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
08-Nov-2024	AA-	A1	Stable	Maintain	-
10-Nov-2023	AA-	A1	Stable	Maintain	-
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	-

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 Company achieved its commercial operations in Jan'2011. The Power Purchase Agreement ('PPA') is with Central Power Purchasing Agency-Guaranteed ('CPPA-G') valid for 25 years on a 'Take or Pay' provision, starting from the COD (Jan-2011). It enjoys a sovereign guarantee against receivables from CPPA-G given adherence to agreed performance benchmarks. The Company continues to meet its availability (90%) and efficiency (45%) benchmarks. Fuel supply risk is adequately mitigated as they procure from different suppliers with good credit terms. During FY24, the Company generated 240 GWh (FY23: 545 GWh) of net electrical output, a decline of 44% (YoY), and reported a sales revenue of ~PKR 16,011mln (FY23: ~PKR 22,178mln), a decline of 28%. This decrease in generation is mainly attributed to the shift of electricity demand towards the less expensive sources of generation i.e., Hydro, Solar, Wind, and nuclear from the off-taker in the wake of a cost-effective energy basket. Despite a fall in revenue, margins benefitted from lower load factors and indexed-based tariff structure. Gross margin improved to 36% during FY24 (FY23: 20%). The Company successfully paid off its long-term project-related debt in Dec 2020 resulting in a favorable impact on its financial risk profile. The Company has arranged amicable working capital lines, to cover its working capital requirements and the debt profile comprises short-term borrowings only. The utilization of short-term borrowing stood at 0.6% as of June 2024 (Jun 2023: 65%), mainly on account of the release of receivables from the off-taker. Additionally, the sponsors of the Company have a vision to expand within the country's energy sector, which reflects the sound financial profile and strategic foresight of the organization.

The Company's management of the financing required to meet its plans and its impact on the financial risk profile remains integral to the assigned ratings. Furthermore and changes in the current regulatory structure may impact the ratings.

Disclosure

Name of Rated Entity	Liberty Power Tech Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Rating Modifiers(Apr-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24),Methodology | Independent Power Producer Rating(Jul-24)
Related Research	Sector Study | Power(Jan-24)
Rating Analysts	Shujat Ehsanullah Wasim | Shujat.Ehsan@pacra.com | +92-42-35869504

Profile

Plant Liberty Power Tech Limited ('Liberty Power' or the 'Company') 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 Company operates under a "Take or Pay" tariff model. The reference generation tariff includes a capacity charge component and a dispatch-based energy charge component. The levelized tariff over a 25-year period is PKR 7.87/KWh. For the July-September period, the capacity charge stood at PKR 2.4866/KWh, while the energy charge was PKR 33.9022/KWh.

Return On Project Pursuant to the Master Agreement signed on February 11, 2021, the Company agreed to discounts in tariff components, specifically in the Return on Equity (ROE) and Return on Equity During Construction (ROEDC). This results in a return of 17% per annum in PKR, calculated at an exchange rate of PKR 148/USD, with no future USD indexation, instead of the previous USD-indexed return of 15%.

Ownership

Ownership Structure Liberty Power is majorly owned by Liberty Group (Mukaty Family: 61% & Liberty Mills Limited: 29%) and Soorty Enterprises (10%).

Stability The ownership structure of the Company has historically remained stable, with no changes expected in the future. The sponsors have other ventures in the energy sector, including wind-based renewable power generations, and are planning to further expand their portfolio. This commitment reinforces that the sponsors are unlikely to dilute their stake in the Company going forward.

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 within the power sector. The sponsors possess relevant experience and have a proven track record of successfully delivering projects from initial concept to operational success.

Financial Strength Financial strength of the sponsors is considered strong as sponsors have well diversified profitable businesses and has the ability to support the Company both on an ongoing basis and during challenging times.

Governance

Board Structure The Company’s board of directors (BoD) comprises of eight directors including CEO. All the board members are from Liberty Group.

Members’ Profile Mr. Ashraf Saleem Mukaty serves as the acting Chairman and has held various roles within the Group. He is also the CEO of the Liberty Mills. The other members are experienced professionals having a long association with the Company.

Board Effectiveness The board has established an Audit Committee consisting of three members to review the financial and operational performance of the Company. Board members conduct regular board discussions to discuss important matters related to plant’s efficiency, and monthly budgets. The board has been actively involved in providing strategic guidance to the Company’s management.

Financial Transparency Yousaf Adil Chartered Accountants (SBP category 'A') is the external auditor of the Company. They have expressed an unqualified opinion on the Company’s financial statements for the year end-Jun 2024.

