RATING REPORT

Liberty Daharki Power Limited
(Formerly TNB Liberty Power Limited)

REPORT DATE:
November 29, 2023

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Latest Rating**	**Previous Rating**
Entity	**A+/A-1**	**A+/A-1**
Rating Date	*November 29, 2023*	*August 19, 2022*
Rating Outlook	Stable	Stable
Rating Action	Reaffirmed	Initial

COMPANY INFORMATION	
Incorporated in 1995	**External auditors:** Yousaf Adil & Co.
Public Unlisted Company	**Chairman:** Mr. Mujahid Pervaz
Key Shareholders (with stake 5% or more):	**CEO:** Mr. Emran Ahmad Khan
TNB Power Daharki 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

Liberty Daharki Power Limited (Formerly TNB Liberty Power Limited)

OVERVIEW OF THE INSTITUTION

Liberty Daharki Power Limited (Formerly TNB Liberty Power Limited) was incorporated as a public limited company under the repealed Companies Ordinance, 1984 (now Companies Act, 2017) in 1995. The principal activity of the company is to build, own, operate and maintain a 235MW gas-fired IPP at Daharki.

Profile of Chairman/CEO

Mr. Emran Ahmad Khan is an energy sector professional with over 22 years of experience in Power Generation, which includes O&M, Construction, Contract & Project Management, and also Merger & Acquisition and Business Development. Mr. Emran did his BSc in Mechanical Engineering from RUET, Bangladesh and has Masters in in Environmental Science.

RATING RATIONALE

The assigned ratings take into account low business risk profile of the LDPL underpinned by inking of 25-year long power purchase agreement (PPA) with 'take or pay' provision with the Central Power Purchasing Agency (Guarantee) Limited (CPPA-G). Presence of long-term PPA with guaranteed capacity payments mitigates off-take risk as obligations of CPPA-G are backed by sovereign guarantee. Moreover, upholding operational performance in line with agreed performance levels would remain a key-rating driver. The ratings incorporate growing profitability during the ongoing year on account of sizeable revenue emanating from energy supply given that the project has remained in the top 10 in economic merit order list on NTDC (National Transmission & Despatch Company) as on Sep'23 and enhanced capacity payments based on 'take or pay' model.

The 25-year long PPA with 'take or pay' provision signed between LDPL and the CPPA-G was originally scheduled to expire on August 31, 2026. However, under the PPA Amendment Agreement, the PPA is expected to be extended by at least a couple of years in relation to the gas non-supply periods based on similar terms and conditions. The uncertainty prevails regarding continuation of the agreement on similar terms & conditions once the PPA eventually expires. Subsequently, the company may experience a paradigm shift in its business risk profile.

Key Rating Drivers

Company Profile & Project Statistics: Liberty Daharki Power Limited (Formerly TNB Liberty Power Limited) was incorporated as a public limited company under the repealed Companies Ordinance, 1984. The project initially had two phases; Phase-I was re-designated to generate 235MW when the Implementation Agreement (IA) and PPA were signed, and due to the delays in achieving financial close for Phase-I on account of prolonged gas allocation negotiations, Phase-II of the project was shelved. The company operates a 235MW gas-fired IPP at Daharki, setup under the 1994 Power Policy for a term of 25 years which commenced from 10th Sep, 2001. The O&M (Operations and Maintenance) of the project is being carried out internally. The company's name was changed from 'TNB Liberty Power Limited' to 'Liberty Daharki Power Limited' with effect from November 04, 2022. Major project statistics and details are tabulated below:

Items	Particulars
Date of Incorporation	21st August, 1995 under the Companies Ordinance 1984
Complex Location	Mirpur Mathelo, Ghotki District, Sindh province, Pakistan
COD	10th September 2001
Power Plant Land Size	128 acres, of which 88 acres are utilized
Generation Configuration	235 MW at ISO gas fired combined cycle
Fuel	Natural Gas with High-Speed Diesel (HSD) as backup
Gas Supplier	Sui Northern Gas Pipelines Ltd (SNGPL) which derives gas from Qadirpur Gas Field operated by OGDCL
Off taker	Exclusively by CPPA-G on behalf of National Transmission & Despatch Company (NTDC)
EPC Contractor	Ansaldo Energia
Operations & Maintenance (O&M) Contractor	Italtec Energy Pvt. Limited, since 2002 till expiry in August 2021 (extended 6 times); now in-house

