The Pakistan Credit Rating Agency Limited

Rating Report

Engro PowerGen Thar (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
13-Sep-2024	AA	A1+	Stable	Upgrade	-
22-Sep-2023	AA-	A1	Stable	Maintain	-
23-Sep-2022	AA-	A1	Stable	Maintain	-
23-Sep-2021	AA-	A1	Stable	Maintain	-
25-Sep-2020	AA-	A1	Stable	Upgrade	-
29-Oct-2019	A	A1	Stable	Maintain	-
29-Apr-2019	A	A1	Stable	Maintain	-
27-Dec-2018	A	A1	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Engro Energy Limited (EEL) along with China Machinery & Engineering Corporation (CMEC) has set up a Thar coal based (2 x 330 MW) power plant (Complex) - Engro PowerGen Thar (Pvt.) Limited (EPTL). Since its COD in July'19, EPTL is running its operations smoothly and sustainably and achieving operational benchmarks. The primary fuel is Thar Coal. A 30-year coal supply agreement is signed with Sindh Engro Coal Mining Company (SECMC), which is operating a coal mine in Thar Block-II. Company's both units were successfully connected to and are providing electricity to the grid. During CY23 the plant generated net electrical output of ~3,623GWh and subsequently recorded Net Revenue of PKR ~108,479mln against Energy and Capacity invoices. Throughout the period, the plant was able to meet its operational benchmarks of availability and efficiency as agreed in the PPA. The Government of Pakistan has given payment guarantee against dues from CPPA-G. However, mounting trade receivables of remains a cause of concern. Going forward, the Company plans to manage its operations through adequate cashflow generation and efficient utilization of working capital lines. The Company has successfully repaid approximately 40% of its foreign and 30% of its local project related debt. The Company's sponsors Engro Energy Limited - holding the Engro Corporation thermal energy asset portfolio have entered into a definitive agreement with Liberty Power Holding Limited and other parties acting in concert for the sale of its entire shareholding in EPTL. The transaction is in process and expected to materialize by end of CY24.

The assigned ratings reflect the sponsors strength along with guarantee provided by the power purchaser. Furthermore, the plant has been placed at top priority due to its low cost energy generation leading to higher demand from CPPAG. Simultaneously, the plant has been successfully meeting its operational benchmarks leading to optimal efficiency. Going forward, the Company's main focus would be to keep the plant available and operational and along with timely repayment of debt obligations.

Disclosure

Name of Rated Entity	Engro PowerGen Thar (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Rating Modifiers(Apr-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24),Methodology | Independent Power Producer Rating(Jul-24)
Related Research	Sector Study | Power(Jan-24)
Rating Analysts	Hashim Yazdani | hashim.yazdani@pacra.com | +92-42-35869504

Profile

Plant Engro PowerGen Thar (Pvt.) Limited (EPTL or the Company) is operating 2 x 330 MW mine mouth Coal-based Power Plant. The Company is a subsidiary of Engro Energy Limited (EEL). The project, which comes under the CPEC corridor is the first indigenous coal-based Power Plant of Pakistan in Thar Block–II, Sindh.

Tariff EPTL has been provided a levelized tariff of 11.3475 US¢/kWh. The tariff is indexed to the Pakistan Rupee-US Dollar exchange rate, Pakistan CPI inflation, LIBOR, KIBOR and US CPI inflation. Principal and interest repayments, ROE, Insurance, Fixed and Variable O&M costs are part of the scalable (adjustable) component.

Return On Project EPTL's key source of earning is the revenue generated against Energy and Capacity invoices to the Power Purchaser, CPPA-G. The IRR of the project, as agreed with NEPRA, is 20%. The ROE of the project is at 30.65%.

Ownership

Ownership Structure EPTL's majority ordinary shares are owned by Engro Energy Limited (EEL) (50.1%) and China Machinery Engineering Company (CMEC) (35%). The remaining stake is owned by Habib Bank Limited (HBL) (9.5%) and Liberty Mills Limited (LML) (5.4%). Additionally, Preference shares equivalent to USD 85mln all are subscribed by CMEC.

Stability The ownership of EPTL is in transitionary phase as Liberty Power Holding led consortium is acquiring the entire stake of Engro group. Stability is drawn from the penetration of Liberty group in other business segments.

Business Acumen Sponsor groups have significant experience in the power, coal mining, textile, banking and engineering contracting solutions and services. Furthermore, the sponsor group taking over Engro's stake in the Company also has presence in the power sector.

