

RATING REPORT

Thal Power (Private) Limited

REPORT DATE:

December 30, 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 Date | December 30, 2022 | | January 17, 2022 | |
| Rating Outlook | Stable | | Stable | |
| Rating Action | Reaffirmed | | Reaffirmed | |

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 (August 2021)

<https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf>

Thal Power (Private) Limited

OVERVIEW OF
THE
INSTITUTION

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.

RATING RATIONALE

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' or 'the Project'). ThalNova is a joint venture between Thal Power (Private) Limited (TPPL), Nova Powergen Limited (subsidiary of Novatex Ltd), and Hub Power Holding Company Limited. The Project is based on setting up a 330 MW mine mouth coal-fired power generation plant located at Thar, Sindh. This 330 MW power plant will be run on indigenous coal extracted from the mine operated by Sindh Engro Coal Mining Company Limited (SECMC).

The Power Plant is listed under Priority Projects of 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. Both USD lender and PKR lender have dispensed their first tranche of debt after a brief delay. The Project is expected to achieve commercial operations date in Q1'2023. Thal Limited owns 26% shareholding in ThalNova through its wholly owned subsidiary TPPL, and has undertaken to invest an amount of the PKR equivalent of USD 34.3m into the Project, of which, USD 26.1m has already been injected. The balance commitment of the investment is USD 8.2m in PKR equivalent.

Key Rating drivers**Ratings remain underpinned by strong sponsors profile**

Ratings draw strength from strong financial profile of the sponsors, and their extensive experience in the power generation industry. 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 has equity and technical collaborations with Japanese, European and American companies.

Rating draws comfort from unlevered capital structure

The rating incorporates the unlevered capital structure of the Company, the commitment from TPPL that it will not undertake debt in the future, and the undertaking of THAL that it will be liable for all existing and future liabilities of TPPL.

Long-term Power Purchase Agreement (PPA) with CPPA-G alleviates off-take risk while adequate insurance coverage is in place.

ThalNova is being developed on a Build-Own-Operate basis as an Independent Power Producer (IPP). The Project has a PPA in place with the Central Power Purchasing Agency (CPPA-G) for a tenure of 30 years. As per the agreement, in case, CPPA-G is unable to accept all energy delivered, ThalNova will continue to receive the capacity payments at applicable tariff rates from CPPA-G. The Government of Pakistan has given a payment guarantee against dues from CPPA-G. On the fuel supply front, ThalNova has entered into Coal Supply Agreement with SECMC to supply 1.9 MTPA of lignite.

The transmission network for ThalNova has been put in place. Furthermore, SECMC has successfully commenced operation for an expanded mining operation of 7.6 MPTA (Phase II) in September 2022. SECMC Board has approved Phase III expansion of the mine to enhance total production capacity to 12 MPTA. Phase III expansion of the mine is expected to be completed in the last quarter of CY2023.

Operational risk is considered manageable given O&M contract in place with experienced O&M operator.

ThalNova has entered into an O&M contract with China East Resource Import and Export Corporation and China Machinery Engineering Corporation (CMEC). Comfort is drawn from the extensive global experience of the O&M contractors. CMEC is responsible for the overall management and execution of the power project. The EPC contractors have also provided bank guarantees in the form of performance bond and warranty bond, which are an added source of comfort.

The assigned rating incorporates the protracted delay in achieving COD

The Company's revised COD was in June 2022, however, owing to the covid induced lockdown prevalent in China, the date was further pushed forward. As per management, the boiler has been fired recently, which is the initiation of the synching process of the plant to the grid. The management is confident that with no major risk of further delay and no critical equipment stuck at the port, the plant is ~ 50 days behind its Reliability Running Test (RRT) subsequent to which the plant will achieve its COD in the month of February 2023.

| FINANCIAL SUMMARY <i>(amounts in PKR millions)</i> | | | | |
|--|--------------|-----------------|----------------|----------------|
| <u>BALANCE SHEET</u> | FY19 | FY20 | FY21 | FY22 |
| Property Plant and Equipment | - | - | - | - |
| Long term deposits | 0.7 | 0.7 | 0.7 | 0.7 |
| Long term investments | 589.8 | 1,506.4 | 1,708.9 | 4,106.4 |
| Stock-in-Trade | - | - | - | - |
| Trade Debts | - | - | - | - |
| Cash & Bank Balances | 1.0 | 1.0 | 183.7 | 26.4 |
| Total Assets | 854.9 | 1,662.4 | 1,899.4 | 4,546.3 |
| Trade and Other Payables | 0.1 | 0.5 | - | - |
| Short Term Debt | - | - | - | - |
| Total Debt | - | - | - | - |
| Total Liabilities | 2.0 | 0.5 | 0.2 | 1.7 |
| Total Equity | 852.9 | 1,661.8* | 1,899.2 | 4,544.6 |
| | | | | |
| <u>INCOME STATEMENT</u> | FY19 | FY20 | FY21 | FY22 |
| | | | | |
| Income from Investments | 18.8 | 23.9 | 11.2 | 7.3 |
| Admin Expense | (1.2) | (1.4) | (0.8) | (1.0) |
| Operating Profit | 17.7 | 22.5 | 10.4 | 6.3 |
| Finance Cost | (0.0) | (5.3) | (10.8) | (8.7) |
| Profit (Loss) Before Tax | 17.2 | 17.8 | (11.2) | (5.9) |
| Profit (Loss) After Tax | 17.6 | 13.9 | (10.3) | (4.6) |
| | | | | |
| <u>RATIO ANALYSIS</u> | FY19 | FY20 | FY21 | FY22 |
| | | | | |
| FFO | 12.3 | 11.8 | 8.4 | (2.3) |
| FFO to Total Debt (x) | - | - | - | - |
| Current Ratio (x) | 134.7 | 285.1 | 1,115.9 | 248.8 |
| Gearing (x) | - | - | - | - |
| Leverage (x) | 0.002 | 0.0003 | 0.0001 | 0.0004 |

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

RATING SCALE & DEFINITION

Appendix I

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERSMedium 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 |
| | RATING TYPE: ENTITY | | | | |
| | 30/12/2022 | AA | A-1+ | Stable | Reaffirmed |
| | 17/01/2022 | AA | A-1+ | Stable | Reaffirmed |
| | 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. Salman Khalid | Company Secretary | | |
| | 2 | Mr. Shahid Saleem | CEO | Dec 20, 2022 | |
| | 3 | Mr. Mahad Hamza | Head of Business Development | | |