Auditor's note citing material uncertainly related to going concern: LDPL's Gas Supply Agreement (GSA) with Sui Northern Gas Pipeline Limited (SNGPL) expired on 31st August, 2015. As per the auditor's note, due to such event, a material uncertainty exists on the ability of the company to continue as a going concern and it may be unable to realize its assets and discharge its liabilities in the normal course of business. The company requested the Government of Pakistan (GoP) for the extension of GSA till the end of PPA term. In this regard, The Ministry of Petroleum and Natural Resources (MPNR) in CY16 informed that Economic Coordination Committee (ECC) of the cabinet has approved up to 45mmcfd raw gas from Oil and Gas Development Company Limited's Qadirpur gas field to be allocated to the company up to year 2025-26 and GSA term would be extended between SNGPL and the company accordingly. LDPL has shared draft Supplement Agreement with SNGPL in this respect. Moreover, various meetings have been held between the company, SNGPL, OGDCL and Private Power and Infrastructure Board (PPIB) and the regulatory authorities are also following up the matter. Signing of GSA is still pending as back-to-back agreement between SNGPL and OGDCL is still not finalized, however, the company has been receiving gas from SNGPL every year since the expiry of GSA. The execution of supplement agreement will not have any retrospective financial effect on the company as the gas supply has been secured for the full PPA term of 25 years. LDPL is confident that GSA will duly be signed in due course of time. Accordingly, the financial statements have been prepared on a going concern basis.

Matters concerning outages and contingencies: Gas supply was discontinued by SNGPL on December 27, 2022 citing non-payment of outstanding dues. However, the main reason for discontinuation of gas by SNGPL is the drop in wellhead gas pressure during winter months and the gas supply is usually restored when the wellhead gas pressure improves. An amount of Rs. 15.3b was outstanding as of December 27, 2022. The supply was subsequently restored by SNGPL during the month of April 2023. Subsequently, scheduled outage of the complex for a major overhaul started from January 1, 2023 to March 1, 2023 (60 days). Resultantly, the company is projecting positive impact on the plant's operating performance in CY23 and beyond. No liquidated damages were claimed by the CPPA-G for the reduction in power supply during the planned overhaul.

In accordance with the PPA Amendment Agreement in CY21, any periods of non-supply of gas by SNGPL irrespective of the reasons given, will be treated as other force majeure event (OFME) and the period of the PPA will be extended accordingly.

During CY22, late payment interest invoiced and claimed by the company under the PPA was disputed by the CPPA-G on the premise of delay in GST returns to the CPPA-G by the company. The management believes that CPPA-G has been withholding amounts up to Rs. 215m since the company is not obligated to return GST to the CPPA-G as per the PPA/IA. This matter's resolution is yet to be ascertained.

Sound operating performance: LDPL was ranked 6th on the economic merit order dispatch list for the first 61.9GWh and 25th for the capacity exceeding 61.9GWh as on September 01, 2023. In CY22, annual NEO (net energy output) to the CPPA-G was 1,054,480 MWh (CY21: 1,224,719 MWh) at an efficiency level of 41.1% (CY21: 42.0%), with an annual availability factor of 98.8% (CY21: 93.0%). During CY23, planned and gas related outages occurred in the first 3 months of CY23. Resultantly, LDPL's NEO was reported lower at 277,295 MWh with an efficiency level of 37.3% during HY23. Lower efficiency is mainly owed to part load operation required by NTDC during this period.

Owing to consistently high placement on NTDC's merit order list, operating performance is deemed satisfactory whereas, according to management, efficiency level in CY23 is projected to improve vis-à-vis CY22 as a result of complex overhaul. Sustenance of operating performance is dependent on the power purchaser's demand from gas-fired plants and upholding performance levels that lead to high placement on merit order list.