Financial Strength The presence of the sponsoring group in different business segments ensures sound financial strength.

Governance

Board Structure EPTL's Board of Directors (BoD) comprises of nine members from the sponsoring groups. Five members represent EEL, three members are from CMEC and one from HBL.

Members' Profile The board members have diversified experience from different industries. Mr. Nadir Salar Qureshi is the Chairman of the board. He is associated with Engro since March 2017.

Board Effectiveness The BOD has two sub-committees called Audit committee and Board Compensation Committee to assist and supervise the management in respective areas.

Financial Transparency The board has appointed A.F Ferguson & Co. as the external auditor of the company. Furthermore, the management ensures timely preparation of 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.

Management Team The management team is headed by Mr. Athar A. Khawaja appointed as CEO in August 2023. He has been associated with the Engro Group in various capacities previously. He is assisted by a team of qualified and experienced individuals who are part of the management.

Effectiveness The management of EPTL is mostly engaged in the finance related activities. The company maintains an adequate MIS which helps management to keep track of all operations and liaison with O&M operator.

Control Environment The company maintains an adequate MIS which helps management to keep track of all operations and liaison with O&M operator.

Operational Risk

Power Purchase Agreement The electricity generated will be sold to Central Power Purchasing Agency - (CPPA-G) under a 30-year Power Purchase Agreement (PPA). Further, the obligations of the power purchaser are guaranteed by the Government of Pakistan. Moreover, a stable revenue stream is also ensured through the guaranteed capacity charge (the component of the tariff received irrespective of electricity production).

Operation And Maintenance Operation and Maintenance contract is under consideration.

Resource Risk The Coal Supply Agreement of EPTL is with Sindh Engro Coal Mining Company for 30 years where SECMC will provide 320,000 tons coal per month. The Agreement is an exclusive contract by which EPTL will be allowed to use the substitute coal (Imported coal) only in case of non-availability of coal by the Supplier.

Insurance Cover The Company has attained reasonable insurance cover for operational period for Property, Plant & Equipment physical damage, third party liability, and business interruption affecting the profits. Additionally, Marine, Terrorism/Political Violence, and Excess Third Party Liability Insurances are also held.

Performance Risk

Industry Dynamics Pakistan power generation during FY-2024 fell by 1.9 percent to 127,160 GWh, marking the second consecutive annual decline due to higher electricity costs, rising inflation, and a decrease in economic activity in the country. Hydropower remained the largest source of power generation, accounting for 31% of the total. RLNG-based power generation contributed 19% while Local coal-based power plants contributed 12%. Nuclear power generation share stood at 19%. The remaining was met through other thermal sources including imported coal while a minor share was contributed through Renewable resources including Wind and Solar.

Generation The plant generated net electrical output of ~3,623GWh during CY23. The delivered energy depends on the electricity demand from the power purchaser and the plants availability.

Performance Benchmark The required availability for EPTL under the PPA is 82.5% during first five years and 85.5% for next 25 years. Meanwhile, the required efficiency of the plant is 37%. On average the plant maintained its required benchmarks throughout the period.

Financial Risk

Financing Structure Analysis Debt financing constitutes 75% of the project cost i.e. USD 831mln. The USD facility between the China Development Bank and EPTL is for USD 621mln with a tenure of 14 years with semiannual payments. The local debt facility is between a consortium of multiple local banks, with HBL as the lead arranger, and EPTL for USD 210mln with a tenure is of 14 years with semiannual payments. Ratio of foreign to local financing is 75:25.

Liquidity Profile IPPs face delays in payments from the power purchaser against outstanding receivables of Energy and Capacity due to the circular debt issues faced by the country. The Company has outstanding receivable of PKR 50,848mln as on June 2024. To manage the working capital requirements, the Company has availed short term borrowings limits.

Working Capital Financing As a result of delay in payments from CPPAG, gross net working capital days of IPPs are particularly high. EPTL gross working capital days as of June 2024 stand at 162 days as a result of pending receivables against Energy and Capacity invoices. The Company manages its payables with SECMC accordingly resulting in net working capital days of 43 days as of June 2024. To bridge the gap and to fund its working capital financing the Company has availed short term borrowings.

Cash Flow Analysis FCFO of the company are strong on the back of improved profitability/net income. The Company reported FCFOs of PKR 24,329mln during 1HCY24. As a result, the coverages (EBITDA/Finance Cost) have remained stable at 3.5x during the period. ETPL can generate ample revenue to cover its financial obligations.

