RATING REPORT

Maple Leaf Power Limited

REPORT DATE:
September 23, 2024

RATING ANALYST:
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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	A	A-1
Rating Outlook/Watch	Stable	
Rating Action	Initial	
Rating Date	September 23, 2024	

COMPANY INFORMATION	
Incorporated in October 2015	**External auditors:** A.F. Ferguson & Co.
Public Unlisted Company	**Chairman:** Mr. Tariq Sayeed Saigol
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Sayeed Tariq Saigol
Maple Leaf Cement Factory Limited (99.99%)	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria Methodology – Corporates   https://docs.vis.com.pk/docs/CorporateMethodology.pdf

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

Maple Leaf Power Limited

OVERVIEW OF THE INSTITUTION

Incorporated on October 15, 2015, Maple Leaf Power Limited ('MLPL' or 'the company') is a wholly owned subsidiary of Maple Leaf Cement Factory Limited (MLCF) established for the purpose of the setting up and operating a 40MW coal fired power plant in District Mianwali. MLCF is part of the Kohinoor Maple Leaf Group (KMLG), a leading industrial conglomerate having presence across diversified sectors including cement, textiles, power, and capital markets.

Profile of Chairman

Mr. Tariq Sayeed Saigol is the Chairman of Kohinoor Maple Leaf Group (KMLG). He is a graduate from Government College University. Mr. Saigol started his career in 1968 at Kohinoor's Chemical Complex. Upon bifurcation of the Group in 1976, he became Chief Executive of Kohinoor Textile Mills Limited. Since 1984, he has been the Chairman of KMLG.

Profile of CEO

Mr. Sayeed Tariq Saigol graduated from McGill University with a degree in management. He has several years of work experience in the textile industry. He is the Chief Executive Officer of Maple Leaf Cement and a member of the Board of Governors of the Lahore

RATING RATIONALE

Corporate Profile

Maple Leaf Power Limited ('MLPL' or 'the Company') was incorporated on October 15, 2015, and is a wholly owned subsidiary of Maple Leaf Cement Factory Limited (MLCF) which is in turn a subsidiary of Kohinoor Textile Mills Limited (KTML).

MLPL was established for the purpose of setting up and operating a 40MW coal-fired power plant located in Iskanderabad, District Mianwali, Punjab. The Company supplies electricity and steam solely to MLCF as per their requirements. The head office is located on Lawrence Road, Lahore. The Company was granted an electricity generation license by the National Electric Power and Regulatory Authority (NEPRA) on December 20, 2016, which is valid till July 30, 2042.

Project Design

The Company set up a 40MW coal-fired thermal power plant at Iskender, District Mianwali, Pujab which is in close proximity to the MLCF plant located in the same area. The assigned Engineering and Procurement Contractor (EPC) was Sinoma Energy Conservation (Ltd.), a notable Chinese engineering services company.

The plant comprises of a 180 TPH coal boiler and a 40 MW condensing steam turbine equipped with a 50MVA double pole brushless excitation generator. The plant operates on imported coal sourced primarily from South Africa and Indonesia. Raw water requirements are met through canals originating from the Indus River located 4km from the project site. The total cost of the project was USD 27.2m which was funded entirely with equity. The Commercial Operations Date (COD) was achieved on October 12, 2017, in line with project deadlines. MLPL has not signed any Operations & Maintenance (O&M) contract with any vendor and the plant is managed in-house engineering team.

Energy Purchase Agreement (EPA)

The Company entered a power purchase agreement (PPA) and a steam purchase agreement with the holding company, MLCF, on July 04, 2017 and October 17, 2019, respectively, both of which are valid for 20 years. As per the PPA, the indicative tariff was agreed at Rs. 12.92/KWH with the fuel cost component being subject to adjustment on the basis of variation with the reference coal price. Additionally, any delay in payments by the holding company will result in liquidity damage at the rate of KIBOR + 1% rate per annum based on the number of days the payment is overdue. Breakdown of indicative tariff can be seen below:

Component	**Rs. /KWh**
Fuel Cost Component	7.69
Insurance	0.16
Depreciation and Finance Cost/Debt Servicing	2.76
O&M Admin Cost	1.02
Cost of Working Capital	0.09
Margin	1.20
Total	**12.92**

Operational Performance

University of Management Sciences.