Assets mostly comprise trade receivables and advances to associated companies: The company's asset base stood at Rs. 42.5b (CY22: Rs. 42.0b, CY21: Rs. 32.5b) at end-HY23. The asset base increased by end-CY22 mainly due to increase in advances to associated companies and long-term investments. Capital expenditure on complex overhaul was reported to the tune of Rs. 1.0b in HY23. Accounting for depreciation, property, plant, and equipment stood at Rs. 5.3b (CY22: Rs. 4.9b, Rs. 6.2b) at end-HY23. As a result of this overhaul, LDPL anticipates 2.5-3.0% improvement in efficiency level with a net positive impact of Rs. 600m on the company's bottom-line in CY23.

Advances to associated companies stood at Rs. 9.0b (Dec'22: Rs. 8.7b, Dec'21: Rs. 1.1b) as at end-Jun'23; these are loans provided to associated companies under the financing agreement for a period of 4 years with one-year grace period, repayable in three equal annual instalments; mark-up of 6M-KIBOR+2.25% per annum is being charged by the company. As on Jun'23, long-term investments were reported at Rs. 2.6b (Dec'22: Rs. 4.9b, Dec'21: nil). The company is projecting to fully liquidate long-term investments by end-CY23 in order to retire long-term borrowings. The company's advances, deposits, prepayments and other receivables stood at Rs. 7.1b (CY22: Rs. 4.6b, CY21: Rs. 3.0b), mostly comprised security deposit with the gas supplier and interest receivable on loan to associated companies. Security deposit with gas supplier increased to Rs. 3.1b (CY22: Rs. 2.1b, CY21: Rs. 1.4b) and interest receivable on loan increased to Rs. 1.4b (CY22: Rs. 591.4m, CY21: Rs. 11.7m) by end-HY23. The inventory level decreased to Rs. 1.2b (CY22: Rs. 1.9b, CY21: Rs. 1.3b) on account of lower stock in transit (HY23: Rs. 11.0m; CY22: Rs. 667.9m, CY21: nil). Total assets are projected to reach Rs. 49.3b by end-CY23 mainly due to accumulation of trade debts.

Profitability improved due to higher capacity payments, interest on late payments by the power purchaser, income from investments in government bonds and interest on advances to associated company: LDPL recorded Rs. 12.5b of net revenue (HY22: Rs. 6.0b; CY22: Rs. 24.9b, CY21: Rs. 16.2b) during HY23. In line with high placement on merit order list, energy revenue increased to Rs. 9.5b (HY22: Rs. 4.7b; CY22: Rs. 25.2b, CY21: Rs. 14.0b) in HY23. Similarly, revenue emanating from capacity payments reached Rs. 1.8b (Jun'22: Rs. 704.2m; Dec'22: Rs. 2.2b, Dec'21: Rs. 2.9b) during HY23 on account of revised indexation. Furthermore, interest on late payments from the power purchaser stood at Rs. 1.1b (HY22: Rs. 593.0m; CY22: Rs. 1.1b, CY21: Rs. 1.3b) during HY23. Net revenue is projected to reach Rs. 36.2b in CY23.

Cost of sales stood at Rs. 9.7b (HY22: Rs. 5.6b; CY22: Rs. 22.1b, CY21: Rs. 13.2b). Fuel cost, comprising majority of cost of sales, increased significantly during the reporting period due to increase in the gas prices. However, gross margins improved to 22.2% (CY22: 11.1%, CY21: 18.8%) on account of relatively higher proportion of capacity payments in the revenue mix during HY23.

LDPL's finance cost declined to Rs. 820.0m (HY22: Rs. 1.0b, CY22: Rs. 2.4b, CY21: Rs. 922.5m) as the company repaid majority of its long-term financing to the holding company during CY22. LDPL also recorded Rs. 1.2b in other income from interest on loan to associated company and government bonds (HY22: Rs. 409.6m; CY22: Rs. 1.4b) during HY23. As a result, the company's net profit improved to Rs. 3.0b (CY22: Rs. 1.1b, CY21: Rs. 4.3b) in HY23. According to the management, bottom-line is projected to reach Rs. 4.9b in CY23 mainly on account of higher capacity payments and lower finance cost vis-à-vis CY22. Expected improvement in efficiency levels will also remain important in this context.

