The Pakistan Credit Rating Agency Limited

Rating Report

Thar Energy Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
16-Feb-2023	A	A2	Stable	Upgrade	-
12-Sep-2022	A-	A2	Stable	Maintain	Yes
23-Sep-2021	A-	A2	Stable	Maintain	Yes
24-Sep-2020	A-	A2	Stable	Initial	Yes

Rating Rationale and Key Rating Drivers

The Hub Power Company Limited (HUBCO) of Pakistan along with Fauji Fertilizer Company Limited (FFCL), has set up a 330MW coal power plant, under the umbrella of Thar Energy Limited (TEL). Both major shareholders collectively represent 90% shareholding, and have very strong credentials, as also reflected by their Entity Ratings (AA+). The financial strength and experience in the energy chain of the sponsoring companies is positive to the ratings, while the controlling interest lies with HUBCO. TEL has been awarded an upfront tariff, with the payments to be received from CPPA-G against Energy and Capacity, backed by the sovereign guarantee. The plant successfully achieved its Commercial Operations (COD) on 1st October 2022 and has been supplying electricity to the national grid since then. As per the Power Purchase Agreement (PPA), CPPA-G has charged Liquidated Damages (LD) to the Company for the delay in COD from the required date. The plant will operate on local Thar Coal which will be provided by Sindh Engro Coal Mining Company (SECMC) under the Coal Supply Agreement. Due to the low electricity generation cost, TEL has been prioritized in the merit order list by NTDC. In accordance with the agreement, Hub Power Services Limited (HPSL) an associated company will provide Operations and Maintenance (O&M) services for the plant. The O&M contractor will be responsible for maintaining the operational benchmarks (Availability: 85%, Efficiency: 37%). The Company has long term project debt that is repayable in a period of ten years. As per rising operational needs, the Company plans on procuring further working capital financing in the near future.

Going forward, the capacity of the Company to generate stable cash flows in order to make timely repayments against the project debt remains crucial. With rising concerns about circular debt, the trend of payments received from CPPA-G against invoices will further impact ratings.

Disclosure

Name of Rated Entity	Thar Energy Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22),Methodology | Independent Power Producer Rating(Jun-22)
Related Research	
Rating Analysts	Hashim Yazdani | hashim.yazdani@pacra.com | +92-42-35869504

Profile

Plant Thar Energy Limited (TEL) is an Independent Power Producer (IPP) and has developed a 330MW coal fired power plant in Thar Block II on Build-Own-Operate (BOO) basis. The plant achieved its COD on 1st October 2022.

Tariff TEL is awarded an upfront tariff for coal power projects by NEPRA of US¢8.5015/KWh. Tariff control period is 30 Years from the COD. The tariff is indexed to the Pakistan Rupee-US Dollar exchange rate and US and Pakistan CPI inflation. Principal and interest repayments, ROE, Insurance, Fixed and Variable O&M costs are part of the escalable (adjustable) component. Fuel price and all the taxes/levies are completely pass through to power purchaser.

Return On Project The return on equity (ROE) as per the tariff determination of the project is at 30.65%.

Ownership

Ownership Structure TEL's main sponsors are The Hub Power Company Limited (HUBCO), Fauji Fertilizer Company Limited and China Everbest Development International Limited. The HUBCO group has the controlling interest at 60%, Fauji Fertilizer at 30% and China Everbest Development has 10% ownership through CMEC (SPV) in TEL.

Stability Comfort is drawn from the association of company with HUBCO group and Fauji Fertilizer.

Business Acumen Sponsor groups have significant experience of development and operation of power projects, including coal-fired, natural gas, and various of renewable energies such as thermal, LNG, wind, solar, waste-to-energy, mine-mouth coal project (with integrated production of coal and power) and so on.

Financial Strength HUBCO has strong financial position. While, Fauji Fertilizer and CMEC financial strength is also good. Hence, the financial strength of the sponsors is considered strong.

Governance

Board Structure TEL's Board of Directors (BoD) comprises of seven members. Four members represent Hubco Group, while two represents Fauji Fertilizer Company Limited and 1 member represents CMEC.