Management

Organizational Structure The Company has a well-defined organizational structure in which the CFO and Resident Director of the plant report to the CEO, who, in turn, reports to the board. The key management team consists of seven qualified professionals having sufficient experience in energy sector.

Management Team Mr. Azam Sakrani, the CEO, brings over two decades of experience in banking, finance, and industrial finance. Mr. Kashif Hanif has served as CFO and Company Secretary since September 2019.

Effectiveness The management is supported by the board, which oversees the plant’s overall performance and ensures optimal effectiveness through regular evaluations, provide guidance, and support in key decision-making for the smooth operations of the Company.

Control Environment Moreover, Liberty Power's quality of the I.T. Infrastructure and the breadth and depth of activities performed has remained well satisfactory.

Operational Risk

Power Purchase Agreement The Company's key source of earnings is the revenue generated from the sale of electricity to the power purchaser, CPPA-G. The obligations of the power purchaser are guaranteed by the Government of Pakistan. Additionally, a stable revenue stream is ensured through a minimum guaranteed capacity charge. The Power Purchase Agreement (PPA) is for 25 years, starting from its Commercial Operation Date (C.O.D.) in January 2011 and valid until March 2036.

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. The experienced O&M operates ensures the smooth functioning of the plant.

Resource Risk The Company is procuring fuel through various local OMCs including Attock Petroleum, Byco Petroleum, Pakistan State Oil. The resource risk remains in the Company's domain however, is mitigated through prudent inventory management.

Insurance Cover The Company has adequate insurance coverage for property damage and business interruption.

Performance Risk

Industry Dynamics Pakistan's power generation in FY-2024 dropped by 1.9% to 127,160 GWh, marking the second consecutive annual decline, driven by higher electricity costs, rising inflation, and reduced economic activity. Hydropower remained the largest contributor, making up 31% of total generation, followed by RLNG and nuclear power, each accounting for 19%. Local coal-based power plants contributed 12%, with the rest supplied by other thermal sources, including imported coal.

Generation The Company generated 240 GWh of electricity with a load factor of 14% during FY24, compared to 545 GWh (load factor: 32%) in FY23. The decrease in generation is attributed to lower demand due to an economic slowdown and a shift in demand by the power purchaser toward less expensive sources of electricity generation to maintain an optimal energy mix. As a result, the topline decreased to PKR 16,011 million in FY24, down from PKR 22,178 million in FY23, marking a decrease of 28%. However, net income surged to PKR 7,585 million during FY24, compared to PKR 3,367 million in FY23, benefiting from the lower load factor, the index-based take-or-pay model tariff structure, and other income of PKR 4,374 million earned through short-term investments.

Performance Benchmark The capacity payments to the IPPs are derived from maintaining the required availability. The required availability for Liberty Power under the PPA is 90%. During FY24, the average plant availability was maintained in accordance with the agreed parameters; therefore, Liberty Power is entitled to receive full capacity payments from the power purchaser, despite lower generation.

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 was 40 quarterly installments commencing from April 2011 at the rate of 3-months KIBOR plus 300 bps. The project debt has been fully repaid as at Dec-20.

Liquidity Profile As of June 2024, the total receivables of the Company stood at approximately PKR 12,248 million (compared to approximately PKR 16,401 million in June 2023). As circular debt continues to be a persistent issue for companies operating in the power sector, IPPs manage their liquidity requirements through short-term borrowings. The Company has a solid investment portfolio amounting to PKR 10,767 million in FY24 (FY23: PKR 8,869 million) in the form of liquid investments, reflecting a strong cash flow position as of FY24.

Working Capital Financing Net Cash cycle of the Company increased significantly to 346 days as at Jun-24 (Jun-23: 238 days) on account of increase in receivable days (Jun-24: 327days, Jun-23: 221 days). Moreover, the Company manages its cash flows needs partially through short term borrowings. However, STB at Jun-24 stood only at PKR 97mln as compared to PKR 10,070mln at Jun-23. The reduction in borrowings is attributed to lower demand from the power purchaser.

Cash Flow Analysis During FY24, despite high profit before tax (PBT), free cash flows from operations (FCFO) only increased by 1.5%, reaching PKR 4,978 million (FY23: PKR 4,906 million). This modest increase is attributed to higher non-core income earned and lower electricity generation, which is the Company's core operation. As of FY24, coverage ratios improved due to lower finance costs incurred and stable FCFOs. Interest coverage increased to 7.9x (FY23: 6.2x), while debt coverage (FCFO/Finance cost + CMLTB) improved to 7.8x (FY23: 6.1x).

