RATING REPORT

Punjab Thermal Power (Private) Limited

REPORT DATE:
September 19, 2023

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
Rating Date	*September 19, 2023*		*June 09, 2022*	
Rating Outlook	Stable		Stable	
Rating Action	Upgraded		Reaffirmed	

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: Industrial Corporates (May 2023)
https://docs.vis.com.pk/docs/CorporateMethodology.pdf
VIS Rating scale
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Punjab Thermal Power (Pvt.) Limited (PTPL)

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.

RATING RATIONALE

Punjab Thermal Power (Private) Limited ('PTPL' or the Company') was incorporated on June 08, 2017, as a private limited company by the Government of Punjab (GoPB) through the Energy Department. It operates as a wholly-owned entity of the GoPB and was established with the primary objective of setting up, operating, and managing a 1263.2 megawatt (MW) (Net: 1,242.7 MW) Re-gasified Liquefied Natural Gas (RLNG) combined cycle thermal power plant at Haveli Bahadur Shah, near Trimmu barrage, Jhang, Punjab. The Company functions as an Independent Power Producer (IPP).

The registered office of PTPL is located at 7-C1, Gulberg III, Lahore, Pakistan. The Company's Board of Directors (BoD) is composed of 10 members, which includes 6 independent directors, two ex-officio members, the CEO, and the Chairman. Adhering to the principles of corporate governance best practices, the current board structure ensures representation of one female independent director. Notably, all independent members are experienced professionals from the private sector. The two Ex-Officio members representing the Government of Punjab are the Secretary of Energy and the Secretary of Finance.

Key Rating Drivers:

Power Purchase Agreement (PPA): The project received approval from the Cabinet Committee on Energy (CCoE) of the Federal Government on June 6, 2017. As a part of this approval, the CCoE relaxed the ban on new imported fuel-based power projects, specifically for this venture. Subsequently, the National Electric Power Regulatory Authority (NEPRA) granted PTPL a power generation license in February 2018. In June 2020, PTPL signed a Power Purchase Agreement (PPA) with the Central Power Purchasing Agency Guarantee Limited (CPPA-G) for a duration of 30 years, incorporating a 'take or pay' provision. Moreover, in August 2020, the CCoE approved a reduction in capacity charges for Government-owned projects and revised the Return on Equity (ROE) to 12% with dollar-based indexation.

Gas Supply Agreement (GSA): In August 2020, the Company finalized a Gas Supply Arrangement (GSA) for a 15-year period with Sui Northern Gas Pipeline Limited (SNGPL) of 185 mmcfd, starting from the Commercial Operations Date (COD). Prior to the expiry of the term, the seller shall enter into necessary arrangements to ensure the term is extended for another 15 years. PTPL will have the first right to refuse any new imported gas the seller intends to include in its network, and the agreement will, subject to any necessary approvals from the GoPb, be accordingly extended.

As per the GSA between the Company and SNGPL, it is mandated for the Company to provide a Gas Supply Deposit (GSD) equivalent to the price of 30 days' worth of RLNG. To comply with this requirement, the Company had initially arranged a Standby Letter of Credit (SBLC) at the time of financial close. However, due to unfavorable movements in exchange rates and an increase in RLNG prices, the previously arranged SBLC has proven to be insufficient. As a result, the Gas supplier demanded a differential SBLC to align with the stipulations of the GSA. The current GSD is Rs. 22.8b, against which the Company has issued an SBLC of Rs. 10.48b. The SBLC facilities are primarily backed by the provincial government's guarantee and debit authority and cash deposit of Rs. 1b, providing reassurance to the parties involved in the agreement. Additionally, the Company has sufficient working capital lines to manage gas payments.

Operations & Maintenance (O&M) Contractor: PTPL has hired the services of Harbin Electric International Company Limited (HEICL) as an O&M operator for Combined Cycle Operations on April 29, 2021, for the period of 12 years. The Company's commitment with respect to the O&M agreement with HEICL stands at approximately US$ 155.5m (without indexation), based on the normal operational regime for the entire term of the agreement, i.e., twelve years. Actual payments shall be made in terms of the agreements.

Long Term Service Agreement (LTSA): Through an international competitive bidding process, Siemens Pakistan Engineering Company Limited (Siemens) was declared the successful bidder for LTSA, and the Company entered into the LTSA with Siemens in December 2017. The Company's commitment with respect to the LTSA with Siemens is US$ 156.8m (with indexation), based on the 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.

