

RATING REPORT

Thal Power (Private) Limited

REPORT DATE:

December 22, 2023

RATING ANALYSTS:

Husnain Ali

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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 22, 2023		December 30, 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

Key Shareholders (with stake 5% or more):

Thal Limited - 100%

APPLICABLE METHODOLOGY

Applicable Rating Criteria:

 Corporates (May 2023) <https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

 Rating Scale & Definitions <https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Thal Power (Private) Limited

OVERVIEW OF
THE
INSTITUTION

RATING RATIONALE

Thal Power (Private) Limited was incorporated in 2014, as a wholly-owned subsidiary of Thal Limited (THAL). The company has been setup by THAL to invest in ThalNova Power Thar (Private) Limited.

Profile of CEO:

Mr. Shahid Saleem has been associated with House of Habib (HoH) since 2003. He also serves as the CFO of Thal Limited. Prior to joining HoH, Mr. Saleem had more than two decades of experience with companies in textile, chemical, OMC and construction sectors. Mr. Saleem is a Certified Director from the Pakistan Institute of Corporate Governance, a Fellow Member of Pakistan Institute of Public Finance Accountants and a Fellow Member of the Institute of Cost and Management Accountants of Pakistan.

Thal Power (Private) Limited ('TPPL' or 'the company') was setup by Thal Limited (THAL) in 2014 as a wholly-owned subsidiary for the purpose of routing its investment in ThalNova Power Thar (Private) Limited ('ThalNova' or 'the project'). TPPL holds 26% shareholding in ThalNova. The registered office of the company is located in Karachi.

ThalNova is a joint venture between TPPL, Nova Powergen Ltd (subsidiary of Novatex Ltd), CMEC ThalNova Power Investments Limited (a subsidiary of China Machinery Engineering Corporation), Hub Power Holdings Limited and Descon Engineering 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 is run on indigenous coal extracted from the mine operated by Sindh Engro Coal Mining Company Limited (SECMC). The 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. Thal Limited, through TPPL, has invested an amount of the PKR equivalent of USD 34.3m into the project with the last tranche of Rs. 60m injected in Jul'23. ThalNova achieved commercial operations date (COD) on February 17, 2023.

Key ratings 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 has equity and technical collaborations with Japanese, European and American companies across different sectors comprising automobile, building materials, packaging, and financial services.

Ratings draw comfort from unlevered capital structure.

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

ThalNova funded through debt-to-equity mix of 75:25.

ThalNova project cost of ~USD 527m was funded with debt-to-equity ratio of 75:25. Debt has been arranged with a syndicate of foreign and local institutions. The first and major sponsor of Debt include consortium of China Development Bank (CDB), China Machinery Banking Corporation Limited and China Zheshang Bank; foreign loan was priced at 6M Libor plus 4.05% per annum while remaining 30% of the debt portion is financed by a consortium of local banks led by HBL and was priced at 3M KIBOR plus 3.50% per annum. Principal repayment will be made in 20 semi-annual payments. The equity portion of the project is led by Hub Power Holding Limited (38.3%), TPPL (26.0%), Nova Powergen Limited (24.7%), China Machinery Engineering Corporation (10.0%) and Descon Engineering Limited (1.0%).

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

ThalNova was developed on a Build-Own-Operate basis as an Independent Power Producer (IPP). The Project has a PPA in place with Central Power Purchasing Agency (CPPA-G) for a tenure of 30 years commencing from the Commercial Operations Date (COD). As per 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 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. SECMC has successfully commenced operation for expanded mining operation of 7.6 MPTA (Phase II) in Sep'22. SECMC Board has approved Phase III expansion of the mine to enhance total production capacity to 11.4 MPTA. Phase III expansion of the mine is expected to be completed by mid CY2024.

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.

ThalNova generated sizable income during FY23.

Owing to the plant's lower fuel cost, ThalNova was standing high at 4/73 on NTDC's (National Transmission and Despatch Company Ltd) merit list as on December 1, 2023. The project generated Rs. 22.5b in net sales and Rs. 4.8b in net profit during FY23. Following are the operational metrics of the complex:

	From Feb'23 till Oct'23
Net electrical output	1421 GWh
Availability factor	91% (benchmark 85%)
Load factor	77% (per GoP schedule)
Net efficiency	36.5% (efficiency as per upfront tariff – 37%)

Financials results of TPPL in FY23

TPPL's equity base increased to Rs. 7.3b (FY22: Rs. 4.5b) on the back of issuance of ordinary shares to the holding company and profit retention. Short-term advance increased to Rs. 1.4b (Jun'22: Rs. 405.6m) by end-Jun'23 for purpose of injecting further equity into ThalNova. During FY23, TPPL recorded profit of Rs. 1.3b compared to loss of Rs. 4.6m during FY22 on the back of share of profit received from ThalNova.

Thal Power (Private) Limited

Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>	FY21	FY22	FY23
Deferred Tax Asset	5.8	6.3	35.4
Long Term Investments	1,708.9	4,106.4	5,794.8
Short Term Advance	-	405.6	1,441.0
Cash & Bank Balances	183.7	26.4	21.0
Other Assets	0.9	1.5	1.5
Total Assets	1,899.4	4,546.3	7,293.7
Total Liabilities	0.2	1.7	3.0
*Total Equity	1,899.2	4,544.6	7,290.7
<u>INCOME STATEMENT</u>	FY21	FY22	FY23
Income from Investments	11.2	7.3	3.5
Admin Expense	(0.8)	(1.0)	(1.2)
Share of Profit/(Loss) from Joint Venture	(11.2)	(3.4)	1,243.1
Finance Cost	(10.8)	(8.7)	(5.6)
Profit (Loss) before Tax	(11.2)	(5.9)	1,243.1
Profit (Loss) after Tax	(10.3)	(4.6)	1,272.3
FFO	8.4	(2.3)	(3.3)

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

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				
	22/12/2023	AA	A-1+	Stable	Reaffirmed
	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	Shahid Saleem	CEO		
	2	Qamar Abbas	Director	December 06, 2023	
	3	Mahad Hamza	Head of Business Development		