RATING REPORT

Liberty Daharki Power Limited

REPORT DATE:
February 24, 2025

RATING ANALYSTS:
Saeb Muhammad Jafri
saeb.jafri@vis.com.pk
Subhan Zuberry
subhan@vis.com.pk

RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A+	A1	A+	A1
Rating Date	*February 24, 2025*		*November 29, 2023*	
Rating Outlook/Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION	
Incorporated in 1995	**External Auditors:** M/s. Yousuf Adil Chartered Accountants
Public Unlisted Company	**Chief Executive Officer (CEO):** Mr. Emran Ahmed Khan
Key Shareholders (with stake 5% or more):	
TNB Power Daharki Limited – 100.0%	

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

APPLICABLE METHODOLOGY
VIS Entity Rating Criteria: Corporates
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

Liberty Daharki Power Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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Daharki Power Limited (Formerly TNB Liberty Power Limited) was incorporated as a public limited company under the repealed Companies Ordinance, 1984 (now Companies Act, 2017) in 1995.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 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.

Corporate Profile:

Liberty Daharki Power Limited (LDPL or the Company) was established in Pakistan on August 21, 1995, as a public limited company. The Company's name was changed to Liberty Daharki Power Limited from TNB Liberty Power Limited on November 4, 2022. The registered office is located in Islamabad. LDPL is primarily engaged in the operation, and maintenance of a combined cycle power station. This power station, with an installed capacity of 235 MW, is developed in two phases in District Ghotki, Sindh. The electricity generated is sold to the Central Power Purchasing Agency Guarantee Limited (CPPA-G).

LDPL is a wholly owned subsidiary of TNB Power Daharki Limited ("TNBPDL" or "the Holding Company"), which is incorporated in Mauritius. The ultimate holding company of LDPL is AsiaPak Investment Limited ("APIL"), incorporated in the British Virgin Islands. In CY23, LDPL acquired a 90.9% stake in Daewoo Pakistan Express Bus Service Limited (DPEBSL). The acquisition was financed through long-term advances receivable from DW Pakistan (Private) Limited ("DWPL"). Following this transaction, DPEBSL became a direct subsidiary of LDPL. However, the Company also has different companies as indirect subsidiaries.

Operational Performance:

Production Capacity and Utilization	CY22A	CY23A	CY24A
Annual Installed Capacity (MWh)	2,058,600	2,058,600	2,058,600
Annual Dependable Capacity (MWh)	1,861,193	1,935,785	1,949,976
Actual Energy Delivered (MWh)	1,054,480	785,562	969,880
Availability	99.0%	82.5%	90.7%
Efficiency	41.1%	39.6%	40.7%

During the year the annual dependable capacity of the Company increased slightly, as the plant remained in complete operation throughout the year. Last year operations were halted for two months due to a major overhaul during the year. The Company goes through a BMR cycle every three years, as per the management. LDPL also reported an increase in energy delivered during the year, with higher energy demanded from CPPA-G, benefiting from high placement on merit order list.

Pending GSA/Extension of GSA:

The Gas Supply Agreement (GSA) between LDPL and Sui Northern Gas Pipelines Limited (SNGPL) expired on August 31, 2015. The Economic Coordination Committee (ECC) has approved the allocation of up to 45 mmcfd of raw gas from OGDCL's Qadirpur field to LDPL until 2026. A draft Supplementary Agreement has been submitted to SNGPL for formalization. While the back-to-back meetings between SNGPL and OGDCL remain pending, LDPL continues to receive gas annually, nullifying the operational impact. The management expects that the Supplementary Agreement's signing will not have retrospective financial implications.

Key Rating Drivers:

Business Risk Profile

Industry Risk: Non-Renewable Power Production; Medium to Low

The industry risk profile for Pakistan's non-renewable power production sector is assessed as medium to low, considering factors such as cyclicality of demand, regulatory environment, and capital intensity.

Demand for electricity in Pakistan exhibits low cyclicality due to its essential nature, with consistent consumption across residential, commercial, and industrial sectors. This stability is supported by population growth and urbanization, ensuring a steady requirement for power generation.

The sector operates under a highly regulated framework, with entities like the NEPRA overseeing tariffs, licensing, and compliance. Regulatory decisions significantly impact operational dynamics and profitability, necessitating adherence to established guidelines.

Non-renewable power production is capital-intensive, requiring substantial investment in infrastructure, technology, and maintenance. The presence of established public and private entities creates significant barriers to entry, limiting competition and ensuring market stability.

Purchase Power Agreement

Assigned ratings reflect LDPL's relatively low business risk profile, which is supported by the existence of a PPA that includes a 'take or pay' provision with the CPPA-G. The initial PPA was expected to expire in 2026. During the year LDPL entered in PPA Amendment Agreement 2024 which set the PPA expiry in March 2028. This PPA guarantees capacity payments, reduces off-take risks as CPPA-G's obligations are backed by a sovereign guarantee. Additionally, although the finalization of the GSA has been delayed, the assurance of gas supply for the entire duration of the PPA further enhances the stability of the Company's operations and provides additional support to the ratings.

Financial Risk Profile

LDPL's core business reported an 11.8% year-over-year increase in revenue, reaching PKR 34.5 bln (CY23: PKR 30.9 bln) in CY24. The growth was primarily driven by an increase in energy revenue, which rose to PKR 28.0 bln (CY23: PKR 24.2 bln) due to higher energy dispatch. The Company's energy revenue structure consists of two tiers: Tier 1, with a tariff of PKR 4/kWh for up to 61,904 MWh per month, and Tier 2, with a tariff of PKR 21/kWh for generation exceeding this threshold. During CY24, the majority of energy units were delivered under Tier 1 to CPPA-G, with limited dispatches in Tier 2, impacting overall revenue growth. Capacity payments remained largely stable at PKR 4.9 bln (CY23: PKR 4.0 bln), reflecting no significant changes in indexation.