Liquidity risk is considered manageable on account of intermittent payments by the CPPA-G: The receivables carry a late payment interest (LPI) at KIBOR+2% per month in case the amounts are not paid within due dates. Trade debts stood at Rs. 16.1b (CY22: Rs. 15.6b, CY21: Rs. 20.5b) at end-HY23. According to management, the company has received an average of Rs. 3.0b in receivables from the CPPA-G each month during the ongoing year. Trade debts are projected to increase to Rs. 26.6b by end-CY23. Trade debts as a percentage to net sales declined to 62.8% in CY22 from 126.3% in CY21. However, it is projected to increase to 72.6% by end-CY23. Conversely, trade payables, which mostly comprise payments to SNGPL for gas supply, were reported at to Rs. 17.9b (CY22: Rs. 17.9b, CY21: Rs. 5.1b) at end-HY23. According to the management, significant increase in trade payables was witnessed in CY22 due to hike in raw gas price. Aging profile of trade receivables and trade payables is as follows:

	Trade Receivables		**Trade Payables**
Days	**Jun'23**	**Days**	**Jun'23**
Below 90	63%	Below 90	67%
91-180	18%	91-180	2%
181-360	17%	181-360	31%
Above 360	3%	Above 360	0%

As a result of higher trade payables, current ratio was reported lower at 1.15x (CY21: 2.60x) at end-CY22. Current ratio improved slightly mainly due to lower short-term borrowings at end-HY23 On account of improvement in profits from core operations, FFO (funding from operations) stood at Rs. 2.6b (CY22: Rs. 2.6b, CY21: Rs. 6.6b) in HY23. FFO to long-term debt improved to 1.69x (FY22: 0.95x, FY21: 1.67x) and FFO to total debt similarly improved to 1.37x (FY22: 0.50x, FY21: 0.93x) in HY23. Therefore, DSCR (debt service coverage ratio) stood at 2.35x (CY22: 2.97x, CY21: 173.2x) in HY23.

A significant amount of interest on long-term loan repaid during CY22: The company's net equity reached Rs. 19.3b (CY22: Rs. 16.3b, CY21: Rs. 15.3b) on the back of sizeable profit retention by end-HY23. During CY22, the company paid Rs. 5.1b (equivalent to USD 22.8m - adjusted for foreign exchange gain/loss) to its sponsors as interest on loan. Given delay in finalization of gas supply agreements at the start of the project leading to servicing of payment to the original financier, the company obtained loan from the original sponsors. The principal amount of loans was repaid in full during CY15; however, the interest payable to the holding company under the terms of agreement was deferred and agreed to be paid during the repayment period of each loan. Deferred interest payable was non-interest bearing. Interest on loan to the holding company was reported at Rs. 434.0m (CY22: Rs. 343.7m, CY21: Rs. 4.3b) at end-HY23.

LDPL mobilized short-term borrowings from the Bank of Punjab (BoP) to the tune of Rs. 1.8b for three months period from Sep'22 onwards, the borrowings were rolled over for further three months and the loan was settled entirely by Mar'23. As of Jun'23, LDPL had short-term loan amounting Rs. 731.1m on its balance sheet from Askari Bank Limited (AKBL). In addition, the company mobilized long-term borrowings of Rs. 4.0b from AKBL out of which Rs. 3.0b was outstanding at end-HY23. The management plans to retire the entire long-term borrowings from AKBL by end-CY23.

The company's gearing was reported at 0.20x (CY22: 0.32x, CY21: 0.47x) on account of lower total borrowings of Rs. 3.8b (CY22: Rs. 5.1b, CY21: Rs. 7.2b) and higher equity base at end-HY23. Leverage ratio is also considered manageable since the company's net equity has shown growth on a timeline basis. According to the company's projected financial statements for

CY23, long-term loan from AKBL will be retired entirely resulting in gearing to decline by end-CY23. Hence, gearing ratio is projected to be 0.04x by end-CY23, meanwhile, leverage ratio is projected to increase slightly on account significant rise in trade payables as per the projected financials by end-CY23.

