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
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	-
08-Jun-2017	AA	A1+	Stable	Maintain	-
31-Oct-2016	AA	A1+	Stable	Maintain	-
20-Nov-2015	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 required benchmark would be borne by the Company itself given the fact, Lalpir Power is managing its operations and maintenance (O&M) in-house. Topline of the company, coupled with capacity utilization has slightly improved, owing to demand from power purchaser on account of better fuel prices. In August’2020, the Company and the Committee for Negotiation with IPPs formed by Government of Pakistan, executed a Memorandum of Understanding (MoU) converted to Master agreement on 12 February, 2021. In accordance with the Master Agreement, the Company has agreed on 11% reduction in capacity payments and variable O&M, among other clauses. As a result of the revision in agreement with CPPA-G, the Company’s profitability indicators will be slightly lower going forward, albeit are considered to be adequate. However, in line with the agreement, the issue of long outstanding receivables has been assuaged and the Company has received 40% of its receivables (PKR 6.193bln) in 1HCY21, remaining 60% amounting to PKR.9,290mln is expected in December 2021. The profitability of the Company during 1HCY21 has decreased due to non-issuance of Capacity Purchase Price invoice for the period starting from 26-03-21 to 30-06-21, pursuant to PPA Amendment signed on April 20th, 2021. Under this PPA Amendment Agreement, amongst resolution of disputes, Term of the PPA has been extended by 248 days. During this extended period the Company will issue Energy Purchase Price invoices only and accordingly Liquidated Damages imposed on the Company have been waived by the CPPA-G. The Company would start issuing Capacity Purchase Price invoices from 28th November 2021 onwards. Moreover, The Company is entitled to send CPP invoices for these 248 days after completion of remaining seven years of the PPA term, at the indexation applicable for seventh year. The long term project debt was completely paid off in 2010; thus, company’s debt position mainly reflects current borrowings secured to bridge the working capital requirements and maintenance of projects.

Upholding operational performance in line with agreed performance levels would remain a key rating driver. Further timely payment from the Power purchaser as per agreement remained imperative.

Disclosure	
Name of Rated Entity	LalPir Power Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Independent Power Producer Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Power(Jan-21)
Rating Analysts	Muhammad Mubashir Nazir | mubashir.nazir@pacra.com | +92-42-35869504

Profile

Plant Lalpir Power Limited (Lalpir Power) commissioned a thermal power plant on a build-own-operate (BOO) basis with a capacity of 362 MW based on residual fuel power (RFO). The Power Purchase Agreement (PPA) with its sole customer, Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) signed for 30 years which commenced on 06 November 1997.

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 Power plant with reference to the Power Purchase Agreement

Ownership

Ownership Structure Lalpir Power is majority-owned by Nishat Group and The City Schools. The shareholding is dominated by Nishat Group that collectively owns 44.64% of the shareholding, followed by City Schools through Engen (Pvt.) Ltd (18.17%). Financial Institutions hold (14.99%) and others hold (21.79%).

Stability Stability in the IPPs is drawn from the agreements signed between Lalpir Power and the power purchaser. However, sponsors association with Nishatgroup 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 seven members. The board is majority controlled by Nishat Group, with a total of five nominated members including the chairman Mr. 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 conclusion on Lalpir Power's financial statements for the half-year ended June 30, 2021.

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 38 years of managerial experience spread across various industries. Moreover, he also serves on the Board of Pakgen Power Limited.

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 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 OMC's 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 58.3bln) & business interruption cover (up to PKR 2.823bln).

Performance Risk

Industry Dynamics Pakistan's total power generation is increasing on the back of new power projects under CPEC. Going forward, cheap renewable electricity will be a challenge to the viability of thermal power plants.

Generation The Company has generated 341GWh of electricity during 6MCY21as compared to 60GWh during the corresponding period of the previous financial year. Availability remains 99% well above the required benchmark.

Performance Benchmark During 6MCY21, Lalpir Power has made an operating profit of ~PKR 647mln (CY20: PKR 4,822mln, CY19: PKR 3,874mln; CY18: PKR 1,668mln), as Lalpir's cost of sales during 6MCY21 stood at PKR 6,781mln (CY20: PKR 7,378mln, CY19: PKR 8,712mln) due to the increase in electricity generation as a result of increasing power demand by CPPA. Turnover has increased in line with power generation (6CY21: PKR 7,561mln; CY20: PKR 12,402mln CY19: PKR 12,840mln). This has resulted in the net profitability of PKR 263mln (CY20: PKR 3,551mln, CY19: PKR 2,043mln).

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 97, 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 total receivables reached PKR 15,042mln as of 6MCY21 (6MCY20: PKR 18,831mln, CY19: PKR 17,655mln). Payment of PKR: 6,193mln has been received from one-third cash and one-third Sukuk and PIB's as 40% of receivable as of November 30, 2020, in lieu of the agreement signed with the power purchaser. As circular debt continues to be an issue for companies operating in the power sector. , Consequently, IPPs have to manage their liquidity requirements through short-term borrowings.

