The Pakistan Credit Rating Agency Limited

Rating Report

Tapal Energy (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
13-Sep-2022	A-	A2	Developing	Initial	-

Rating Rationale and Key Rating Drivers

Tapal Energy Private Limited or “TEL” is a power generating Company formed under the 1994 power policy framework, for sale of electricity to K-Electric. TEL signed a Power Purchase Agreement (PPA) with K-Electric, for a period of 22 years which expired in June 2019. However, under the term of PPA TEL and K-Electric had an option to extend the tenor of PPA with mutual consent, accordingly, both parties applied to NEPRA (The Authority) for the extension in the PPA. NEPRA approved the extension in generation license and modified the validity of its license up to June 2029, while allowing a take and pay tariff for the period of 3 years and instructed the CPPA-G and NTDC to make available alternate cheap resources of electricity generation to K-Electric to meet its current demand. TEL has successfully completed operations for the 3 year extension tenor based on take and pay tariff (expired in June 2022). Upon expiry of extended tariff period, TEL was issued a letter of consent for power acquisition by K-Electric for further extension of two years. TEL applied for the extension term tariff for additional 2 years i.e. till June 2024. The Authority while admitting the petition, allowed provisional tariff to TEL, which is lower than the applied tariff, with approval to sell power to KE beyond June 19, 2022. The hearing of the petition was held on August 11, 2022, tariff determination is pending with NEPRA. The provisional tariff has conditions namely i), tariff continues to be on take and pay basis by virtue of which the Company will generate revenue only when electricity is supplied to the power purchaser ii), fuel cost worked out at specific RFO value including transportation cost and is subject to adjustment for variation in fuel price iii), dispatch shall be in accordance with economic merit order list of K-Electric, iv) The final tariff when announced by NEPRA will have retrospective application from 20th June 2022. No liquidated damages relating to electricity supply will be applicable to either party. Average plant availability during 9MFY22 has been maintained according to agreed parameter. TEL has successfully generated 495GW in 9MFY22 and recorded a topline of PKR 11,449mln. TEL project debt has been fully paid in 2004, and it has not taken any further long term loans. TEL finances its working capital through its operations and working capital facilities. (available limits of approx. PKR: 3.5bln, PKR: 1.5bln funded, PKR: 2bln unfunded).

The ratings have a developing outlook owing to the finalization of extension in the tariff by the authority. TEL’s management is confident based on rational argument as to the finalization of said tariff and its continued operations. Comfort can be drawn from the Company’s liquid cash position and low leveraged balance sheet and no working capital lines utilization as of 31 Mar 2022. Although well-managed, in-house O&M activities are carried out, it leads to exposure of the Company to operational risk; thus upholding strong operational performance to remain a key driver of the ratings. Meanwhile, the determination of tariff is at the final stage, while timely finalization of the same is essential for the ratings.

Disclosure

Name of Rated Entity	Tapal Energy (Pvt.) 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	Sector Study | Power(Jan-22)
Rating Analysts	Muhammad Mubashir Nazir | mubashir.nazir@pacra.com | +92-42-35869504

Profile

Legal Structure Tapal Energy (Private) Limited (TEL) is a joint venture independent power project of local and international investors set-up to build, own, and operate (BOO) a 126 MW thermal power plant, and supply electricity to K- Electric. The plant is located at Hub River Road, Taluka & District Karachi (West).

Background TEL established in 1995, is an Independent Power Producer (IPP) conceived under the Power Policy 1994. Tapal Energy commenced operations on, June 20, 1997. The original Power Purchase agreement (PPA) signed with K-Electric expired in June 2019. TEL and K-Electric entered into a new PPA for further period of 3 years, which has expired in June 2022, and a further extension of 2 years is sought from NEPRA, a hearing of which was held on August 11, 2022, pending approval of final tariff with the authority. The generation license is valid till June 2029.

Operations The plant has been designed, engineered, and constructed by Power Construction Company BV of Holland (A subsidiary company of Wartsila Diesel). Wartsila Diesel and ABB Industry of Finland are the equipment suppliers. The Diesel Power Plant is designed for continuous operation on Heavy Fuel Oil with start and stops also on HFO. NEPRA approved provisional tariff on take and pay basis. Demand for power is issued according to the Merit order list maintained by K-Electric.

