The Pakistan Credit Rating Agency Limited

Rating Report

LalPir Power Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Sep-2023	AA	A1	Stable	Maintain	-
30-Sep-2022	AA	A1	Stable	Maintain	-
30-Sep-2021	AA	A1	Stable	Maintain	-
01-Oct-2020	AA	A1	Stable	Maintain	-
02-Oct-2019	AA	A1	Stable	Maintain	-
18-Apr-2019	AA	A1+	Stable	Maintain	-
27-Dec-2018	AA	A1+	Stable	Maintain	-
30-Jun-2018	AA	A1+	Stable	Maintain	-
22-Dec-2017	AA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect the regulated structure of Lalpir Power Limited (Lalpir Power) business; whereby revenues and cash flows are guaranteed by the sovereign government given adherence to agreed operational parameters. A risk of any decrease in efficiency factor against the required benchmark would be borne by the Company itself given the fact, that Lalpir Power is managing its operations and maintenance (O&M) in-house. During the period under review, Lalpir Power continues to meet its availability and other performance benchmarks. During 6MCY 23 Lalpir power generated 106Gwh of electricity as compared to 545Gwh same period last year depicting a decline of 80.5%. This decrease in generation is mainly attributed to the shift of electricity demand towards a less expensive source of generation i.e., Hydro, Solar, Wind, and Biogas from the power purchase in the wake of a cost-effective energy basket. The same trend is expected to be followed in upcoming periods. During 6MCY23 the top line of the company reported PKR 8,491mln (CY22: PKR: 37,611mln. 6MCY22: PKR: 21,942mln). Despite the fall in revenue, margins benefitted from lower load factors, appreciation of USD against PKR, and lesser utilization of short-term working capital lines. Gross and Net margins for 6MFY23 clocked to 30% & 25.9% respectively. Currently leveraging stood at 5.2% representing short-term borrowing only (CY22:20%). There is adequate cushion available to the company to meet its working capital requirement in its approved STB limits. The ratings stemmed from the fact that the long-term debt of the company was fully paid successfully in June 2010.

Sustained good financial discipline and upholding strong operational performance in line with agreed performance levels remain important. Delay in receiving the amounts from Power purchasers owing to the accumulation of circular debt remains a cause of concern. The PPA of the Company is expected to expire in CY 28, the Company plans / strategy in upcoming years with reference to utilization of plant after expiry remains imperative for the ratings, going forward. Any change in regulatory requirements may affect the ratings.

Disclosure

Name of Rated Entity	LalPir Power Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Independent Power Producer Rating(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Power(Jan-23)
Rating Analysts	Muhammad Mubashir Nazir | mubashir.nazir@pacra.com | +92-42-35869504

Profile

Plant Lalpir Power Limited (Lalpir Power or the Company) commissioned a thermal power plant on a build-own-operate (BOO) basis with a capacity of 362 MW based on residual fuel Oil (RFO).

Tariff Lalpir Power has a generation tariff (Levelized tariff for years 1-30) of US 5.7cents/Kilowatt hour (KWh).

Return On Project There is no IRR of Lalpir plant with reference to Power Purchase Agreement.

Ownership

Ownership Structure Lalpir Power is majority-owned by Nishat Group. The shareholding is dominated by Nishat Group that collectively owns 64.75% of the shareholding. Financial Institutions hold (10.41%) and public remained 24.84%.

Stability Stability in the IPPs is drawn from the agreements signed between Lalpir Power and the power purchaser. However, sponsors association with Nishat Group will continue to provide comfort.

Business Acumen Nishat Group is a distinguished business group in Pakistan. The emergence of the Group, as a conglomerate, spans over fifty years with interests in textile, cement, insurance, power, and financial sectors.

Financial Strength The financial strength of the sponsors is considered strong as the sponsors have well-diversified profitable businesses.

Governance

Board Structure Lalpir Power's board consists of 7 members. The board is majority controlled by Nishat Group including the chairman Mian Hassan Mansha.

Members' Profile Board members are from different educational and professional backgrounds bringing diversified professional experience and knowledge on the board.

Board Effectiveness For effective oversight of the matters, the board has formed two board committees, the Audit Committee, and Human Resource & Remuneration Committee. The chairman of the Audit, HR, and Remuneration Committee is an independent director in accordance with the code of corporate governance.

Financial Transparency Riaz Ahmad & Company is the external auditor of the company. They expressed an unqualified opinion on Lalpir Power's financial statements for the year ended December 31, 2022.

