RATING REPORT

Punjab Thermal Power (Private) Limited (PTPL)

REPORT DATE:

09 June, 2022

RATING ANALYSTS:

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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity	AA-	A-1	AA-	A-1
Outlook	Stable		Stable	
Rating Date	*Jun 9,'22*		*Jul 01,'21*	

COMPANY INFORMATION	
Incorporated in 2017	**External Auditors:** Yousuf Adil – Chartered Accountants
Private Limited Company	**Chairman:** Mr. Muhammad Ali
Key Shareholders (with stake 10% or more):	**Chief Executive Officer:** Mr. Salman Zakaria
Government of the Punjab – 100%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

RATING RATIONALE

The ratings assigned to Punjab Thermal Power (Private) Limited (PTPL) incorporate its strong ownership profile being wholly owned by a sub-sovereign, Government of Punjab (GoPb) through Energy Department. PTPL is a combined cycle power project of 1,263.2 MW capacity (net 1,242.7 MW) on Re-gasified Liquefied Natural Gas (RLNG) as the primary fuel and 1,105.0 MW capacity (net 1,081.8 MW) on High-Speed Diesel (HSD) as back-up fuel located near Haveli Bahadur Shah /Trimmu Barrage, District Jhang, Punjab, Pakistan. The proposed combined cycle efficiencies are 61.2% and 55.8% on RLNG and HSD respectively and Simple Cycle efficiency is 39.2% on RLNG. Meanwhile, the proposed annual plant availability of the project is 92%.

The project was approved by the Cabinet Committee on Energy (CCoE) of the Federal Government on June 6, 2017. CCoE also relaxed, to the extent of this project, the ban it had placed on new imported fuel-based power projects. National Electric Power Regulatory Authority (NEPRA) granted power generation license to PTPL in February, 2018. Power Purchase Agreement (PPA) has been signed for 30 years with Central Power Purchasing Agency Guarantee Limited (CPPA-G) with 'take or pay' provision in June 2020. CCoE approved reduction in capacity charges of Government owned projects in Aug'20 and revised the ROE to 12% with dollar-based indexation. The company entered into Gas Supply Arrangement for 15 years with Sui Northern Gas Pipeline Limited in August 2020. Financial close was achieved in April 2021.

Project completion risk is largely mitigated as COD is expected to be achieved by end-Jun'22: As per progress report for period ended-Apr'22, installation of Gas Turbine 1 (GT-1) and Gas Turbine 2 (GT-2) was completed; however, commissioning process was suspended due to unavailability of gas from Mar 24, 2022 till Apr 30, 2022 after which the commissioning and testing of both turbines have been in progress. The installation and commissioning of generators step-up transformers (GSUT), which act as a critical link between the power station and the transmission network, have also been completed. The independent engineer, OMS (Pvt.) Limited has certified that GT-1 and GT-2 have successfully completed the tests for the purpose of readiness of synchronization on March 24 and May 16, 2022, respectively. The project is expected to commence simple cycle operations by end-Jun'22 while combined cycle operations are expected to start by end-Aug'22.

The project faced interruptions over the last three years majorly on account of delays in achievement of financial close owing to predicaments in forming a syndicate of banks and delays in signing concession agreement. Resultantly, EPC contactors slowed down the construction activities, which in turn led to increase in project cost by US$ 73.03m primarily in line with escalation in interest during construction (IDC). In addition, Covid-19 implications have also contributed in slowing down the project completion owing to visa issues for foreign technical experts, travel restrictions and complete lockdown after emergence of number of cases on the project site.

According to management, sharp devaluation of local currency and interest rate hike in the ongoing year may impact the budgeted cost negatively. However, as per management the model has adequate cushion against adverse exchange and interest rates movements. In addition, such risk is largely mitigated on account of potential saving in IDC as the company has been making drawdowns according to milestone payments amidst sufficient availability of funds, along with further sponsor's support for cost overruns and certain claims.

Capitalization is supported by adequate funding facilities and sponsor's support: The company entered into project finance facility (PFF) of Rs. 78.4b i.e., 70% of the total project

OVERVIEW OF THE INSTITUTION

Punjab Thermal Power (Private) Limited was incorporated as a private limited company under the Companies Act 2017 on June 08, 2017. The principal activity of the company is to build, own, operate and maintain a thermal plant having a total capacity of 1,263.2 MW.