Capacity utilization has depicted a downward trend since FY21 on account of decline in demand from the holding company in line with macroeconomic slowdown. Breakdown of operational performance can be seen below:

MWh	**FY21**	**FY22**	**FY23**
Capacity	316,800	316,800	316,800
Actual Production	302,107	265,494	201,531
Capacity Utilization (%)	95.4%	83.8%	63.6%

Moreover, operating fixed assets increased notably during 9MFY24 to Rs. 5.1b (FY23: Rs. 4.4b, FY22: Rs. 4.7b) due to capital expenditures of Rs. 954m pertaining to set up of a 7.8MW solar plant, as per management. The same initiated operations in Dec'23 and was fully funded through equity sources. No further capital expenditure is planned in the foreseeable future by the management.

<u>Key Rating Drivers</u>

Business Risk

VIS categorizes the overall risk profile of the non-renewable power generation sector as medium-to-low. The industry's high capital requirement, complex regulatory framework and technology risk pose significant barriers to entry.

Given that the Company was set up to generate electricity solely for MLCF, energy demand is contingent on the power requirements of the holding company and the dynamics of the cement sector. The cement industry has exhibited a slowdown due to recent macroeconomic deterioration, resulting in overall output declining by 3.6% YoY for the period July-May'24. However, signs of economic recovery have been exhibited with the signing of the standby agreement with the IMF during July'24 as well as reduction in inflation and interest rates.

Moreover, with the installation of a new dry-process clinker production plant during FY23 by MLCF, the power requirements of the holding company are expected to grow in the foreseeable future. MLCF has already enhanced the capacity of its Waste Heat Recovery Plant (WHRP) from 25MW to 37MW during FY23 and is currently expanding its solar plant size from 12.5MW to 20MW to meet rising energy needs. After completion of capital expenditures, MLPL will comprise about 41.2% of MLCF's installed internal power capacity. Consequently, combined with the long-term nature of the PPA, the overall demand risk is expected to remain low.

From a supply-side perspective, MLPL relies solely on imported coal for energy generation sourced primarily from South Africa and Indonesia; use of local coal is not technically viable nor has the associated license been granted by NEPRA. As per management, the MLPL purchases coal through its parent company and maintains an average inventory of about 5 months. During FY23, the Company shifted toward procurement of Afghan coal due to import restrictions as well as to avoid currency exchange losses and partially mitigate impact of rising international coal prices; reversion to the previous coal supply mix was exhibited following ease in import restrictions, as per management.

Moreover, as per the PPA, only the fuel cost component is adjustable based on monthly revisions in coal prices, partly mitigating the associated price risk. Although other cost components are not fully passed on to MLCF, the impact on tariff stability and profitability performance is expected to remain limited, given that fuel cost is the most volatile component of its operational costs.

Strong Sponsors Profile

Assigned ratings draw comfort from the Company's association with the Kohinoor Maple Leaf Group a leading industrial conglomerate having presence across diversified sectors including cement, textiles, power, healthcare and capital markets. Other associated companies include Maple Leaf Cement Factory Ltd. (MCLF), Kohinoor Textile Mills Ltd. (KTML), Kohinoor Raiwand Mills Ltd. (KRML), Maple Leaf Capital Ltd. (MLCL) and Novacare Hospitals (Pvt.) Ltd. (NHPL).

Profitability

Net revenue increased by 15.5% despite a decrease in energy output, driven by a higher tariff rate indexed to coal prices. The overall topline continued to emanate primarily from the sale of electricity, with only 2.5% (FY22: 4.3%) of the revenue from steam sales. Consequently, gross margins increased to 19.3% (FY22: 17.7%), in line with the tariff revision.

Other income depicted an uptick largely owing to an increase in markup returns on long-term loans to MLCF amidst the high-interest rate environment, boosting the bottom-line. Additionally, with no long-term or short-term borrowings, finance costs were negligible, pertaining solely to bank charges. However, the effective tax rate increased to 11.3% (FY22: 3.1%) resulting in higher tax expenses despite exemption in electric power generation; the same is attributable to imposition of super tax coupled with rise in mark-up related income. Nonetheless, the bottom line increased with net margins rising to 21.2% (FY22: 17.4%) during FY23.

During 9MFY24, further upward revision in tariff adjustments on the back of higher coal prices resulted in an increase in net sales of 14.2% vis-à-vis SPLY. However, a downward movement in profitability metrics was observed with the gross margin decreasing to 17.5% primarily on account of rising fuel costs not being fully passed on due to a lag in price adjustments and inflationary pressure on non-fuel related expenses. Additionally, higher income tax expenses (on an annualized basis) offset an uptick in other income, resulting in a net margin of 19.9%.

