,506.4
Stock-in-Trade		-	-	-
Trade Debts		-	-	-
Cash & Bank Balances		0.5	1.0	1.0
Total Assets		760.9	854.9	1,662.4
Trade and Other Payables		0.1	0.1	0.5
Short Term Debt		-	-	-
Total Debt		-	-	-
Total Liabilities*		2.5	2.0	0.5
Paid up Capital		0.1	0.1	0.1
Total Equity*		758.5	852.9	1,661.8
<u>INCOME STATEMENT</u>		FY18	FY19	FY20
Income from Investments		6.3	18.3	23.9
Admin Expense		(0.4)	(1.2)	(1.4)
Operating Profit		5.9	17.1	22.5
Finance Cost		(0.0)	(0.0)	(5.3)
Profit (Loss) Before Tax		(22.8)	17.2	17.8
Profit (Loss) After Tax		(24.3)	17.6	13.9
<u>RATIO ANALYSIS</u>		FY18	FY19	FY20
Net Working Capital		201.3	261.0	153.3
FFO		(0.3)	12.3	11.8
FFO to Total Debt (x)		-	-	-
Current Ratio (x)		2237.7	134.7	285.1
Gearing (x)		-	-	-
Leverage (x)		0.003	0.002	0.0003
ROAA (%)		n/a	2.2%	1.1%
ROAE (%)		n/a	2.2%	1.1%

* Interest free loan from sponsors has been considered a part of equity rather than liabilities

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 II			
Name of Rated Entity	Thal Power (Private) Limited				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	29/12/2020	AA	A-1+	Stable	Reaffirmed
12/12/2019	AA	A-1+	Stable	Initial	
Instrument Structure	n/a				
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	S.No	Name	Designation	Date	
	1	Mr. Muhammad Tayyab Ahmad Tareen	Chief Executive Officer (CEO) of Thal Limited	Dec 16, 2020	