Ownership

Ownership Structure Tapal Energy Pvt Ltd is 50% owned by Sithe Mauritius Limited (fully owned Subsidiary of Marubeni Corporation of Japan). The remaining 50% shares are owned by the Tapal Family who are individual members of Ameejee Valleejee & Sons Pvt Ltd (AVS).

Stability AVS was established in 1867, AVS has wide experience in engineering and construction-related activities ranging from shipbuilding to barge construction/repairs to power plants. It represents some of the most renowned International Companies like Streinmuller, Lurgi, Standard Kessel, Henkels, Dorr Oliva, Atlas Copco, etc. in Pakistan. Marubeni Corporation and its consolidated subsidiaries use their broad business networks, both within Japan and overseas, to conduct a diverse range of business activities, lifestyle, ICT business & logistics, food, Agribusiness, forest products, chemicals, metals & mineral resources, energy, power, infrastructure project, aerospace & ship, finance, leasing & real estate business, construction, and industrial machinery & mobility.

Business Acumen Sponsors have extensive experience in the energy sector as well as have diverse penetration in different sectors of the economy worldwide.

Financial Strength The financial strength of the sponsors is considered strong as they have well-diversified profitable businesses. Further, the company is managing its working capital from its efficient management of operations and working capital lines.

Governance

Board Structure Tapal Energy Board of Directors (BOD) comprises eight members, including the CEO (Mr. Tabish Tapal). Four of them belong to Tapal Family and four directors are nominees of Sithe Mauritius Ltd. All of them are experienced individuals. There is no independent director on the board

Members' Profile Directors having a strong professional profile along with diversified experience assists the management in terms of strategic guidance and implementation of an effective control framework.

Board Effectiveness Most of the board members have a long association with the board.

Financial Transparency BDO Ebrahim & Co Chartered Accountants is the external auditors of the company. They have expressed an unqualified opinion on the company's financial statements for the period ended June 30, 2021.

Management

Organizational Structure TEL has a lean organizational structure with separate teams for the head office and for the plant. The CEO is supported by a team of qualified and experienced professionals. TEL primarily has these key functions namely (i) Finance (ii) Plant & Technical Affairs (iii) HR & Administration, all reporting directly to the CEO.

Management Team Mr. Tabish Tapal is the CEO of Tapal Energy. He carries with him over four decades of experience. and is associated with TEL as its CEO since 1999. He is supported by an experienced and well-equipped team.

Effectiveness The management's role in an IPP is confined largely to financial matters and regulatory interaction. The management tier ensures effective delegation of functional responsibility across various departments, facilitating a smooth flow of operations through positive results, which has made the decision-making process systematic

MIS The Company has in place an efficient MIS reporting system for its operations. The system generates real-time plant production data, enabling efficient monitoring and timely decision-making.

Control Environment Over the years company's effective management played a significant role in empowering the organization through its progressive results and systematic decision making hence creating a balanced control environment.

Business Risk

Industry Dynamics Pakistan has a total generation capacity of 39,772MW (at end-June21). The maximum generation and demand of NTDC peaked at 28,253MW (KE at 3,604MW) but it was generated 27,819 (KE 3,202MW) at FY21. In the next four years, generation capacity is expected to increase to 38,574MW (KE 4,830MW) at the end of 2026. Nonetheless, the Government of Pakistan plans to increase the share of renewable energy in total power generation to a larger extent by 2030.

Relative Position TEL after completing its initial PPA term is efficiently meeting the demands raised by K-electric, further, with reference to its strategic location and being located in the load center TEL becomes important to meet the demand raised, especially in the summer of nearby, industrial and other localities. According to the Merit order list issued by K-Electric, TEL ranks among the mid-tier efficient plants.

Revenues During 9MFY22, average plant availability has been maintained according to agreed parameter. Company's top line amplified to PKR 11,449mln as compared to PKR 8,170mln during 9MFY21 (FY21: PKR 11,781mln, FY120: PKR 9,424mln).

Margins Operating income stood at PKR 250mln during 9MFY22 (FY21: PKR 627, FY20: PKR 684; FY19: PKR 1,784; FY18: PKR 1,461).

Sustainability Keeping in view of the shortfall and to cater to the future demand of K-Electric the Authority on the request of the power purchaser (K-Electric) extended the tariff initially for 3 years and requested to extend it for further 2 years has been submitted, and is pending. However, extension is contingent on the basis of the availability of electricity to K-Electric from additional alternate, cheap sources.