Members' Profile Mr. Kamran Kamal is the Chairman of the Board of Directors of Thar Energy Limited and CEO of Hub Power Company Limited. The remaining members possess sufficient experience of different business sectors.

Board Effectiveness The experiences of board will help guiding the management in developing effective operational and financial policies.

Financial Transparency A. F. Ferguson & Co Chartered Accountants are the external auditor of the company. The auditor has given an unqualified opinion on FY22 financial statements.

Management

Organizational Structure IPPs are generally featured by a flat organizational structure, mainly comprising finance and technical staff, while the engineering, construction and operations of the plant are outsourced. However, project company is overseeing EPC Contractors through renowned foreign independent engineer.

Management Team The management team is led by Mr. Saleemullah Memon, appointed as CEO. Mr. Saleemullah Memon has been associated with TEL since last 5 years, having overall experience of 22 years.

Effectiveness The management of TEL is mostly engaged in the finance and company management related activities. The main operations and maintenance of the plant have been outsourced to Hub Power Services Limited (HPSL).

Control Environment The Company has appointed third party contractors for regular operations and maintenance of the plant while the management oversees day to day financial and business matters.

Operational Risk

Power Purchase Agreement TEL has signed the PPA with CPPAG for a period of 30 years from the COD. Under the agreement, TEL will supply electricity to CPPAG against Energy and Capacity payments.

Operation And Maintenance Hub Power Services Limited (HPSL) is the O&M contractor of the Company for the first two years and is currently also performing the O&M operations at The Hub and Narowal Power Plant.

Resource Risk TEL will procure fuel required for plant operation through Coal Supply Agreement (CSA) with Sindh Engro Coal Mining Company (SECMC) for 30 years uninterrupted supply of coal, which has been signed between TEL and SECMC on May 13, 2017.

Insurance Cover Insurance is attained for material damage, third party liability, and delay in startup affecting the profits. Contractors will be liable to pay Liquidated Damages (LDs) as per the contract if benchmark performance ratio is not met.

Performance Risk

Industry Dynamics The total installed generation capacity of the country stood at 43,775MW as on June 2022. Total generation during the 1QFY23 was recorded at41,081GWh (FY22: 153,874GWh, FY21: 143,588GWh). Total generation during FY22 was through Hydel (23%), Thermal (61%), Nuclear (12%) and Renewables (4%).

Generation TEL achieved COD on 1st October 2022 and has been supplying electricity to the National Grid since then.

Performance Benchmark The required availability for Thar Energy Limited under the PPA is 85%. Meanwhile, the required efficiency of the plant is 37%.

Financial Risk

Financing Structure Analysis The estimated project cost is USD 520mln, debt financing constitutes 75% (USD 390mln). Total project debt has been funded by a mix of foreign (~67%) and local debt (~33%). The foreign debt has been sponsored by Chinese lenders with the consortium led by CDB and China Minsheng Banking Corporation Limited. Foreign debt has the pricing of 6ML + 4.05% spread p.a. payable semi-annually. The local debt has been sponsored by Pakistani Banks with the consortium led by Bank Alfalah Limited including HBL, BAHL, NBP, FBL, SBL and Soneri Bank Limited. Local debt has the pricing of 3MK + 3.5% spread p.a. payable semi-annually. The principal repayment shall be made in 20 semi-annual payments.

Liquidity Profile TEL, in its off-take agreement with CPPA-G, will receive capacity payments given the plant meets contract availability, even if no purchase order is placed. In order to comfort the lenders, DSRA will be maintained.

Working Capital Financing As per the rising operational needs, the Company plans on procuring further working capital financing in addition to the already available facilities of approx. PKR 5bln.

Cash Flow Analysis Net Cash used during the three month period ended Sept 2022 stood at PKR 219mln. With the plant becoming operational, the Company's FCFO and cash flow is expected to improve in the coming periods.