Chairman's Profile: *Mr. Muhammad Ali is currently serving as Chairman Board of Directors of PTPL. He did his Bachelor`s Degree in Electrical Engineering from UET, Lahore. He has over two decades of experience and expertise in Energy & Petrochemical Sectors; holding leading roles that oversaw development, construction, operations and management of mega-size projects. He has recently taken over the energy business portfolio of the JS group of companies as CEO of JS Energy where he looks after the group's oil and gas, power generation, and energy storage and handling businesses.*

CEO's Profile: *Mr. Salman Zakaria is currently serving as Chief Executive Officer of Punjab Thermal Power (Private) Limited. He did his BSc Engineering from UET in 1984 and Ph.D. from Imperial College London in 1990. He has vast multi sectoral experience of working at lead executive positions including power sector experience in Pakistan and abroad.*

cost of Rs. 112b on Dec 17, 2020 with the Mandated Lead Arrangers (MLAs) out of which drawdowns of Rs. 39.26b have been made as of Mar 31, 2022. In accordance with the financing arrangements, entire equity contribution of Rs. 33.6b has been fully injected by end-FY20. In addition to PFF, the company has arranged the working capital facilities to the tune of Rs. 15.2b which entails 70% of the total budgeted working capital requirements amounting Rs. 21.7b from consortium of banks. Moreover, in FY21, the GoPb has injected additional equity amounting Rs. 6.52b for working capital requirements of the company, against which shares have been issued to GoPb subsequently. The availability period of working capital facilities is 12 months' commencing from the facility effective date unless extended with the prior written consent of the financiers. The facility carries markup/musharaka profit at rate of 3M KIBOR plus 2% per annum and is secured by way of charge against all present and future assets of the company in accordance with the requirements of security documents. The facility effective date under the agreement has been achieved recently while no amount has been drawn yet.

In pursuance of the terms of the Gas Supply Agreement (GSA) the company is obligated to provide gas security deposit equivalent to the thirty days gas requirement. Accordingly, the company has entered into Stand by letter of credit (SBLC) facility agreement with the banks for the provision of Rs. 10.5b; SBLC has been issued to the gas supplier- Sui Northern Gas Pipeline Limited (SNGPL). The main purpose of SBLC is to guarantee the payments up to the facility amount to the gas supplier, in the event of failure by the company to pay the supplier in accordance with the terms of GSA. The facility is secured by the way of GoPb guarantee and the debit authority of Rs. 9.4b, Rs. 1 billion against cash margin and charge of Rs. 12.8b has been created by the way of assignment and charge over energy payment receivable and GSA receivable which shall rank subordinated only to the security in favor of working capital finance parties. However, due to adverse exchange rate movement and increase in RLNG prices, further SBLC facility of up to Rs. 2.5b is required against which Rs. 1b has been arranged recently. During FY21, after the achievement of financial close, Government guarantees of Rs. 60.9b issued to secure retirement of LCs and repayment of bridge finance have been released. Trade and other payables largely comprising provision for EPC related works or equipment have decreased to Rs. 20.4b (FY21: Rs. 27.5b; FY20: Rs. 55.5b) by end-9MFY22. The said provision represents liability accrued for items of plant and machinery received along with the completion of related works (based upon overall percentage completion of works) after adjusting for advances given and invoices raised by EPC contractor.

Subordinated loan from sponsor stood at Rs. 8.7b (FY21: Rs. 8.7b) at end-Mar 31, 2022. This interest free loan was provided as a sponsors support in accordance with the requirement of Sponsor Support Agreement (SSA) and the loan agreement dated August 28, 2020, was amended and restated on Feb 2021 to incorporate certain items and conditions of financing agreements. This loan shall be subordinated and repaid in accordance with the terms and conditions of the financing agreements.

Commitments related to EPC contractor, consultancy agreement, Operations & Maintenance (O&M) agreement and Long-Term Service Agreement (LTSA): The offshore commitments regarding LCs opened in favor of CMEC (the EPC contractor), which became part of overall financing arrangement after the achievement of financial close, stood at US$104m (FY21: US$ 155m; FY20: US$: 319m) while onshore LCs amounted to Rs. 3.2b (FY21: Rs. 4.8b; FY20: Rs. 4.8b) at end-9MFY22. PTPL's commitments in respect of the consultancy agreement with National Engineering Services Pakistan (NESPAK) amounted to Rs. 266.2m (FY21: Rs. 266.1m; FY20: Rs. 352.7m).