Update on project operations; the project achieved Combined Cycle Operations on Gas fuel on Jun 23, 2023: Initially, the availability period for the Project Finance Facilities (PFF) was planned until March 31, 2022, at the time of signing the financing documents in December 2020. However, the EPC contractor communicated that the anticipated COD had experienced delays due to various reasons. Consequently, the availability period for the PFF was extended until the earlier of the COD or June 23, 2023.

The estimated COD with HSD was expected to be achieved by July 2023. Meanwhile, in anticipation of the potential parts replacement, a request was made to CPPA-G to declare the COD on gas turbines on June 21, 2023, whereas, the gas turbines had already been commissioned on RLNG. A certification by an Independent Engineer (IE), OMS (Private) Limited, acknowledged the 'Successful Completion of Commissioning Tests and Readiness of the Complex Continuous Operation and Despatch in Combined Cycle Made on Gas Fuel' of the same date. Whereas, certificate on back-up fuel (HSD) will be issued after completion of certain performance test of approximately 6-8 hours. The delay in the test is due to unavailability of downtime due to high demand amid peak season and additional time needed for the arrangement of flow dividers. As per the management, CPPA-G has conveyed that Economic Coordination Committee (ECC) has granted the relaxation up to 4 months. The EPC contractor's payments, guarantees, and obligations would remain intact until the completion of the works, in accordance with the terms of the EPC agreement.

As per National Transmission & Despatch Company Ltd (NTDC) merit order dated August 19, 2023, PTPL ranked 19/74. PTPL is ranked highest among other projects operating on RLNG. The Company has generated and delivered 810.89m units of electricity to the National Grid during the testing phase until June 22, 2023, after synchronization with the grid in May, 2022. As a result, test energy of Rs.24.29b were generated for the energy supplied out of which Rs.22.88b has been received from CPPA-G against the test energy. The delay payments carry delayed payment interest at the rate of 3 months KIBOR plus 2% as per the term of PPA. It is essential to note that these receivables are secured against the sovereign guarantee provided under the Implementation Agreement (IA), ensuring the financial integrity of the transaction. From June 23, 2023 (COD) to till August 31, 2023, the Company generated 1,498.28 GWh of electricity on combined cycle and raised invoices of Rs. 38.82b Energy Purchase Price (EPP) and Rs. 3.56b Capacity Purchase Price (CPP). Total Receivable stood at Rs. 24.22b as of September 13, 2023. The efficiency of the plant was 61.16% which is better than its peers.

Capitalization is supported by adequate funding facilities and sponsor's support: The project was financed through a combination of debt and equity in a 70:30 proportion. The equity component of Rs. 33.6 billion (30% of the total) was injected by the sponsor, while the debt component of Rs. 78.4 billion (70% of the total) was secured through PFF facilitated by a consortium of reputable banks. The banks in the consortium included National Bank of Pakistan, Habib Bank Limited, United Bank Limited, The Bank of Punjab, Askari Bank Limited, and Meezan Bank Limited. First debt repayment has already been made on June 30, 2023 with next payment due on December 31, 2023.

However, the Company's funding requirement to complete the project has undergone an increase of Rs. 25b due to several factors. These include the unprecedented and significant devaluation of the Pakistani rupee against the US dollar, the rise in prices of RLNG and HSD due to both domestic and international influences, an increase in interest rates, and delays in achieving the COD. These combined circumstances have necessitated additional funding to ensure the successful completion of the project in light of the evolving economic and financial landscape.

As per the Sponsor Support Agreement (SSA) dated 17th December 2020, the GoPb holds the responsibility to provide funding for any cost overruns that have been incurred or to be incurred by the Company. To ensure the fulfillment of this obligation, GoPb issued a Provincial Guarantee and Debit Authority in favor of the project financiers. The cost overruns primarily emerged due to economic factors that were beyond the reasonable control of both the Company and its Sponsor. Given these circumstances, NEPRA may consider allowing the inclusion of these cost overruns during the tariff true-up process. The financiers were also requested to fund the cost-overrun in 70:30 debt equity ratio. The Company has received draft term sheets from project financiers which were discussed with Sponsors/GoPb (Finance & Energy departments). However, due to complication and time constraint, GoPb decided to fund the entire cost-overrun at its own in tranches as per the projects payment timelines. Till now Sponsor has already injected Rs. 13.5b against the cost overruns.