Capitalization The estimated project cost is USD ~520mln with 75:25 debt to equity ratio. Total project equity of ~USD 130mln was injected by equity sponsors in phases. As of Sept 2022, the Project debt stood at PKR 67,951mln with leveraging at 78.6%

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Thar Energy Limited	**Sep-22**	**Jun-22**	**Jun-21**	**Jun-20**
Power	**3M**	**12M**	**12M**	**12M**
A BALANCE SHEET				
1 Non-Current Assets	91,001	74,454	41,303	32,095
2 Investments	-	-	-	-
3 Related Party Exposure	-	8	8	64
4 Current Assets	3,493	3,206	697	1,225
a Inventories	-	-	-	-
b Trade Receivables	-	-	-	-
5 Total Assets	94,493	77,668	42,008	33,383
6 Current Liabilities	6,117	3,035	23,806	19,190
a Trade Payables	*778*	*702*	*147*	*206*
7 Borrowings	67,951	58,449	3,195	3,189
8 Related Party Exposure	1,956	430	3,247	441
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	18,469	15,754	11,761	10,563
11 Shareholders' Equity	18,469	15,754	11,761	10,563
B INCOME STATEMENT				
1 Sales	-	-	-	-
a Cost of Good Sold	-	-	-	-
2 Gross Profit	-	-	-	-
a Operating Expenses	(14)	(144)	(36)	(104)
3 Operating Profit	(14)	(144)	(36)	(104)
a Non Operating Income or (Expense)	*67*	*105*	*(17)*	*83*
4 Profit or (Loss) before Interest and Tax	52	(39)	(53)	(21)
a Total Finance Cost	*(0)*	*(0)*	*(0)*	*(0)*
b Taxation	*(2)*	*(7)*	*(2)*	*(20)*
6 Net Income Or (Loss)	50	(46)	(55)	(42)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*42*	*(78)*	*(53)*	*(88)*
b Net Cash from Operating Activities before Working Capital Changes	*49*	*(4,586)*	*(46)*	*(18)*
c Changes in Working Capital	*(442)*	*1,666*	*7,396*	*217*
1 Net Cash provided by Operating Activities	(393)	(2,921)	7,350	199
2 Net Cash (Used in) or Available From Investing Activities	(6,654)	(49,748)	(9,173)	(5,403)
3 Net Cash (Used in) or Available From Financing Activities	6,828	53,899	1,252	4,630
4 Net Cash generated or (Used) during the period	(219)	1,230	(571)	(574)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	N/A	N/A	N/A	N/A
b Gross Profit Margin	N/A	N/A	N/A	N/A
c Net Profit Margin	N/A	N/A	N/A	N/A
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	N/A	N/A	N/A	N/A
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	N/A	N/A	N/A	N/A
2 Working Capital Management				
a Gross Working Capital (Average Days)	N/A	N/A	N/A	N/A
b Net Working Capital (Average Days)	N/A	N/A	N/A	N/A
c Current Ratio (Current Assets / Current Liabilities)	0.6	1.1	0.0	0.1
3 Coverages				
a EBITDA / Finance Cost	N/A	N/A	N/A	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	0.1	N/A	0.0	0.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	418.4	-744.9	-496.3	-239.8
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	78.6%	78.8%	21.4%	23.2%
b Interest or Markup Payable (Days)	N/A	N/A	N/A	N/A
c Entity Average Borrowing Rate	0.0%	0.0%	0.0%	0.0%

Credit Rating

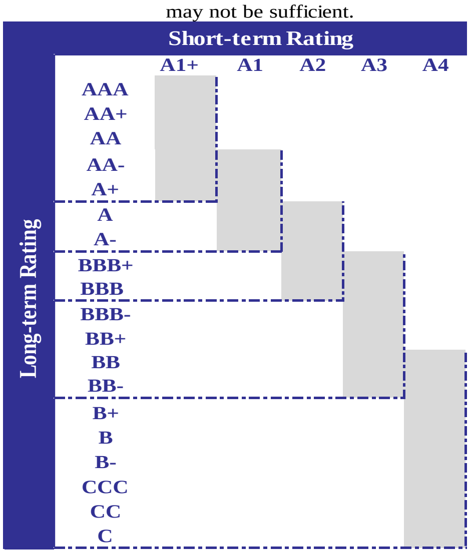
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
Proprietary Information