Management

Organizational Structure Lalpir Power has largely a flat organizational structure. The CEO, Plant Manager, and CFO report directly to the Chairman of the board. Lalpir has a technical team with well-defined roles that ensures a smooth flow of operations.

Management Team Mr. Mehmood Akhtar is the CEO of the Company. He has over 40 years of managerial experience spread across various industries.

Effectiveness Lalpir Power management effectiveness plays a significant role in empowering the organization through positive results, which has made the decision making process systematic.

Control Environment Lalpir Power maintains an adequate MIS reporting system for the management to keep track of all operating activities and operational efficiencies. The system generates daily and monthly reports containing information on production, inventory, and efficiency maintained. Lalpir Power uses in-house built software to generate these reports.

Operational Risk

Power Purchase Agreement The Company has a Power Purchase Agreement (PPA) with its sole customer, Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) for 30 years which commenced from 06 November 1997. Lalpir Power's key source of earnings is the revenue generated through the sale of electricity to the power purchaser, CPPA-G. The Company will receive the capacity payments if it ensures availability and is ready to provide electricity, even if no energy demand is placed by Power Purchaser.

Operation And Maintenance Lalpir Power O&M activities are handled by an in-house team trained under the expertise of AES, a former O&M operator. This team is involved in O&M activities since the plant's COD and hence carries significant experience.

Resource Risk Lalpir Power has engaged Pakistan State Oil (PSO) – the largest local oil-marketing company - as the fuel supplier. PSO is responsible for supplying Residual Fuel Oil (RFO) under the Fuel Supply Agreement (FSA) for 30 years and ensure delivery as agreed upon by both parties. Further fuel is also purchased from other OMCs as required.

Insurance Cover Lalpir Power has significant insurance coverage for property damage and business interruption. The insured values for damages include a property damage cover (up to PKR 103.069bln) & business interruption cover (up to PKR 10.621bln).

Performance Risk

Industry Dynamics Pakistan total power generation is increasing on the back of new power projects under CPEC. Going forward, cheap renewable electricity will be a challenge to viability of thermal power plants. There has been an increase of~10% in the installed generation capacity as at end-Jun23. The total installed generation capacity was recorded at ~43,775MW as in FY22 (~39,772MW FY21). Owing to newly installed plants, Pakistan's energy mix is shifting towards Solar/Gas/and coal from Furnace Oil and other expensive sources. There was an increase of 4,003MW new power projects including CPEC from coal and renewable sources and this will increase further in coming years.

Generation The Company has generated 106GWh of electricity 6MCY23 as compared to 546GWh during the corresponding period of the previous financial year. Consequently, during 6MCY23, Lalpir Power turnover has decreased in line with power generation (6MCY23: PKR 8,491mln; CY22: PKR 37,611mln; 6MCY22: PKR 21,942; CY21: PKR 18,654mln; CY20: PKR 12,402mln CY19: PKR 12,840mln). This decrease in generation is mainly attributed to shift of electricity demand towards a less expensive source of generation i.e., Hydro, Solar, Wind and Biogas from the power purchase in wake of cost-effective energy basket.

Performance Benchmark The company continues to meet its performance benchmarks as agreed under the PPA.

Financial Risk

Financing Structure Analysis The total Lalpir Power project's cost was US$ 347mln. The project financing capital structure comprised 27% equity (US$ 94mln) and 73% debt (US$ 253mln), as on Nov 1997, mainly financed by a consortium of IFC – USA and Bank of Tokyo – Mitsubishi Ltd, Japan. The total project-related debt remained completely paid by the Company.

Liquidity Profile Lalpir Power's total receivables reached PKR 9,635mln as of 6MCY23 (CY22: PKR 12,450mln; CY21: PKR 5,634mln, CY20: PKR 19,310mln; CY19: PKR 17,655mln). The Company has sufficient working capital lines, which largely remain unutilized as of CY23, representing a sound liquidity position of the Company.

Working Capital Financing During 6MCY23 receivable days increased to 237 days (CY22: 88 days; CY21: 244 days; CY20: 544 days.) The company's cash cycle days as of 6MCY23 have been increased to 261 days (CY22: 107days; CY21: 267days; CY20: 543days) respectively. The receivable days significantly declined in CY 22 owing to the receipt of a substantial outstanding amount under the Master Agreement. The Company also received PKR 2,000mln under the circular debt management program in June 2023.