Financial Risk

Working Capital The company has amicable room to borrow in case the company needs it. As at end Mar-22, total receivables of the company stood at PKR 2,162mln (FY21: PKR 1,591mln). Receivable days follow the trend and clocked to 45 days as of end-Mar22 (FY21: 42 days).

Coverages Company FCFO's are on a declining trend. During 9MFY22, FCFO stands at PKR 304mln as compared to PKR 663mln in FY21 (FY20: PKR 690mln).

Capitalization TEL has successfully repaid its debt in 2004. Available short-term limits are ~PKR. 3.5bln (PKR 1.5bln funded and PKR 2bln Un-funded)

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

00-Jan-00	Mar-22	Jun-21	Jun-20	Jun-19
##	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	149	177	193	208
2 Investments	-	-	-	-
3 Related Party Exposure	-	0	0	1
4 Current Assets	4,960	3,951	2,378	4,954
a Inventories	*1,313*	*847*	*63*	*266*
b Trade Receivables	*2,162*	*1,591*	*1,141*	*3,015*
5 Total Assets	5,109	4,128	2,571	5,163
6 Current Liabilities	2,222	1,478	535	1,161
a Trade Payables	*2,037*	*1,274*	*338*	*771*
7 Borrowings	-	-	-	-
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	2,887	2,650	2,037	4,002
11 Shareholders' Equity	2,887	2,650	2,037	4,002
B INCOME STATEMENT				
1 Sales	11,449	11,781	9,424	12,175
a Cost of Good Sold	*(11,048)*	*(10,953)*	*(8,675)*	*(10,263)*
2 Gross Profit	401	828	750	1,912
a Operating Expenses	(180)	(236)	(280)	(233)
3 Operating Profit	221	591	469	1,679
a Non Operating Income or (Expense)	*29*	*35*	*214*	*105*
4 Profit or (Loss) before Interest and Tax	250	627	684	1,784
a Total Finance Cost	*(5)*	*(4)*	*(3)*	*(5)*
b Taxation	*(8)*	*(10)*	*(62)*	*(27)*
6 Net Income Or (Loss)	237	613	619	1,752
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*304*	*663*	*690*	*2,363*
b Net Cash from Operating Activities before Working Capital Changes	*299*	*659*	*686*	*2,358*
c Changes in Working Capital	*(409)*	*(193)*	*1,336*	*(682)*
1 Net Cash provided by Operating Activities	(110)	466	2,022	1,675
2 Net Cash (Used in) or Available From Investing Activities	(34)	(25)	4	(47)
3 Net Cash (Used in) or Available From Financing Activities	-	-	(2,585)	(1,626)
4 Net Cash generated or (Used) during the period	(143)	440	(558)	2
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	29.6%	25.0%	-22.6%	23.6%
b Gross Profit Margin	3.5%	7.0%	8.0%	15.7%
c Net Profit Margin	2.1%	5.2%	6.6%	14.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-0.9%	4.0%	21.5%	13.8%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	12.1%	28.5%	20.2%	44.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	71	56	87	88
b Net Working Capital (Average Days)	31	31	65	62
c Current Ratio (Current Assets / Current Liabilities)	2.2	2.7	4.4	4.3
3 Coverages				
a EBITDA / Finance Cost	N/A	N/A	N/A	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	N/A	N/A	N/A	N/A
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	0.0%	0.0%	0.0%	0.0%
b Interest or Markup Payable (Days)	N/A	N/A	N/A	N/A

Credit Rating

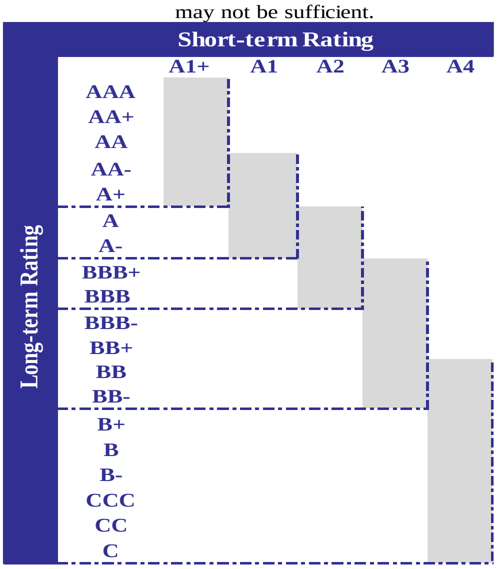
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

Entities

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

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk 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)
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