The Pakistan Credit Rating Agency Limited

Rating Report

ThalNova Power Thar (Pvt.) Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Oct-2024	AA-	A1	Stable	Maintain	-
25-Oct-2023	AA-	A1	Stable	Upgrade	-
16-Feb-2023	A	A2	Stable	Upgrade	-
17-Aug-2022	A-	A2	Stable	Maintain	Yes
02-Sep-2021	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

ThalNova Power Thar (Pvt) Limited (TNPTL or "the Company") has set up a 330MW, mine mouth Thar coal-based power plant located at Block II, Thar Coalfield, District Tharparkar, Sindh. The Hub Power Company Limited (HUBCO) holds a significant stake of 38.3% in the Company. The plant is part of the China-Pakistan Economic Corridor (CPEC) and is fueled by coal extracted from Thar Block-II by the Sindh Engro Coal Mining Company. Being on local coal, the plant reduces dependence on imported fuels and resultantly positively affects the overall basket price of the electricity generated. The plant is prioritized in the merit order list by NTDC due to its low generation cost. Additionally, the plant efficiency and utilization factor are high. TNPTL has been awarded an upfront tariff, with the payments to be received from CPPA-G against Energy and Capacity, backed by a sovereign guarantee. The plant successfully achieved its Commercial Operations (COD) on 17th February 2023. As per the Power Purchase Agreement (PPA), CPPA-G has charged Liquidated Damages amounting to USD 5.60mln due to delay in achievement of COD beyond Required Commercial Operations Date (RCOD) for the period 1st July 2022 to 16th February 2023. 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%). During FY24, the net electrical output of the plant stood at 1,971 GWh (FY23: 758 GWh) with a load factor of 75.0% while maintaining its operational benchmarks. Currently, the working capital requirements are managed through a mix of internal cash generation and short-term financing facilities secured from banks. Going forward, future borrowings are dependent on the rising operational needs along with the repayment behavior of the power purchaser against outstanding receivables.

Timely repayment of project debt along with successfully meeting operational benchmarks remains crucial to upholding the assigned ratings. Furthermore, considering the ongoing developments in the power sector, any modification in the long term agreements might potentially impact the ratings.

Disclosure

Name of Rated Entity	ThalNova Power 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 ThalNova Power Thar Limited (TNPTL) is an independent power producer (IPP) and has developed a 330 MW coal-fired power plant in Thar Block II on a build-own-Operate (BOO) basis. The plant achieved its commercial operations date (COD) on 17th February 2023.

Tariff TNPTL 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 passed through to the power purchaser.

Return On Project As per the agreement with NEPRA, the return on equity (ROE) of the project is 30.65%, which is a component of the tariff allocated to TNPTL.

Ownership

Ownership Structure HUBCO holds 38.3% of the ownership stake and controlling interest through Hub Power Holdings Limited (HPHL), while the remaining shareholding is held by Nova Powergen Limited (24.70%), Thal Power (Pvt) Limited (26.00%), CMEC ThalNova Power Investments Limited (10.00%), and Descon Engineering Limited (1.00%).

Stability Stability in the ownership is derived from the long-term strategic investment of the sponsoring group to expand its presence in the power sector.

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

Financial Strength Having business interests in various sectors, HUBCO is among the leading conglomerates of the country with strong financial muscle.

Governance

Board Structure ThalNova's Board of Directors (BoD) comprises eight members, including seven non-executive members along with the CEO. Hub Power Holdings Ltd., Nova Powergen Ltd., and Thal Power Ltd. each have two members, while one member represents CMEC.

Members' Profile Mr. Kamran Kamal is the Chairman of the Board of Directors of TEL and also the CEO of The Hub Power Company Limited (HUBCO). He has been associated with HUBCO group in various capacities and brings vast experience of the local power sector. The remaining members also possess sufficient experience of their respective fields.

Board Effectiveness The board conducts regular meetings to discuss matters relating to the Company's operations and financials, along with providing supervision and granting approval for other policies of the Company.

Financial Transparency The management ensures timely preparation of accounts along with maintenance of financial records relating to invoices to the power purchaser. A. F. Ferguson & Co. Chartered Accountants are the external auditors of the company.

Management

Organizational Structure IPPs are generally featured by a flat organizational structure, mainly comprising finance and treasury staff, while the engineering, construction, and operations of the plant are outsourced to third-party contractors.

Management Team Mr. Amjad Ali Raja has been appointed as the new CEO in July 2024. He has been associated with the HUBCO group since 2013. With an engineering background, Mr. Amjad brings 22 years of experience in the energy sector. The remaining team of individuals possesses prerequisite qualifications and experience to perform the required functions.

Effectiveness The management is majorly engaged in operational matters relating to the Company, including invoicing to CPPAG, internal audit, preparation of accounts, treasury operations, and tariff determination, while the plant's operations and maintenance are outsourced.

Control Environment The management has developed a comprehensive internal audit function that ensures timely delivery of data and reports. Furthermore, the operation and maintenance contractors deliver reports to the management relating to the plant operations to ensure smoothness.

Operational Risk

Power Purchase Agreement The Company has entered into a 30-year Power Purchase Agreement with Central Power Purchasing Agency (CPPA-G) under which it will supply electricity to the power purchaser and generate invoices relating to Energy Purchase Price and Capacity Purchase Price.

Operation And Maintenance TNPTL has entered into a long-term contract with Hub Power Services Limited (HPSL) to manage the plant's operation and maintenance. HPSL is a subsidiary of the HUBCO Group, which is also engaged in providing O&M services for other plants of the group.