Capitalization The project is structured on a 75:25 debt to equity basis. The Company's equity stands at PKR 85,295mln as on June 2024. With 40% of project repaid, leveraging ratio is at 63.5%.

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Financial Summary
PKR mln

Engro Powergen Thar Limited Power	Jun-24 6M	Dec-23 12M	Dec-22 12M	Dec-21 12M
A BALANCE SHEET				
1 Non-Current Assets	175,297	179,881	160,454	141,836
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	127,398	152,238	112,182	81,409
a Inventories	*1,215*	*938*	*759*	*390*
b Trade Receivables	*50,848*	*58,217*	*51,526*	*39,759*
5 Total Assets	302,694	332,118	272,636	223,245
6 Current Liabilities	53,832	77,708	63,929	35,298
a Trade Payables	*45,077*	*36,478*	*31,400*	*28,345*
7 Borrowings	148,373	158,226	143,987	125,621
8 Related Party Exposure	15,194	13,699	8,172	6,539
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	85,295	82,486	56,548	55,787
11 Shareholders' Equity	85,295	82,486	56,548	55,787
B INCOME STATEMENT				
1 Sales	62,775	108,479	74,860	76,915
a Cost of Good Sold	*(40,279)*	*(64,083)*	*(45,158)*	*(54,312)*
2 Gross Profit	22,496	44,396	29,701	22,604
a Operating Expenses	(339)	(873)	(1,066)	(581)
3 Operating Profit	22,157	43,523	28,636	22,022
a Non Operating Income or (Expense)	*676*	*14,977*	*4,934*	*3,321*
4 Profit or (Loss) before Interest and Tax	22,833	58,500	33,570	25,343
a Total Finance Cost	*(7,179)*	*(28,795)*	*(16,961)*	*(10,739)*
b Taxation	*(522)*	*(1,702)*	*(347)*	*(449)*
6 Net Income Or (Loss)	15,132	28,003	16,262	14,155
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*24,329*	*47,910*	*30,393*	*26,451*
b Net Cash from Operating Activities before Working Capital Changes	*16,032*	*30,239*	*20,901*	*19,726*
c Changes in Working Capital	*5,513*	*(4,133)*	*(6,505)*	*2,775*
1 Net Cash provided by Operating Activities	21,545	26,105	14,396	22,501
2 Net Cash (Used in) or Available From Investing Activities	3,769	1,431	7	(744)
3 Net Cash (Used in) or Available From Financing Activities	(32,502)	(12,053)	(10,130)	(5,380)
4 Net Cash generated or (Used) during the period	(7,188)	15,483	4,273	16,377
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	15.7%	44.9%	-2.7%	-3.9%
b Gross Profit Margin	35.8%	40.9%	39.7%	29.4%
c Net Profit Margin	24.1%	25.8%	21.7%	18.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	47.5%	40.4%	31.9%	38.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	33.8%	37.3%	31.6%	27.0%
2 Working Capital Management				
a Gross Working Capital (Average Days)	162	187	225	184
b Net Working Capital (Average Days)	43	73	80	60
c Current Ratio (Current Assets / Current Liabilities)	2.4	2.0	1.8	2.3
3 Coverages				
a EBITDA / Finance Cost	3.5	2.3	2.6	3.8
b FCFO / Finance Cost+CMLTB+Excess STB	1.5	1.2	1.2	1.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	3.5	4.9	6.4	5.5
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	63.5%	65.7%	71.8%	69.2%
b Interest or Markup Payable (Days)	32.1	24.4	37.6	29.3
c Entity Average Borrowing Rate	9.0%	13.2%	8.6%	5.8%

Credit Rating

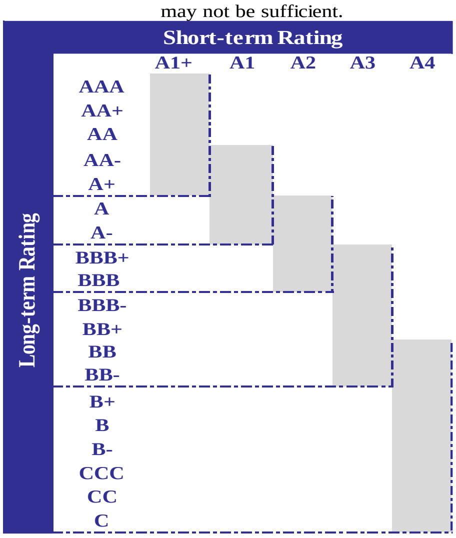
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
Proprietary Information