The Pakistan Credit Rating Agency Limited

Rating Report

Liberty Power Tech Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
10-Nov-2022	AA-	A1	Stable	Upgrade	-
30-Sep-2022	A+	A1	Stable	Maintain	-
30-Sep-2021	A+	A1	Stable	Maintain	-
08-Oct-2020	A+	A1	Stable	Maintain	-
08-Oct-2019	A+	A1	Stable	Maintain	-
12-Apr-2019	A+	A1	Stable	Maintain	-
27-Dec-2018	A+	A1	Stable	Maintain	-
30-Jun-2018	A+	A1	Stable	Maintain	-
30-Dec-2017	A+	A1	Stable	Maintain	-
22-Jun-2017	A+	A1	Stable	Maintain	-
17-Dec-2016	A+	A1	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Liberty Power Tech Limited (the Company) runs a 200MW power plant based on Residual Fuel Oil. The Company operates in the regulated power sector. The plant achieved its commercial operations in Jan'2011 with its PPA valid for 25 years starting from the COD. It enjoys a sovereign guarantee against receivables from power purchaser given adherence to agreed performance benchmarks. Fuel supply risk is adequately covered as they procure from different suppliers with good credit terms; being managed since 2011. The Company continues to meet its availability (90%) and efficiency (45%) benchmarks. The plant generated 925 GWh of net electrical output for the year ended at June, 2022. Net income recorded during 9MFY22 was PKR 2,063mln (6MFY22: PKR 1,143mln). As a result of the revision in agreement with the power purchaser, 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, as the Company has received remaining 60% of its receivables from the off taker in June 2022 as a second tranche. First tranche has been received in Jan 2022. The company successfully paid off its long-term project-related debt in Dec 2020 resulting in a favourable impact on its financial risk profile. As on March 2022, the debt profile comprises short-term borrowings only, which have been availed to meet working capital requirements, mainly on account of accumulation of receivables from the off taker. However, with the second receipt of outstanding receivables from the power purchaser, under the master agreement the working capital cycle has improved and the utilization of short-term borrowing is expected to decrease going forward with timely repayments.

The Company's repayment of debt fully comforted its financial profile thus considered positive for ratings. Though the Company has achieved sound financial discipline, but maintaining the plant's availability and operational benchmarks to the agreed level remains integral to the assigned ratings.
Meanwhile, seeking comfort in the take or pay tariff regime and expected receipt from outstanding receivables in respect of reported circular debt in coming months will further provide a cushion in working capital financing, in turn, will strengthen the financial risk profile.

Disclosure

Name of Rated Entity	Liberty Power Tech 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	Anam Waqas Ghayour | anam.waqas@pacra.com | +92-42-35869504

Profile

Plant Liberty Power Tech Limited (Liberty Power) operates a 200MW power plant based on Residual Fuel Oil (RFO) near Faisalabad. Net rated capacity, after accounting for auxiliary consumption, is ~196MW.
Tariff The reference generation tariff comprises a capacity charge component and an energy charge component dispatched. The levelized tariff for the period of 25 years is PKR/Kwh 7.87.
Return On Project Pursuant to Agreement, the Company had agreed that, the discounts in tariff components i.e. Return on Equity (ROE) including Return on Equity During Construction (ROEDC) shall be changed to 17% per annum in Pak Rupee (PKR) calculated at PKR/USD exchange rate of PKR 148/USD, with no future USD indexation.

Ownership

Ownership Structure Liberty Power majority owned by Liberty Group (Liberty Mills Limited: 29% & Mukaty Family: 61%) and Soorty Enterprises (10%).
Stability Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. Stability factor is considered strong.
Business Acumen Liberty Mills Limited incorporated in February 1965, is in the business of manufacturing and processing all kinds of textile fabrics and made-ups. Liberty group has gradually diversified in the power sector.
Financial Strength Sponsors have the ability to support the entity both on a continuing basis, and support in times of crisis. Financial strength of the sponsors is considered strong as sponsors have well diversified profitable businesses.

Governance

Board Structure The board is dominated by the sponsor's representatives. The company's board of directors comprises of eight directors including CEO. All the board members are from Liberty Group
Members' Profile Mr. Ashraf Saleem Mukaty, the acting Chairman has been associated with the Group in different capacities and is currently chairing the Board with his visionary leadership and vast experience.
Board Effectiveness The board has set up an Audit Committee comprising three members. It reviews the financial and operational performance of the Company. Board members conduct regular board discussions where important matters related to plant's efficiency, and monthly budget are discussed. The board has been actively involved in providing strategic guidance to the company and implementing strong internal control framework.
Financial Transparency Yousaf Adil Chartered Accountants (Deloitte) is the external auditor of the company. They have expressed an unqualified opinion on the company's financial statements at end-Jun 2021.