Cash Flow Analysis Cash Flow Analysis Free Cash Flow of the company for 6MCY23 was PKR 2,540mln (CY22: 3,319mln; CY21: PKR -257mln; CY20: PKR 4,620mln; CY19: PKR 5,204mln). Owing to adequate cash flows, the company's debt coverage (FCFO pre-WC / Gross Interest + CMLTD) has improved during 6MCY23 at 9.7x (CY22: 4.8x; CY21: -0.3x; CY20: 3.4x; CY19: 2.8x). .

Capitalization The Company currently has a low leveraged capital structure of 5.3% as of 6MCY23 representing short-term borrowings only. However, leveraging might move upward if the demand from the power purchaser increases in the future.

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Summary
PKR mln

Lalpir Power Ltd	Jun-23	Dec-22	Dec-21	Dec-20
Power	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	4,423	4,736	5,708	6,882
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	17,769	18,236	12,021	22,977
a Inventories	*2,451*	*1,872*	*2,598*	*1,019*
b Trade Receivables	*9,635*	*12,450*	*5,634*	*19,310*
5 Total Assets	22,192	22,971	17,728	29,859
6 Current Liabilities	2,051	680	433	1,227
a Trade Payables	*1,947*	*195*	*258*	*1,000*
7 Borrowings	957	4,546	1,695	11,089
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	27	25	27	18
10 Net Assets	19,157	17,720	15,574	17,524
11 Shareholders' Equity	19,157	17,720	15,574	17,524
B INCOME STATEMENT				
1 Sales	8,491	37,611	18,654	12,402
a Cost of Good Sold	*(5,945)*	*(34,125)*	*(18,563)*	*(7,378)*
2 Gross Profit	2,546	3,486	91	5,024
a Operating Expenses	(95)	(209)	(205)	(202)
3 Operating Profit	2,451	3,277	(114)	4,822
a Non Operating Income or (Expense)	*8*	*126*	*50*	*44*
4 Profit or (Loss) before Interest and Tax	2,458	3,404	(64)	4,865
a Total Finance Cost	*(262)*	*(696)*	*(742)*	*(1,314)*
b Taxation	-	-	-	-
6 Net Income Or (Loss)	2,196	2,707	(806)	3,551
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*2,540*	*3,319*	*(257)*	*4,620*
b Net Cash from Operating Activities before Working Capital (	*2,459*	*3,440*	*(418)*	*4,457*
c Changes in Working Capital	*4,078*	*(6,232)*	*10,823*	*(969)*
1 Net Cash provided by Operating Activities	6,537	(2,792)	10,406	3,489
2 Net Cash (Used in) or Available From Investing Activities	(198)	500	14	31
3 Net Cash (Used in) or Available From Financing Activities	(759)	(626)	(1,194)	(741)
4 Net Cash generated or (Used) during the period	5,580	(2,919)	9,226	2,779
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-54.8%	101.6%	50.4%	-3.4%
b Gross Profit Margin	30.0%	9.3%	0.5%	40.5%
c Net Profit Margin	25.9%	7.2%	-4.3%	28.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Ca	77.9%	-7.7%	56.6%	29.4%
*e Return on Equity [Net Profit Margin * Asset Turnover * (To*	22.5%	17.2%	-3.9%	20.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	284	109	279	566
b Net Working Capital (Average Days)	261	107	267	543
c Current Ratio (Current Assets / Current Liabilities)	8.7	26.8	27.8	18.7
3 Coverages				
a EBITDA / Finance Cost	10.3	5.2	0.4	3.5
b FCFO / Finance Cost+CMLTB+Excess STB	9.7	4.8	-0.3	3.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fin	0.0	0.0	-0.1	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity	4.8%	20.4%	9.8%	38.8%
b Interest or Markup Payable (Days)	67.2	92.8	27.2	61.0

Credit Rating

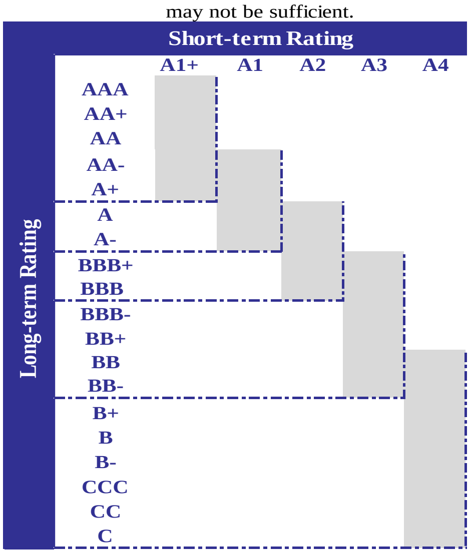
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

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

Short-term Rating

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



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

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

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

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

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

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

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

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

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

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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