Resource Risk TNPTL is sourcing coal from Sindh Engro Coal Mining Company (SECMC) under their 30-year Coal Supply Agreement that was signed at the inception of the project.

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 the benchmark performance ratio is not met.

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 Net electrical output of the plant during FY24 stood at 1,971 GWh (FY23: 758 GWh) with a load factor of 75.0%. The power purchaser sources electricity from the plant on priority due to its low cost of generation.

Performance Benchmark The required availability for Thar Energy Limited under the PPA is 85%. 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 395 million. The debt has been arranged with a syndicate of a foreign and local group. The first and major sponsor of debt are Chinese lenders, with the consortium of China Development Bank (CDB), China Minsheng Banking Corporation Limited, and China Zheshang Bank funding ~70% of the total debt, which equates to USD 264.9 million and is priced at 6 MLIBOR plus 4.05% per annum. The rest of the project debt (30%) is financed by a consortium of local banks being led by Habib Bank Limited and is priced at 3MKIBOR plus 3.5% per annum. Currently, the company has repaid approximately 10% of the project debt.

Liquidity Profile TNPTL, 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. As of June 2024, the Company's trade receivables from CPPAG stood at PKR 16,610mln. Circular debt continues to be an issue for companies operating in the power sector. Consequently, IPPs have to manage their liquidity requirements from short-term borrowings and internal cash generation.

Working Capital Financing Due to rising trade receivables from CPPPAG, gross working capital stood at 74 days as of June 2024. The Company is managing its working capital requirements through a mix of internal cash generation and short term lines availed from banks.. Future financing depends on the payment behavior of the power purchaser against outstanding receivables.

Cash Flow Analysis During FY24, the Company reported FCFO of PKR 25,176mln from the sale of electricity to CPPAG. EBIDTA/Finance Cost stood at 2.0x. Cash flow position is expected to improve with increased generation in the coming period since the plant is placed on priority in the merit order list.

Capitalization As of June 2024, leveraging stood at 69.8%, which is mainly attributable to long-term project debt.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

ThalNova Power Thar Limited Power	Jun-24 12M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	103,168	108,811	66,702	31,807
2 Investments	-	-	-	-
3 Related Party Exposure	-	46	-	-
4 Current Assets	49,499	30,594	4,590	296
a Inventories	*544*	*159*	-	-
b Trade Receivables	*16,610*	*8,052*	-	-
5 Total Assets	152,667	139,452	71,292	32,103
6 Current Liabilities	26,956	30,277	3,794	1,060
a Trade Payables	*16,994*	*11,101*	*2,304*	-
7 Borrowings	87,210	78,312	51,951	21,634
8 Related Party Exposure	793	2,984	242	96
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	37,707	27,879	15,305	9,312
11 Shareholders' Equity	37,707	27,879	15,305	9,312
B INCOME STATEMENT				
1 Sales	62,871	22,523	-	-
a Cost of Good Sold	*(39,309)*	*(14,122)*	-	-
2 Gross Profit	23,562	8,401	-	-
a Operating Expenses	(198)	(130)	(149)	(28)
3 Operating Profit	23,364	8,271	(149)	(28)
a Non Operating Income or (Expense)	*(639)*	*486*	*141*	*(10)*
4 Profit or (Loss) before Interest and Tax	22,725	8,757	(8)	(38)
a Total Finance Cost	*(12,674)*	*(3,925)*	-	-
b Taxation	*(414)*	*(39)*	*(5)*	*(4)*
6 Net Income Or (Loss)	9,637	4,794	(13)	(42)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*25,176*	*9,775*	*(30)*	*(43)*
b Net Cash from Operating Activities before Working Capital Changes	*14,023*	*4,740*	*(1,197)*	*(43)*
c Changes in Working Capital	*9,335*	*(14,640)*	*(3,286)*	*671*
1 Net Cash provided by Operating Activities	23,358	(9,900)	(4,482)	627
2 Net Cash (Used in) or Available From Investing Activities	(19,401)	(4,898)	(23,540)	(24,790)
3 Net Cash (Used in) or Available From Financing Activities	13,247	15,585	29,626	23,611
4 Net Cash generated or (Used) during the period	17,203	787	1,604	(552)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	179.1%	N/A	N/A	N/A
b Gross Profit Margin	37.5%	37.3%	N/A	N/A
c Net Profit Margin	15.3%	21.3%	N/A	N/A
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	54.9%	-21.6%	N/A	N/A
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	26.7%	22.8%	N/A	N/A
2 Working Capital Management				
a Gross Working Capital (Average Days)	74	133	N/A	N/A
b Net Working Capital (Average Days)	-8	24	N/A	N/A
c Current Ratio (Current Assets / Current Liabilities)	1.8	1.0	1.2	0.3
3 Coverages				
a EBITDA / Finance Cost	2.0	2.6	N/A	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	1.4	1.1	N/A	-0.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	6.6	12.8	-1756.4	-515.5
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	69.8%	73.7%	77.2%	69.9%
b Interest or Markup Payable (Days)	155.8	424.4	N/A	N/A
c Entity Average Borrowing Rate	14.1%	5.8%	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.

Scale	Long-Term Rating
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.

Scale	Short-Term Rating
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 conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.

Rating Modifiers | Rating Actions

Outlook (Stable, Positive, Negative, Developing)	Rating Watch	Suspension	Withdrawn	Harmonization
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'.	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.	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.	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 surveil the opinion due to lack of requisite information.	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. Rating actions may include "maintain", "upgrade", or "downgrade".

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 Company

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