Working Capital Financing During 6MCY21 receivable days were reduced to 420 days (CY20: 544 days.) The company's cash cycle days as of 6MCY21 have been reduced to 418 days (CY20: 543 days) respectively. Consequently, to manage its working capital requirements and BMR purposes, the Company has working capital lines of PKR 18,978mln out of which 37.54% has been utilized (CY20:58.43% utilization) the company has been meeting its cash requirements mainly through short term borrowing (STB) and payments received from Power purchaser.

Cash Flow Analysis Cash Flow Analysis Free Cash Flow of the company for 6MCY21 was PKR 1,188mln (CY20: PKR 4,629mln; CY19: PKR 4,978mln). Owing to adequate cash flows and decreased gross interest obligations, the company's debt coverage (FCFO pre-WC / Gross Interest + CMLTD) has decreased during 6MCY21 at 2.4x (CY20: 3.4x; CY19: 3.0x).

Capitalization The Company currently has a moderately leveraged capital structure that comprises 29.3% debt as of 6MCY21 (CY20: 38.8%). As of 6MCY21, STD comprises 98.9% (PKR 7,124mln) (CY20: 99%) of total debt. Leveraging depicts a downward trend as the Company receives debt payment and hence short-term financing facilities for working capital management remain less utilized.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Lalpir Power Ltd Power	Jun-21 6M	Dec-20 12M	Dec-19 12M	Dec-18 12M
A BALANCE SHEET				
1 Non-Current Assets	6,237	6,784	7,893	9,137
2 Investments	92	99	93	-
3 Related Party Exposure	0	0	0	0
4 Current Assets	19,943	22,977	21,570	18,007
a Inventories	*1,363*	*1,019*	*448*	*451*
b Trade Receivables	*15,454*	*19,310*	*17,665*	*13,659*
5 Total Assets	26,273	29,859	29,557	27,145
6 Current Liabilities	1,639	1,227	930	2,088
a Trade Payables	*1,485*	*1,000*	*542*	*1,708*
7 Borrowings	7,207	11,089	13,778	11,877
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	20	18	21	7
10 Net Assets	17,407	17,524	14,827	13,172
11 Shareholders' Equity	17,407	17,524	14,827	13,172
B INCOME STATEMENT				
1 Sales	7,561	12,402	12,840	16,810
a Cost of Good Sold	*(6,781)*	*(7,378)*	*(8,712)*	*(14,918)*
2 Gross Profit	780	5,024	4,129	1,892
a Operating Expenses	(132)	(202)	(254)	(224)
3 Operating Profit	647	4,822	3,874	1,668
a Non Operating Income or (Expense)	*42*	*44*	*(67)*	*42*
4 Profit or (Loss) before Interest and Tax	689	4,865	3,807	1,710
a Total Finance Cost	*(426)*	*(1,314)*	*(1,764)*	*(963)*
b Taxation	-	-	-	-
6 Net Income Or (Loss)	263	3,551	2,044	747
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,075*	*4,620*	*5,204*	*2,754*
b Net Cash from Operating Activities before Working Capital Chc	*581*	*4,457*	*3,626*	*1,882*
c Changes in Working Capital	*3,906*	*(969)*	*(5,545)*	*(2,797)*
1 Net Cash provided by Operating Activities	4,486	3,489	(1,919)	(915)
2 Net Cash (Used in) or Available From Investing Activities	49	31	(102)	(1,132)
3 Net Cash (Used in) or Available From Financing Activities	(410)	(741)	1,521	2,051
4 Net Cash generated or (Used) during the period	4,125	2,779	(500)	3
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	21.9%	-3.4%	-23.6%	-8.2%
b Gross Profit Margin	10.3%	40.5%	32.2%	11.3%
c Net Profit Margin	3.5%	28.6%	15.9%	4.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capit	65.9%	29.4%	-2.7%	-0.3%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total*	2.8%	20.4%	14.4%	6.1%
2 Working Capital Management				
a Gross Working Capital (Average Days)	448	566	458	274
b Net Working Capital (Average Days)	418	543	426	244
c Current Ratio (Current Assets / Current Liabilities)	12.2	18.7	23.2	8.6
3 Coverages				
a EBITDA / Finance Cost	2.8	3.5	2.8	2.8
b FCFO / Finance Cost+CMLTB+Excess STB	2.4	3.4	3.0	2.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finan	0.1	0.0	0.0	0.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	29.3%	38.8%	48.2%	47.4%

Credit Rating

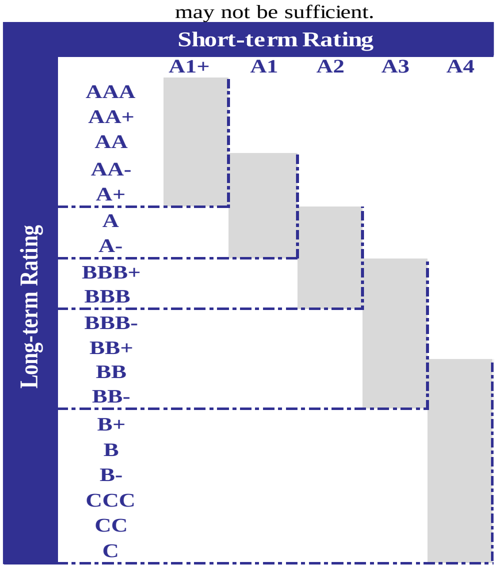
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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.
(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)

Proprietary Information