Liberty Daharki Power Limited (Formerly TNB Liberty Power Limited) **Annexure I**

FINANCIAL SUMMARY					*(Rupees in millions)*
BALANCE SHEET	**CY20**	**CY21**	**CY22**	**HY23**	**CY23 (P)**
PPE	7,593.0	6,167.5	4,962.8	5,390.1	6,188.9
Long-Term Investments	-	-	4,878.0	2,619.0	-
Long-Term Advances to Associated Companies	-	1,145.0	8,728.4	8,983.4	9,963.6
Inventories	1,251.0	1,281.4	1,878.4	1,188.7	1,254.8
Trade Debts	18,101.9	20,522.7	15,646.7	16,156.2	26,311.9
Advances, Deposits & Prepayments	2,566.7	3,013.8	4,574.1	6,186.4	5,575.3
Cash and Bank Balance	-	-	1,064.8	1,107.3	(38.6)
Income Tax Refundable	375.9	387.3	301.2	880.5	-
Total Assets	**29,888.5**	**32,517.7**	**42,034.4**	**42,511.6**	**49,256.0**
Trade & Other Payables	7,837.1	5,700.6	18,452.9	19,032.0	26,648.9
Loan Payable to Holding Company	10,801.1	4,291.7	343.7	434.0	-
Short-Term Borrowings	114.8	3,061.9	2,429.4	731.1	884.5
Long-Term Borrowings ***(inc. current matur)***	57.5	4,049.0	2,710.3	3,040.4	32.8
Total Borrowings	172.3	7,242.8	5,139.7	3,771.5	917.3
Total Liabilities	**18,810.4**	**17,235.1**	**25,729.2**	**23,237.5**	**27,566.2**
Paid-up Capital	3,528.0	3,528.0	3,528.0	3,528.0	3,528.0
Tier-1 & Total Equity	**11,080.0**	**15,283.5**	**16,305.3**	**19,274.0**	**21,689.8**
INCOME STATEMENT	**CY20**	**CY21**	**CY22**	**HY23**	**CY23 (P)**
Net Revenue	14,539.9	16,254.4	24,915.5	12,457.7	36,254.8
Gross Profit	2,133.4	3,060.6	2,769.5	2,769.1	5,995.8
Finance Cost	719.3	922.5	2,389.6	820.0	1,544.5
Profit Before Tax	1,140.3	4,276.9	1,570.6	2,968.7	5,063.3
Profit After Tax	**1,140.3**	**4,273.5**	**1,109.3**	**2,968.7**	**4,953.5**
RATIO ANALYSIS	**CY20**	**CY21**	**CY22**	**HY23**	**CY23 (P)**
Gross Margin (%)	14.7%	18.8%	11.1%	22.2%	16.5%
Net Margin (%)	7.8%	26.3%	4.5%	23.8%	13.7%
Current Ratio (x)	2.20	2.60	1.15	1.26	1.20
Trade Debt/Sales (%)	124.5%	126.3%	62.8%	64.8%	36.3%
FFO	3,517.6	6,765.5	2,575.3	2,574.2	NA
FFO to Long-Term Debt (x)	61.15	1.67	0.95	*1.69	NA
FFO to Total Debt (x)	20.41	0.93	0.50	*1.37	NA
Debt Servicing Coverage Ratio (x)	15.50	173.16	2.97	2.35	NA
Gearing (x)	0.02	0.47	0.32	0.20	0.04
Debt Leverage (x)	1.70	1.13	1.58	1.21	1.27
ROAA	3.7%	13.7%	3.0%	*14.0%	10.8%
ROAE	10.9%	32.4%	7.0%	*33.4%	24.2%

**Annualized*

REGULATORY DISCLOSURES	**Annexure II**
Name of Rated Entity	Liberty Daharki Power Limited
Sector	Power
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				
29-11-2023	A+	A-1	Stable	Reaffirmed
19-08-2022	A+	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

Name	Designation	Date
Mr. Anwer Shamim	CFO	19-09-2023