As per the terms of the EPC Agreement, the company can ask the EPC contractor to undertake simple cycle Operations and Maintenance (O&M) services; in this case China Machinery Engineering Corporation (CMEC) will be obligated to enter into simple cycle O&M agreement. The Company had exercised the available option and appointed EPC contractor as an O&M operator for simple cycle operations only. PTPL has hired the services of Harbin Electric International Company Limited (HEICL) as O&M operator for Combined Cycle Operations on April 29, 2021 for the entire term of PPA. The company's commitment in respect of O&M agreement with HEICL stands at approximately US$ 155.5m (without indexation) based on normal operational regime for the entire term of the agreement i.e., twelve years. Actual payments shall be made in terms of the agreements.

Through international competitive bidding process, Siemens Pakistan Engineering Company Limited (Siemens) was declared as successful bidder for LTSA and the Company entered into the LTSA with Siemens in December 2017. The company's commitment in respect of LTSA with Siemens is US$ 156.8m (with indexation) based on normal operational regime for the entire term of the agreement i.e., twelve years while actual payments shall be made in terms of the agreement.

EPC Liquidated Damages (LDs) on performance standards: If the facility upon carrying out completion tests is unable to meet the required conditions set, PTPL has the right to reject the facility by giving a notice to the EPC contractor along with reasons. The conditions include that if the net power output (NPO) at any fuel (natural gas or HSD) is less than 95% of the guaranteed NPO of the facility and if the net heat rate (NHR) on either fuel exceeds 103% of the guaranteed GNHR. Hence the LDs for NPO of the facility for each 1% deviation in NPO, 3% of the agreement price will be charged. The aggregate cap for LDs for not achieving the guaranteed NPO will be limited to 15% of agreement price. Further, the LDs for NPO of gas turbines for either fuel will be calculated at 1% of the agreement price multiplied by percentage differential between guaranteed NPO and actual NPO. Moreover, for LDs of NHR of the facility on either fuel involve 5% of the agreement price charged for each 1% deviation in guaranteed NHR.

Claims submitted by EPC contractor: EPC contractor has submitted various claims for extension of time for completion of the project and additional cost mainly attributable to delay in signing of concession agreement, force majeure events i.e., Covid-19 and others with a cumulative claim amounting to US$ 80.62m and Rs. 3.08b, out of which US$ 40m were against the cost escalation borne by the contractor on account of delays in concession agreement and US$ 12m pertained to impact of pandemic under force majeure event. The company upon initial review has found that most of these claims are not properly justified and unsubstantiated as per the terms of EPC agreement. Therefore, it is required that EPC contractor must substantiate its claims with valid and verifiable supporting documents so that determination could be proceeded. Meanwhile, the EPC contractor has recently reduced its claims to US$ 70m. Additionally, risk of payment against probable claims has been largely mitigated through loan agreement and SSA.

Approved tariff structure and one-time adjustments in tariff at COD: NEPRA has determined and approved the tariff for PTPL for 30 years on June 7, 2018. The following tariff has been approved for Ex-GST base fuel price of US $8.2/mmbtu-HHV for gas and Rs. 59.5/Liter on HSD:

Rs.	**Combined Cycle Operation**	
Description	RLNG	HSD
Energy Charge (Rs./kWh):		
Fuel cost component	5.6005	10.7216
Variable O&M	0.3079	0.4443
Total	5.9084	11.1659
Capacity Charge (Rs./kW/hour):		
Fixed O&M (Local)	0.0631	0.0724
Fixed O&M (Foreign)	0.1041	0.1196
Cost of working capital	0.0922	0.1059

Insurance	0.0531	0.0610
Return on Equity	0.3330	0.3825
Debt servicing (1-10 years only)	0.8112	0.9318
Total 1-10 years	1.4565	1.6732
Total 11-30 years	0.6454	0.7414
Avg. Tariff 1-10 years @ 92% (Rs./kWh)	7.4916	12.9845
Avg. Tariff 11-30 years @ 92% (Rs./kWh)	6.6100	11.9717
Levelized tariff (Rs./kWh)	7.1846	12.6319
Levelized tariff (Cents/kWh)	6.5374	11.4940

For the simple cycle operation on RLNG, the approved tariff structure is presented in table below:

