RATING REPORT

Punjab Thermal Power (Private) Limited

REPORT DATE:
October 02, 2024

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/Rating Watch	*October 02, 2024*		*September 19, 2023*	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Upgraded	

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 Punjab – 100%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Industrial Corporates
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 serving as Chairman Board of Directors of PTPL. He is also the Chairman of Procurement Committee. He holds bachelor's degree in Electrical Engineering from UET, Lahore and graduated in Advanced Management Program from INSEAD, France. He has over 20 years of experience and expertise in energy & petrochemical sectors. He has been holding leading roles overseeing development, construction, operations and management of mega size projects. At present, he is working as MD Saphire Wind Power Company. He is also serving as an independent director on the Board of QATPL.

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

Corporate Profile

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 formed under Power Policy, 2015. The Company functions as an Independent Power Producer (IPP). It was initially approved with ROE of 15% (Indexation with USD) and was later on reduced to 12% (Indexation with USD).

Operational Performance in FY-23 and 9M'24.

PTPL achieved COD on 23rd June 2023 and was only operational for few days in FY-23 as company's Fiscal year ends on June 30, 2023. Therefore, the electricity dispatched was only 152,622 Mwh with load factor of 64%. It is pertinent to mention that Tariff for FY-23 was calculated based on Reference tariff and was subject to Tariff adjustments. The Company incurred a net loss in FY-23 as current accounting standards don't allow to capitalize cost incurred during testing stage.

In 9M'2024, PTPL maintained 88% availability factor. The fall in availability factor was due to Plant outage because of forced outageincident and HSD remaining test. During that period load factor was 32% which is totally dependent upon electricity dispatch requirement from the system operator. The Company as of 1st September 2024 is at 25th spot in NTDC Merit order and the same will be improved once COD tariff true-up adjustments are allowed.

<u>Key Rating Drivers</u>

Demand side Risk remains largely mitigated because of "Take or Pay" Nature of PPA.

The assigned ratings to PTPL consider the Company's low business risk profile, which is supported by the signing of a 30-year long PPA and their license is valid till 2050. Furthermore, the Implementation Agreement (IA) was signed between the Government of Pakistan (GoP) through Private Power and Infrastructure Board (PPIB). The presence of a long-term PPA with capacity payments (Which covers fixed cost (local & Foreign), ROE and Debt Servicing along with relevant indexations) guaranteed by the Government of Pakistan (GOP) insulates Company from volatility in offtake and mitigates financial risk. Following the Negotiation of the Government with the Company the ROE was reduced from 15% to 12%. (With USD indexation) in 2021. Moreover, Credit Risk with amount due from CPPA is almost negligible since the power purchaser's obligations are backed by guarantee of GOP and as a result company is exempted from application of Expected Credit Loss (ECL) under IFRS 9. Additionally, the IA ensures repayment of the Company's receivables in case of default by the power purchaser CPPA-G and the Opportunity cost because of delayed payments is compensated by CPPA-G through markup on outstanding receivables.

Sponsor Support Agreement b/w Company, Creditors and Gov. of Punjab.

During FY-20, the Company's Gov of Punjab and Long Term Financiers entered into Sponsor Support agreement. The agreement entails that sponsor i.e. Government of Punjab (Gopb) will provide support to the Company for cost overrun to ensure completion of the project and if company fails to pay excess finance amount , the sponsor will be obliged to pay it in form of bullet payment. Thereby, it improves the confidence of the Long Term Financiers and mitigates the risk of company failing to meet its debt obligations. In pursuance of the agreement, Punjab Gov has injected Rs. 25b for cost over-run during the construction phase. Cost of project has exceeded initial expectations due to Delay in COD, PKR devaluation and Higher Interest Rates. The Funds injected by Sponsor will be subsequently divided into Debt & Equity subject to NEPRA's Approval. .

Indexation of Tariffs largely eliminates Macro Risk.

According to NEPRA's tariff determination, PTPL benefits from indexation of its Tariff components. Locally incurred operating expenses, both fixed and variable, approved by NEPRA, are indexed to the Pakistan Consumer Price Index (CPI). Operating expenses incurred in foreign currency and approved by NEPRA are indexed to the US-CPI and the PKR/USD exchange rate. Additionally, the cost of working capital and long-term Debt is indexed with KIBOR. This indexation occurs quarterly, which mitigates risk emanating from adverse variation in any of aforementioned variables. Fuel costs incurred based on approved Heat rate, Taxes and insurance costs are treated as pass-through items, and are adjusted based on actual costs. Which provides necessary support to profit margins. Following the negotiation in 2021, the ROE of the Company has been reduced from 15% to 12%.

Profitability in 9M'24 improved sufficiently post COD.