In addition to PFF, the Company has arranged the working capital facilities to the tune of Rs. 22.21b from consortium of banks, in addition to that GoPb has injected additional equity amounting Rs. 6.52b for working capital requirements of the Company, against which shares have already been issued to GoPb. The facility carries markup/musharaka profit ranging from 3M KIBOR plus 1% - 2% per annum and is secured in accordance with the requirements of security documents.

Subordinated loan from sponsor stood at Rs. 8.7b at end-Mar 31, 2023 (FY22 & FY21: Rs. 8.7b). This interest free loan was provided as a sponsor's support in accordance with the requirement of SSA and the loan agreement dated August 28, 2020, was amended and restated on February 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.

Approved tariff structure and one-time adjustments in tariff at COD: NEPRA has determined and approved the reference tariff for PTPL of 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	0.2562	0.2943
Debt servicing (1-10 years only)	0.8112	0.9318
Total 1-10 years	1.3799	1.5850
Total 11-30 years	0.5687	0.6532
Avg. Tariff 1-10 years @ 92% (Rs./kWh)	7.4082	12.8887
Avg. Tariff 11-30 years @ 92% (Rs./kWh)	6.5265	11.8759
Levelized tariff (Rs./kWh)	7.1012	12.5360
Levelized tariff (Cents/kWh)	6.4615	11.4068

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**

The above reference tariff is subject to one-time adjustments at COD.

The Company is currently in the process of hiring a consultant for Tariff True-up petition and expects to apply for it within next 8-12 months. The Company is receiving indexation on its fuel price component on monthly basis since it started its single cycle. Whereas, the Company has already applied for interim relief with respect to indexation of other tariff components and expects that the same will be granted in due course.

Punjab Thermal Power (Pvt.) Limited (PTPL)

FINANCIAL SUMMARY				(Amounts in PKR Millions)
BALANCE SHEET	30-Jun-20 Audited	30-Jun-21 Audited	30-Jun-22 Audited	31-Mar-2023 Un-Audited
Fixed Assets	81,629	84,078	97,464	116,268
Stores and Spares	-	-	-	-
Stock in Trade	-	-	-	2,155
Trade Debts	-	-	-	10,101
Advances & Prepayments	1,024	1,458	5,779	5,911
Cash & Bank Balances	17,317	13,460	9,551	2,445
Total Assets	**99,970**	**98,996**	**112,794**	**136,881**
Trade and Other Payables	55,529	27,503	22,341	25,336
Subordinated Loan from Sponsor-Unsecured	-	8,710	8,710	8,710
Short-Term Borrowings	5,000	-	-	4,766
Long Term Debt (incl. current maturity)	-	21,794	38,174	55,175
Other Liabilities	52	106	2,545	2,998
Total Liabilities	**60,581**	**58,113**	**71,770**	**96,985**
Paid Up Capital	10	33,600	40,120	40,120
Advance Against Issue of Shares	38,820	6,520	-	-
Tier 1/Total Equity	**39,389**	**40,883**	**41,024**	**39,895**
INCOME STATEMENT	30-Jun-20	30-Jun-21	30-Jun-22	31-Mar-2023
Revenue	-	-	-	5,768
Gross Profit	-	-	-	(303)
Administrative Expenses	(134)	(268)	(281)	278
Other Income	1,028	702	662	321
Profit/ (Loss) Before Tax	891	432	376	(839)
Profit/ (Loss) After Tax	601	204	147	(1,129)
RATIO ANALYSIS	30-Jun-20	30-Jun-21	30-Jun-22	31-Mar-2023
Gross Margin (%)	-	-	-	-5.2%
FFO to Total Debt (x)	-	-	-	-
FFO to Long Term Debt (x)	-	-	-	-
Debt Servicing Coverage Ratio (x)	-	-	-	-
Current Ratio (x)	0.30	0.53	0.58	0.60
Gearing (x)	0.13	0.75	1.14	1.72
Debt Leverage (x)	1.54	1.42	1.75	2.43

REGULATORY DISCLOSURES					**Annexure-II**
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				
	19-09-2023	AA	A-1	Stable	Upgraded
	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.				
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Due Diligence Meetings Conducted	**Name**	**Designation**	**Date**		
	Mr. Muhammad Usman Aziz	Deputy CFO	**August 01, 2023**		
	Mr. Ahmad Dawood	Assistant Manager Finance			