Capitalization Subsequent to the full repayment of project debt, the Company's debt structure only comprises short term borrowings to meet its working capital requirements. As at Jun-24, the Company's leveraging decreased significantly and was marked at ~0.3% (FY23: 29%) due to very minimal reliance on STB during the year by the Company.

Liberty Power Tech Limited**Nov-24**
Rating Report**www.PACRA.com**

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Liberty Power Tech Power	Jun-24	Jun-23	Jun-22
	12M	12M	12M
A BALANCE SHEET			
1 Non-Current Assets	9,170	9,443	9,366
2 Investments	10,767	8,869	11,565
3 Related Party Exposure	-	-	-
4 Current Assets	18,061	22,418	14,850
a Inventories	*899*	*1,137*	*1,699*
b Trade Receivables	*12,248*	*16,401*	*10,453*
5 Total Assets	37,997	40,730	35,781
6 Current Liabilities	2,367	2,012	2,301
a Trade Payables	*209*	*160*	*596*
7 Borrowings	107	10,082	7,680
8 Related Party Exposure	-	1,089	-
9 Non-Current Liabilities	485	96	76
10 Net Assets	35,038	27,452	25,724
11 Shareholders' Equity	35,038	27,452	25,724
B INCOME STATEMENT			
1 Sales	16,011	22,178	27,715
a Cost of Good Sold	*(10,277)*	*(17,689)*	*(23,619)*
2 Gross Profit	5,734	4,489	4,096
a Operating Expenses	*(448)*	*(247)*	*(180)*
3 Operating Profit	5,286	4,242	3,916
a Non Operating Income or (Expense)	*4,155*	*(31)*	*(1,763)*
4 Profit or (Loss) before Interest and Tax	9,441	4,211	2,153
a Total Finance Cost	*(632)*	*(795)*	*(1,147)*
b Taxation	*(1,224)*	*(50)*	*(39)*
6 Net Income Or (Loss)	7,585	3,367	967
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*4,978*	*4,906*	*5,015*
b Net Cash from Operating Activities before Working Capital Changes	*3,818*	*4,679*	*3,782*
c Changes in Working Capital	*6,176*	*(7,715)*	*842*
1 Net Cash provided by Operating Activities	9,994	(3,037)	4,624
2 Net Cash (Used in) or Available From Investing Activities	2,031	1,465	3,231
3 Net Cash (Used in) or Available From Financing Activities	(1,099)	(1,279)	(1,045)
4 Net Cash generated or (Used) during the period	10,925	(2,851)	6,811
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	-27.8%	-20.0%	84.6%
b Gross Profit Margin	35.8%	20.2%	14.8%
c Net Profit Margin	47.4%	15.2%	3.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	69.7%	-12.7%	21.1%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	20.9%	13.1%	3.4%
2 Working Capital Management			
a Gross Working Capital (Average Days)	350	244	254
b Net Working Capital (Average Days)	346	238	241
c Current Ratio (Current Assets / Current Liabilities)	7.6	11.1	6.5
3 Coverages			
a EBITDA / Finance Cost	9.3	6.4	4.4
b FCFO / Finance Cost+CMLTB+Excess STB	7.8	6.1	3.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.3	0.1
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	0.3%	28.9%	23.0%
b Interest or Markup Payable (Days)	17.9	260.5	106.7
c Entity Average Borrowing Rate	11.2%	9.4%	13.4%

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.

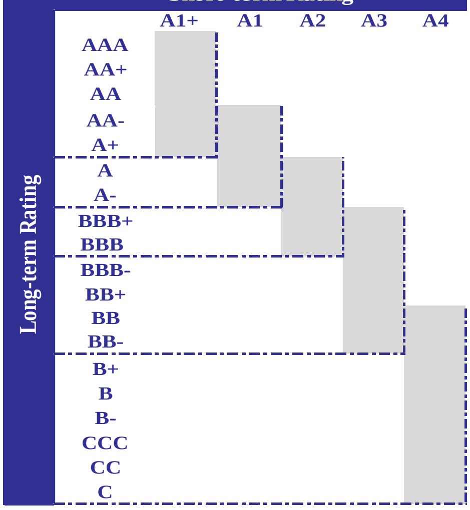
Long-term Rating

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.

Short-term Rating



**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

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 | 17-(a)
(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)
(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 | 17-(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 | 14-3(f)(vii)

Proprietary Information