Management

Organizational Structure The management team comprises qualified professionals possessing sufficient experience in various sectors. The company has a well-defined organizational structure with the CEO reporting to the board.
Management Team Mr. Azam Sakrani, the CEO, carries with him over two decades of experience in the banking and finance industry and industrial finance. Mr. Kashif Hanif is working in capacity of CFO and company secretary since Sept-19.
Effectiveness Over the years company's effective management played a significant role in empowering the organization through its progressive results. Additionally, management's effective decision-making cause processes more systematic while robustness of control systems is considered a reflection of strong management, which is considered positive.
Control Environment The company takes advantage of advanced I.T. solutions to deliver comparatively better on many fronts. Moreover, Liberty Power quality of the I.T. Infrastructure and the breadth and depth of activities performed has remained well satisfactory.

Operational Risk

Power Purchase Agreement Liberty Power's key source of earnings is the revenue generated through sale of electricity to the power purchaser, NTDC. The obligations of the power purchaser are guaranteed by the Government of Pakistan. Furthermore, a stable revenue stream is also ensured through the minimum guaranteed capacity charge.
Operation And Maintenance O&M activities are outsourced to Wartsila Pakistan. The O&M contract was renewed for a third term in July 2021 for a period of six years, therefore the contract will expire in 2027.
Resource Risk The Company is procuring fuel through various OMCs including Attock Petroleum, Byco Petroleum, Pakistan State Oil.
Insurance Cover The company has adequate insurance coverage for property damage and business interruption.

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. During FY19, there has been a growth of ~9% in the actual power generation. Moreover, there has been an increase of ~15% in the installed capacity as at end-Jun19 to 37,633MW (FY18: 32,613MW). Owing to newly installed plants, Pakistan's energy mix is shifting towards Solar/Gas/and coal from Furnace Oil and other expensive sources. As on June-22, installed capacity of electricity reached 41,557 MW, which was 37,261 MW at end June-21. There was an increase of 4,296MW new power projects including CPEC from coal and renewable sources and this will increase further in coming years. Government is devising Indicative Generation Capacity Expansion Plan for 2021-2030, a generation capacity of 53,315MW is proposed through a mix of thermal power plants, indigenous resource based power plant and renewable energy power plants. Further, during FY21, the Government has been successful in revising the power purchase agreements with the consultation of IPPs operating under different policies, in the larger interest of the country.
Generation Liberty Power generated 925GWh of electricity during FY22 as compared to 607GWh during FY21 (FY20: 458GWh: FY19: 776GWH, FY18: 1,176GWh).
Performance Benchmark The required availability for LPTL under the PPA is 90%. During FY21, average plant availability is maintained according to agreed parameter. During 1HFY22 the topline stood at PKR 10,497mln as compared to PKR 8,351mln during 1HFY21 (FY19: PKR 17,629 mln, FY18: 17,783mln). Net income stood at PKR 1,143mln during 6MFY22 as compared to PKR 4,479mln during FY21 (FY20: 5,558mln, FY19: PKR 4,529mln, FY18: 4,789mln).

Financial Risk

Financing Structure Analysis The project capital structure comprises 25% equity (US$ 60mln) and 75% debt (US$ 180mln). Project related debt was PKR 15,137mln, consisting of senior Islamic facility amounted of PKR 13,488mln and long-term finance facility of PKR 1,649mln. The facilities' term is 12 years with quarterly repayments commencing from April 2011 at the rate of 3-months KIBOR plus 300 bps.
Liquidity Profile As at end-Dec 21, total receivables of the company stood at ~PKR 24,638mln (end-Jun-21: ~PKR 25,822mln). As 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.
Working Capital Financing Cash cycle days have decreased to 434 days at end Dec 21 (FY21: 613 days) on account of decrease in receivable days (end-Dec 21: 439days, FY21: 606 days) a facet of receipt of payment from CPPA-G. Company managed its cash flows needs partially through borrowing (available credit lines: end December-19: PKR 14,245mln; end December-18: PKR 12,245mln). Short term borrowings stood at PKR 13,442mln as at end Dec-21 (end-June 21: PKR 14,029mln).
Cash Flow Analysis During 6MFY22, free cash flows from operations (FCFO) stood at PKR 1,161mln (FY21: 6,405mln, FY19: PKR 5,927mln, FY18: PKR 5,927mln). Coverages during the period under review have shown a stable trend, on account of moderate net income and improved cashflows (6MFY20: 2.1x, FY21: 5.7x, FY20: 4.0x].
Capitalization Liberty Power leveraging for 6MFY22 remained stood at ~35% (FY21: 37%, FY19: 97%, FY18: 62%). STD comprised 100% of total debt structure.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