Description	Rs./kWh
Fuel cost component	8.7369
Variable O&M	0.3079
Fixed O&M (Local)	0.0631
Fixed O&M (Foreign)	0.1041
Cost of working capital	0.0922
Total	**9.3042**

Since the foreign components of the tariff have been determined on the basis of reference exchange rate of Rs. 109.9/USD on actual payment, one-time adjustment would be made on COD in this regard, nonetheless, only for the currency fluctuation against the reference parity values. Further, one-time adjustment would be made at COD for actual administrative costs, advertisement expenses and expenses related to various tenders incurred. IDC would be re-established at the time of COD on the basis of actual KIBOR, actual premium, actual loan and actual loan drawdown. ROE component of tariff will be adjusted for variation in actual equity investment and actual equity drawdown. In addition, O&M components will be adjusted as per the signed agreement, LTSA and actual recurring administrative expenses.

Adequate corporate governance framework: The Board of Directors (BoD) at PTPL comprised ten members including six independent directors, two ex-officio members, CEO and Chairman. Mr. Salman Zakari was appointed as CEO in Nov'21. As per corporate governance best practices, present board structure has one female independent director representation. All independent members are experienced professionals from private sector. Two Ex-Officio members (nominee personnel of GoPb) included Secretary Energy and Secretary Finance. The financial statements of the company for FY21 were audited by Yusuf Adil Chartered Accountants who have been reappointed for FY22. The composition of BoD is tabulated below:

Directors	Status
Mr. Muhammad Ali	Chairman
Mr. Salman Zakaria	Chief Executive Officer
Mr. Muhammad Ajmal Bhatti (Secretary Energy)	Ex-Officio Director
Mr. Iftikhar Amjad (Secretary Finance)	Ex-Officio Director
Mr. Abdul Basit	Independent Director
Ms. Armeena Asad Malik	Independent Director
Mr. Khurram Saleem	Independent Director
Mr. Muhammad Faisal Afzal	Independent Director
Mr. Mujahid Pervaiz Chattha	Independent Director
Mr. Nauman Ansari	Independent Director

FINANCIAL SUMMARY			(Amounts in PKR Millions)
BALANCE SHEET	**30-Jun-20**	**30-Jun-21**	**31-Mar-22**
Fixed Assets	81,629	84,078	93,158
Stores and Spares	-	-	-
Stock in Trade	-	-	-
Trade Debts	-	-	-
Advances & Prepayments	1,024	1,458	1,831
Cash & Bank Balances	17,317	13,460	14,409
Total Assets	**99,970**	**98,996**	**109,398**
Trade and Other Payables	55,529	27,503	20,434
Subordinated Loan from Sponsor-Unsecured	-	8,710	8,710
Short-Term Borrowings	5,000	-	-
Long Term Debt (incl. current maturity)	-	21,794	38,142
Other Liabilities	52	106	1,124
Total Liabilities	**60,581**	**58,113**	**68,410**
Paid Up Capital	10	33,600	40,120
Advance Against Issue of Shares	38,820	6,520	-
Tier 1/Total Equity	**39,389**	**40,883**	**40,988**
INCOME STATEMENT	**30-Jun-20**	**30-Jun-21**	**31-Mar-22**
Revenue	-	-	-
Gross Profit	-	-	-
Operating Profit/ (Loss)	(134)	(267.8)	(165.3)
Other Income	1,028	702	444
Profit/ (Loss) Before Tax	891	432	274
Profit/ (Loss) After Tax	601	204	105
RATIO ANALYSIS	**30-Jun-20**	**30-Jun-21**	**31-Mar-22**
Gross Margin (%)	-	-	-
FFO to Total Debt (x)	-	-	-
FFO to Long Term Debt (x)	-	-	-
Debt Servicing Coverage Ratio (x)	-	-	-
Current Ratio (x)	0.30	0.53	0.72
Gearing (x)	0.13	0.75	1.14
Debt Leverage (x)	1.54	1.42	1.67

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure 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 DISCLOSURES Annexure-III

Name of Rated Entity	Punjab Thermal Power (Private) Limited
Sector	Power
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
09-06-2022	AA-	A-1	Stable	Reaffirmed
01-07-2021	AA-	A-1	Stable	Reaffirmed
10-06-2020	AA-	A-1	Stable	Initial

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. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.

Due Diligence Meetings Conducted

Name	Designation	Date
Malik Mohsin Ali	CFO	May 17, 2022