Liquidity

VIS considers the liquidity profile to be adequate despite the current ratio standing at 2.7x at end-March'24 (FY23: 3.1x, FY22: 1.2x). Much of this liquidity is tied up in receivables from the Holding Company. MLCF extended its payables to manage its working capital needs during the period. An addendum to an agreement signed in June'22 converted receivables from MLCF for electricity sold during FY22 and prior years into a long-term loan, carrying a markup rate of 3M KIBOR + 1% per annum, with principal payments commencing in Oct'25. Interest generated from this loan supports the Company's working capital needs. The sizeable buildup in receivables has extended the cash conversion cycle to ~136 days at end-9MFY24 (FY23: ~89 days, FY22: ~32 days), exposing the Company to potential liquidity pressures.

Capitalization

The Company's equity base was augmented in tandem with profit retention during FY23. The Company has had a debt-free balance sheet since FY21 as the project was funded entirely through equity sources while working capital requirements are met through internal capital, thereby reducing the need for external funding. Consequently, gearing and leverage indicators stood at nil and 0.14x, respectively, at end-March'24 (FY23: nil, 0.11x, FY22: nil, 0.1x).

Going forward, if liquidity pressures continue, we may expect some increase in gearing. Maintenance of capitalization profile will remain important for ratings.

Maple Leaf Power Limited Annexure I

Financial Summary

Balance Sheet (PKR Millions)	FY21A	FY22A	FY23A	9MFY24M
Property, plant and equipment	4,934.69	4,695.36	4,391.50	5,122.46
Long-term Loan to Holding Company	1,000.00	2,000.00	2,000.00	2,000.00
Trade Debt Due from Holding Company	61.23	132.60	1,871.87	2,465.19
Cash & Bank Balances	11.00	23.67	8.54	30.95
Other Assets	490.17	639.43	698.80	868.93
Total Assets	6,497.08	7,491.06	8,970.71	10,487.53
Creditors	15.26	18.55	21.94	46.74
Long-term Debt (incl. current portion)	0.00	0.00	0.00	0.00
Short-Term Borrowings	30.00	0.00	0.00	0.00
Total Debt	30.00	0.00	0.00	0.00
Other Liabilities	567.71	671.43	860.70	1,249.15
Total Liabilities	612.97	689.98	882.64	1,295.89
Paid up Capital	5,020.00	5,020.00	5,020.00	5,020.00
Equity (excl. Revaluation Surplus)	5,695.52	6,623.46	7,922.74	9,035.08

Income Statement (PKR Millions)	FY21A	FY22A	FY23A	9MFY24M
Net Sales	4,236.41	5,252.09	6,064.21	5,541.44
Gross Profit	1,127.00	927.74	1,172.29	967.79
Operating Profit	1,289.90	966.55	1,452.31	1,250.08
Finance Costs	31.15	21.42	0.84	3.23
Profit Before Tax	1,258.75	945.13	1,451.47	1,246.85
Profit After Tax	1,152.69	916.01	1,287.59	1,103.58

Ratio Analysis	FY21A	FY22A	FY23A	9MFY24M
Gross Margin (%)	26.60%	17.66%	19.33%	17.46%
Operating Margin (%)	30.45%	18.40%	23.95%	22.56%
Net Margin (%)	27.21%	17.44%	21.23%	19.92%
Funds from Operation (FFO) (PKR Millions)	1,398.90	1,217.61	1,480.70	1,213.99
FFO to Total Debt* (%)	4663.00%			
FFO to Long Term Debt* (%)				
Gearing (x)	0.01	0.00	0.00	0.00
Leverage (x)	0.11	0.10	0.11	0.14
Debt Servicing Coverage Ratio* (x)	26.72	56.25	1,763.74	376.85
Current Ratio (x)	0.98	1.21	3.05	2.68
(Stock in trade + trade debts) / STD (x)	12.34			
Return on Average Assets* (%)	17.74%	13.10%	15.64%	15.12%
Return on Average Equity* (%)	20.24%	14.87%	17.70%	17.35%
Cash Conversion Cycle (days)	30.11	32.44	89.16	135.99

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES — Annexure II

Name of Rated Entity	Maple Leaf Power Limited
Sector	Power
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	
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.
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Due Diligence Meetings Conducted	

Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
23-Sep-24	A	A-1	Stable	Initial

Due Diligence Meetings Conducted:

S.No	Names	Designation	Date
1.	Mr. Jalal Tariq Shah	Head of Finance	August 15, 2024