



The Pakistan Credit Rating Agency Limited

## Rating Report

**ThalNova Power Thar (Pvt.) Limited | PPSTS | PKR 5bln | TBI**

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### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
31-May-2024	AA-	A1	Stable	Preliminary	-

### Rating Rationale and Key Rating Drivers

ThalNova Power Thar (Pvt) Limited (“the Company”) has set up a 1x330 (gross) mine mouth Thar coal-based power plant located at Block – II, Thar Coalfield, District Tharparkar, Sindh. The Hub Power Company Limited (HUBCO) holds significant stake of 38.3% in the Company. Being on local coal Thar coal which is being supplied by Sindh Engro Coal Mining Company, 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, which also translates into the assigned ratings. Additionally, the plant efficiency and utilization factor are high. Previously, the evacuation issue from the Thar Block, now stands resolved by NTDC, as a result the plant is supplying uninterrupted electricity to the National Grid, which further provides comfort. ThalNova has been awarded an upfront tariff, with the payments to be received from CPPA-G backed by the sovereign guarantee. The plant successfully achieved its Commercial Operations (COD) on 17th 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%). Total electricity produced from the plant during 1H FY24 stood at 1,009GWh with a load factor of 76% while meeting its operational benchmarks. Repayment against the project debt has started which will be completely repaid over a period of 10 years. The smooth operations of the plant since its COD and timely payment of the debt is also an added consideration to the ratings. The plant is expected to receive payments from CPPA-G on a priority basis considering its importance to the energy sector.

Going forward, the capacity of the Company to generate stable cash flows in order to make timely repayments against the project debt remains crucial. Further, with rising concerns about circular debt, the trend of payments received from CPPA-G against invoices and any, regulatory changes might impact ratings.

### Disclosure

<b>Name of Rated Entity</b>	ThalNova Power Thar (Pvt.) Limited   PPSTS   PKR 5bln   TBI
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Debt Instrument Rating
<b>Applicable Criteria</b>	Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Rating Modifiers(Apr-23),Methodology   Debt Instrument Rating(Dec-23),Methodology   Independent Power Producer Rating(Jul-23)
<b>Related Research</b>	Sector Study   Power(Jan-24)
<b>Rating Analysts</b>	Hashim Yazdani   hashim.yazdani@pacra.com   +92-42-35869504

## Issuer Profile

**Profile** ThalNova Power Thar (Pvt) Ltd (ThalNova) was duly organized and incorporated on 18th April 2016. ThalNova is developed on a Build-Own-Operate (BOO) basis and is an Independent Power Producer (IPP). The plant achieved its COD on 17th February 2023. ThalNova 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. The return on equity (ROE) as per the tariff determination of the project is at 30.65%.

**Ownership** HUBCO is one of the major sponsors of ThalNova and invested through The Hub Power Holdings Limited while other Sponsors are Thal Ltd who has invested through Thal Power (Pvt) Ltd, Novatex Ltd who has invested through Nova Powergen Ltd and China Everbest Development International Ltd invested through CMEC ThalNova Power Investments Ltd. Hub Power Holdings Ltd. has a major ownership of 38.3%, Thal Power (pvt) Ltd. have 26%, Nova Powergen Ltd. have 24.7%, CMEC Thalnova Power Instruments Ltd. have 10% whereas Descon Engineering holds 1%.

**Governance** ThalNova's Board of Directors (BoD) comprises eight members including CEO. Three members from HUBCO, two from NovaPowergen Ltd. and Thal Power Ltd. each, while one member represents CMEC. Mr. Kamran Kamal is currently the Chairman of the board and has been associated with the Group for over eight years. The remaining members possess sufficient experience of different business sectors.

**Management** 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. 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.