Revenue in 9M'24 was Rs. 70.8 b (9M'2023: Rs. 5.0 b (*only from Test energy as company achieved COD on 23rd June 2023)*. The Revenue of 9M'24 mainly consists of Energy Purchase Price (67% of Revenue) and Capacity Payments (30% of Revenue). The revenue of 9M'24 also includes Rs.14 b adjustment allowed by NEPRA in form of Post COD indexation as initially the tariff calculated was based on Reference Tariff set in 2017. Gross Margin of the Company was 26% in 9M'24 (9M'23: -6.7%). Whereas Operating expenses and finance cost increased by 48% and 2,879% YoY respectively because of commencement of operations. Net profit of the Company after the first full nine months of operations post COD was Rs 6.03 b (9M'23: -1.13 b). Going Forward, as the Company has filed a tariff modification petition, if approved by NEPRA it would support margins for the Company.

Liquidity is considered adequate despite Circular Debt challenges in the energy sector. Sovereign guarantee & sponsor support provides support to ratings.

Post COD and capital injection of funds by Sponsor during the first 9 Months of FY-24 the liquidity position of the Company has improved as evident from improvement in current ratio from 1.11 at end of FY23 to 2.43 at end of 9M'24. Meanwhile, the CCC is of 97 days, which showcases timely recovery of Trade Debts and is considered adequate considering the challenges currently being faced because of the Circular debt crisis. Furthermore, Receivables of the Company due from Government are secured by the sovereign Guarantee and power purchaser pays interest on late payments (on 25 Days and 30 Days past Due for EPP and CPP Respectively) at rate of 3M KIBOR + 2% in line with Power Policy, 2015. Which in turn is used to pay markup on short term loans drawn to bridge gap in Cash flows created because of late payments by power purchaser. Currently, the Company has multiple credit lines from different banks.

Capitalization profile & Coverage profile improved post COD.

The Company's capitalization profile reflects the fact that PTPL was formed with a Debt-to-Equity ratio of 75:25. It is pertinent to mention that high Debt to Equity ratio is common phenomenon as Power Policy, 2015 does not allow Equity to be above 30% and below 20% of the capital. The Company currently has outstanding long-term debt due to sponsor and Banks. Therefore, the overall capitalization profile of the Company is in line with all IPPs at formation stage /initial years of operations with gearing and leverage of 2.46x (FY23: 2.52, FY22: 1.14) and 2.79x (FY23: 3.23, FY22: 1.75) in 9M'24, respectively.

Post COD as the Company is able to charge Capacity Payments and sell energy. Therefore, the FFO of the Company has improved to Rs. 9.6 b (*annualized*) as compared to Rs. -5.1 b in SPLY. Moreover, DSCR has also improved to 1.36 from in SPLY. Going Forward, the debt of the Company would be repaid over the period of 10 years, which would improve Gearing and Leverage ratio going forward.

Considerations for Future Reviews:

Going forward, PTPL's ratings will be sensitive to the continued effectiveness of the macroeconomic hedging component of its agreement, including tariff indexation and cost pass-throughs. Assigned ratings will also be affected by any major changes in regulatory frameworks or substantial alterations in Government policies regarding energy sector.

Punjab Thermal Power (Pvt.) Limited (PTPL) — Appendix I

Financial Summary

Balance Sheet (PKR Millions)	9MFY24M
Property, plant and equipment	106,969.60
Stock-in-trade	3,322.64
Trade debts	26,201.44
Cash & Bank Balances	22,402.52
Other Assets	12,253.95
Total Assets	171,150.15
Creditors	2,177.03
Long-term Debt (incl. current portion)	105,232.38
Short-Term Borrowings	5,839.43
Total Debt	111,071.81
Other Liabilities	12,716.70
Total Liabilities	125,965.54
Paid up Capital	40,120.00
Equity (excl. Revaluation Surplus)	45,184.59

Income Statement (PKR Millions)	9MFY24M
Net Sales	70,845.05
Gross Profit	18,655.18
Operating Profit	23,284.41
Finance Costs	17,221.99
Profit Before Tax	6,062.42
Profit After Tax	6,062.42

Ratio Analysis	9MFY24M
Gross Margin (%)	26.33%
Operating Margin (%)	32.87%
Net Margin (%)	8.56%
Funds from Operation (FFO) (PKR Millions)	7,202.20
FFO to Total Debt* (%)	8.65%
FFO to Long Term Debt* (%)	9.13%
Gearing (x)	2.46
Leverage (x)	2.79
Debt Servicing Coverage Ratio* (x)	1.36
Current Ratio (x)	2.73
(Stock in trade + trade debts) / STD (x)	5.34
Return on Average Assets* (%)	4.80%
Return on Average Equity* (%)	19.18%
Cash Conversion Cycle (days)	103.05

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

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				
02-10-2024	**AA**	**A-1**	**Stable**	**Reaffirmed**
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.
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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Malik Mohsin Ali	CFO	**September 11, 2024**
Mr. Usman Aziz	Deputy CFO	