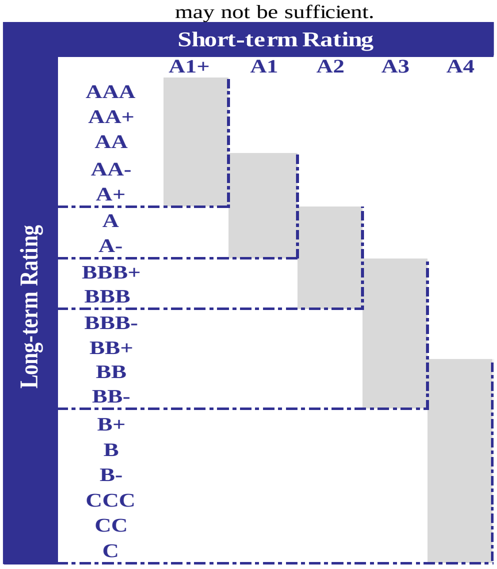
Fauji Trans Terminal Ltd.	Jun-22	Jun-21	Jun-20	Jun-19	Jun-18
Oil Transportation & Storage	12M	12M	12M	12M	12M
A BALANCE SHEET					
1 Non-Current Assets	3,658	3,820	3,892	2,575	618
2 Investments	-	-	-	-	-
3 Related Party Exposure	-	-	-	-	-
4 Current Assets	959	783	765	281	656
a Inventories	-	-	-	-	-
b Trade Receivables	*256*	*122*	*155*	*90*	*0*
5 Total Assets	4,617	4,603	4,657	2,856	1,273
6 Current Liabilities	101	29	32	27	7
a Trade Payables	-	*1*	*2*	*0*	*7*
7 Borrowings	2,254	2,522	2,766	1,472	-
8 Related Party Exposure	-	-	0	-	-
9 Non-Current Liabilities	81	52	30	-	-
10 Net Assets	2,181	2,001	1,829	1,357	1,266
11 Shareholders' Equity	2,181	2,001	1,829	1,357	1,266
B INCOME STATEMENT					
1 Sales	809	758	464	-	-
a Cost of Good Sold	*(265)*	*(271)*	*(126)*	-	-
2 Gross Profit	544	487	338	-	-
a Operating Expenses	(68)	(57)	(23)	(17)	(19)
3 Operating Profit	476	431	315	(17)	(19)
a Non Operating Income or (Expense)	*52*	*34*	*36*	*13*	*25*
4 Profit or (Loss) before Interest and Tax	528	465	352	(5)	6
a Total Finance Cost	*(275)*	*(240)*	*(185)*	*(4)*	-
b Taxation	*(73)*	*(53)*	*(51)*	*(1)*	*(5)*
6 Net Income Or (Loss)	180	172	116	(9)	1
C CASH FLOW STATEMENT					
a Free Cash Flows from Operations (FCFO)	*629*	*572*	*346*	*(12)*	*(33)*
b Net Cash from Operating Activities before Workin	*629*	*572*	*346*	*(12)*	*(33)*
c Changes in Working Capital	*(15)*	*167*	*(276)*	*(69)*	*(207)*
1 Net Cash provided by Operating Activities	614	738	70	(81)	(240)
2 Net Cash (Used in) or Available From Investing A	(1)	(104)	(1,246)	(1,939)	(319)
3 Net Cash (Used in) or Available From Financing A	(542)	(485)	1,267	1,554	922
4 Net Cash generated or (Used) during the period	70	150	91	(466)	363
D RATIO ANALYSIS					
1 Performance					
a Sales Growth (for the period)	6.7%	63.3%	--	N/A	N/A
b Gross Profit Margin	67.2%	64.3%	72.8%	N/A	N/A
c Net Profit Margin	22.3%	22.6%	25.0%	N/A	N/A
d Cash Conversion Efficiency (FCFO adjusted for W	75.9%	97.4%	15.0%	N/A	N/A
*e Return on Equity [Net Profit Margin * Asset Turn*	8.6%	9.0%	7.3%	-0.7%	0.1%
2 Working Capital Management					
a Gross Working Capital (Average Days)	85	67	96	N/A	N/A
b Net Working Capital (Average Days)	85	66	96	N/A	N/A
c Current Ratio (Current Assets / Current Liabilities	9.5	27.3	24.0	10.3	91.9
3 Coverages					
a EBITDA / Finance Cost	2.6	2.7	2.4	N/A	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	1.1	1.1	0.8	N/A	N/A
c Debt Payback (Total Borrowings+Excess STB) / (	6.2	7.5	16.5	-121.2	0.0
4 Capital Structure					
a Total Borrowings / (Total Borrowings+Sharehold	50.8%	55.8%	60.2%	52.0%	0.0%
b Interest or Markup Payable (Days)	1.4	1.0	2.2	N/A	N/A
c Entity Average Borrowing Rate	11.2%	8.8%	8.4%	0.0%	0.0%

Credit Rating

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

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)

Proprietary Information