**Business Risk** TNPTL's key source of earnings is the revenue generated through sale of electricity to the power purchaser, CPPA-G. TNPTL has signed the PPA with CPPAG for a period of 30 years from the COD. Under the agreement, TNPTL will supply electricity to CPPAG against Energy and Capacity payments. As on June 30, 2023 the installed capacity within CPPAG system stood at 42,362MW which is distributed amongst various sources including thermal (60%), Hydroelectric (25%), Wind (4%), Solar (1%), Biomass (1%) and Nuclear (9%). Total electricity generated in the country during FY23 amounted to 138,029 GWh (FY22: 154,056 GWh). The fall in consumption is a result of declining economic activity and slowdown in the industrial and commercial operations. The high cost of electricity for consumers has also negatively impacted the consumption patterns of households. Total electricity produced from the plant during 1HFY24 stood at 1,009GWh with a load factor of 76%. The plant is amongst the few plants placed at priority in the merit order list due to low cost of generation. The required availability for TEL under the PPA is 85%. Meanwhile, the required efficiency of the plant is 37%. The plant maintained its required benchmarks during the period. Hub Power Services Limited (HPSL) is the O&M contractor of the Company. It is also performing O&M services for other plants of HUBCO. TNPTL 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 TNPTL and SECMC on May 13, 2017.

**Financial Risk** Debt financing constitutes 75% of the project cost i.e. USD 395mln. 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 ~67% of the total debt which equates to USD 264.9mln and is priced at 6MLIBOR plus 4.05% per annum. The rest of project debt (33%) is financed by a consortium of local banks being led by Habib Bank Limited and is priced at 3MKIBOR plus 3.5% per annum. Principal repayment shall be made in 20 semi-annual payments. 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 on Dec 2023, the Company's trade receivables from CPPAG stood at PKR 18,482mln. Circular debt continues to be an issue for companies operating in power sector. Consequently, IPPs have to manage their liquidity requirements from short-term borrowings and internal cash generation. Due to rising trade receivables from CPPAG, Gross Working Capital stood at 83 days as at end Dec 2023. 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 4,500mln. The Company is also in the process of issuing a series of PPSTS with cumulative amount of PKR 12bln to support its working capital needs. The Company has a strong Cash Flow position due to the applicable tariff covering the rise in cost of generation along with capacity revenue. During 1HFY24, the Company reported FCFO of PKR 13,128mln. Hence, EBIDTA/Finance Cost stood at 2.2x. As on 30th Dec 2023, leveraging stood at 72.7% as a result of Long term project cost and Short term borrowings to support coal purchases. Going forward, STB are expected to increase as a result of increase in working capital financing to procure coal due to delays from payments from CPPAG.

## Instrument Rating Considerations

**About The Instrument** TNPTL is in the process to issue a privately placed short term sukuk of PKR 5bln in June 2024 to finance the Company's working capital requirements. The Privately Placed Short Term Sukuk, having a tenor of six months, carries an profit rate of 6M KIBOR + 0.50%. The profit and principal will be paid in bullet at the time of maturity.

**Relative Seniority/Subordination Of Instrument** The claims of the PPSTS Certificate holders will rank superior to the claims of ordinary shareholders.