The Company's energy dispatches are categorized into two tiers within the merit order list, designated by management as Tier 1 and Tier 2. Under Tier 1, a tariff of approximately PKR 4 KWh is applied to power generation up to 61,904 MWh. For any generation exceeding this threshold, referred to as Tier 2, a charge of PKR 21 KWh is applied. Although Tier 2 energy yields a higher margin, its elevated charge places it lower in the merit order list. Consequently, the Company's margins are sensitive to the volume of Tier 2 energy delivered, with margin fluctuations directly influenced by this factor. In CY24, the Company's gross margin decreased to 15.0% (CY23: 18.5%).

Moreover, LDPL invested in DPEBSL in CY23, which provides further support to the Company's financial risk profile by enhancing its profitability and diversifying its cashflows. DPEBSL's revenue contribution approximately amount PKR 20 bln on its consolidated topline. However, the rating remains sensitive to net contribution of this investment to the bottom line.

As a result of a low debt profile, with minimal long-term obligation as off CY24, the Company's maintains a conservative capitalization profile and a healthy coverage profile. Liquidity is also considered adequate with a current ratio of 1.2x in CY24, albeit slightly lower than 1.4x in CY23. LDPL channeled some of its liquidity into its subsidiaries and associates for support as long-term advances. The ratings while considering liquidity take into account the healthy cash balances which are expected to continue. The Company provided advances of approximately PKR 10 bln to DW Pakistan and PKR 1.7 bln to Daewoo Bus Express Service. Advances to DW Pakistan are planned to be converted into equity. The return on these advances/investments would be seen overtime.

Liberty Daharki Power Limited — Appendix I

Financial Summary

Balance Sheet (PKR Millions)	CY21A	CY22A	CY23A	CY24M
Property, plant and equipment	6,115.9	4,916.8	4,989.5	3,334.0
Right-of-use Assets	52.5	46.0	38.5	29.8
Long-term Investments	0.0	4,878.0	7,769.6	5,125.2
Stock-in-trade	0.0	668.2	5.4	0.0
Trade debts	20,522.7	15,646.7	16,920.1	13,312.8
Short-term Investments	0.0	0.0	1,867.5	0.0
Cash & Bank Balances	0.0	1,064.8	337.8	2,311.9
Other Assets	5,827.4	14,814.0	12,773.1	26,449.2
Total Assets	32,518.6	42,034.5	44,701.5	50,562.9
Creditors	5,700.6	17,893.9	17,911.4	18,061.2
Long-term Debt (incl. current portion)	4,049.0	4,294.3	2,068.8	24.5
Short-Term Borrowings	3,061.9	2,429.4	806.7	2,000.0
Total Debt	7,110.8	6,723.7	2,875.5	2,024.5
Other Liabilities	4,423.6	1,111.6	1,963.7	2,642.4
Total Liabilities	17,235.1	25,729.2	22,750.6	22,728.0
Paid up Capital	3,528.0	3,528.0	3,528.0	3,528.0
Revenue Reserve	11,755.5	12,777.3	18,422.9	24,306.9
Equity (excl. Revaluation Surplus)	15,283.5	16,305.3	21,950.9	27,834.9

Income Statement (PKR Millions)	CY21A	CY22A	CY23A	CY24M
Net Sales	16,254.43	24,915.49	30,856.3	34,501.1
Gross Profit	3,060.57	2,769.54	5,717.0	5,192.4
Operating Profit	5,187.70	3,960.15	7,503.4	7,711.7
Finance Costs	910.81	2,389.57	1,251.1	628.1
Profit Before Tax	4,276.89	1,570.58	6,252.3	7,083.6
Profit After Tax	4,273.49	1,109.32	5,593.4	5,883.9

Ratio Analysis	CY21A	CY22A	CY23A	CY24M
Gross Margin (%)	18.8%	11.1%	18.5%	15.0%
Operating Margin (%)	31.9%	15.9%	24.3%	22.4%
Net Margin (%)	26.3%	4.5%	18.1%	17.1%
Funds from Operation (FFO) (PKR Millions)	6,552.5	2,575.3	5,736.9	7,850.5
FFO to Total Debt* (%)	92.1%	38.3%	199.5%	387.8%
FFO to Long Term Debt* (%)	161.8%	60.0%	277.3%	32069.1%
Gearing (x)	0.5	0.4	0.1	0.1
Leverage (x)	1.1	1.6	1.0	0.8
Debt Servicing Coverage Ratio* (x)	7.2	0.9	3.6	13.4
Current Ratio (x)	1.9	1.1	1.4	1.2
(Stock in trade + trade debts) / STD (x)	7.1	7.2	22.5	7.3
Return on Average Assets* (%)	13.7%	3.0%	12.9%	11.1%
Return on Average Equity* (%)	32.4%	7.0%	29.2%	22.7%
Cash Conversion Cycle (days)	263.7	76.0	-62.4	-60.0

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Liberty Daharki Power Limited
Sector	Power
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see table below
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.
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. Copyright 2025 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.
Due Diligence Meetings Conducted	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
RATING TYPE: ENTITY				
24-Feb-25	A+	A1	Stable	Reaffirmed
29-Nov-23	A+	A1	Stable	Reaffirmed
19-Aug-22	A+	A1	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Anwer Shamim	Chief Financial Officer (CFO)	January 28th, 2025
Mr. Muslim Mahmood	Assistant General Manager - Finance	
Mr. Syed Mustafa Shozib	Assistant Manager - Finance	