**Credit Enhancement** The instrument is unsecured.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

ThalNova Power Thar Limited Power	Dec-23 6M	Jun-23 12M	Jun-22 12M	Jun-21 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	104,822	108,811	66,702	31,807
2 Investments	-	-	-	-
3 Related Party Exposure	-	46	-	-
4 Current Assets	41,136	30,594	4,590	296
<i>a Inventories</i>	342	159	-	-
<i>b Trade Receivables</i>	18,482	8,052	-	-
5 Total Assets	145,958	139,452	71,292	32,103
6 Current Liabilities	19,475	30,277	3,794	1,060
<i>a Trade Payables</i>	6,145	11,101	2,304	-
7 Borrowings	90,702	78,312	51,951	21,634
8 Related Party Exposure	1,652	2,984	242	96
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	34,129	27,879	15,305	9,312
11 Shareholders' Equity	34,129	27,879	15,305	9,312
<b>B INCOME STATEMENT</b>				
1 Sales	29,740	22,523	-	-
<i>a Cost of Good Sold</i>	(17,665)	(14,122)	-	-
2 Gross Profit	12,075	8,401	-	-
<i>a Operating Expenses</i>	(50)	(130)	(149)	(28)
3 Operating Profit	12,025	8,271	(149)	(28)
<i>a Non Operating Income or (Expense)</i>	413	486	141	(10)
4 Profit or (Loss) before Interest and Tax	12,437	8,757	(8)	(38)
<i>a Total Finance Cost</i>	(6,229)	(3,925)	(0)	(0)
<i>b Taxation</i>	(151)	(39)	(5)	(4)
6 Net Income Or (Loss)	6,058	4,794	(13)	(42)
<b>C CASH FLOW STATEMENT</b>				
<i>a Free Cash Flows from Operations (FCFO)</i>	13,128	9,996	(30)	(43)
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	8,285	4,961	(1,197)	(43)
<i>c Changes in Working Capital</i>	(11,807)	(14,640)	(3,286)	671
1 Net Cash provided by Operating Activities	(3,522)	(9,679)	(4,482)	627
2 Net Cash (Used in) or Available From Investing Activities	(931)	(4,765)	(23,540)	(24,790)
3 Net Cash (Used in) or Available From Financing Activities	15,614	15,731	29,626	23,611
4 Net Cash generated or (Used) during the period	11,161	1,287	1,603	(552)
<b>D RATIO ANALYSIS</b>				
1 Performance				
<i>a Sales Growth (for the period)</i>	164.1%	N/A	N/A	N/A
<i>b Gross Profit Margin</i>	40.6%	37.3%	N/A	N/A
<i>c Net Profit Margin</i>	20.4%	21.3%	N/A	N/A
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	4.4%	-20.6%	N/A	N/A
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity) ]</i>	36.3%	22.8%	N/A	N/A
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	83	133	N/A	N/A
<i>b Net Working Capital (Average Days)</i>	30	24	N/A	N/A
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.1	1.0	1.2	0.3
3 Coverages				
<i>a EBITDA / Finance Cost</i>	2.2	2.7	-382.4	-1732.7
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.8	1.1	-604.7	-0.1
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	6.1	12.3	-1750.6	-514.9
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	72.7%	73.7%	77.2%	69.9%
<i>b Interest or Markup Payable (Days)</i>	158.5	424.4	10280671.9	3234011.1

### 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 Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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.
AA-	
A+	
A	<b>High credit quality.</b> 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.
A-	
BBB+	
BBB	<b>Good credit quality.</b> 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.
BBB-	
BB+	
BB	<b>Moderate risk.</b> 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.
BB-	
B+	
B	<b>High credit risk.</b> 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.
B-	
CCC	
CC	<b>Very high credit risk.</b> 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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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

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- 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

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- (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).
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- (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)
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## Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Book Value of Assets (PKR mln)	Nature of Assets	Lead Advisor
Privately Placed Short Term Sukuk (PPSTS)	PKR 5,000mln	6 months	Unsecured	N/A	N/A	Meezan bank Limited

<b>Name of Issuer</b>	ThalNova Power Thar Limited
<b>Issue Date</b>	June 2024
<b>Maturity</b>	Dec 2024
<b>Profit Rate</b>	6M KIBOR + 0.50%

### ThalNova Power Thar Limited | PPSTS | PKR 5bln | TBI

Sr.	Due Date Principal	Opening Principal	6M Kibor	Markup/Profit Rate 6MK + 0.50%	Markup/Profit Payment	Principal Payment	Total	Principal Outstanding
		PKR (mln)						
Issue Date	June 2024	5,000			-	-	-	5,000
1	Dec 2024	5,000	21.43%	21.93%	548.00	5,000	5,548	-
					<b>548</b>	<b>5,000</b>	<b>5,548</b>	