



The Pakistan Credit Rating Agency Limited

Rating Report

Liberty Power Tech Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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 Limited (Liberty Power Tech) runs a 200MW power plant based on Residual Fuel Oil. The Company operates in the regulated power sector. It enjoys sovereign guarantee against receivables from power purchaser CPPA-G given adherence to agreed performance benchmarks. The Company's operations and maintenance operator, Wartsila Pakistan (WPK), is a key source of comfort in managing the plant's operations. The Company's financial risk profile is largely dependent on the repayment behavior of the power purchaser. The Company has been paying consistent dividends. Fuel supply risk is adequately covered as they procure from different suppliers with good credit terms; being managed since 2011. Liberty Power Tech continues to meet its availability (90%) and efficiency (45%) benchmarks. Nevertheless, strong internal cash generation and available working capital lines have helped it in managing its working capital requirements efficiently. Because of the mounting receivables and consequent funding thereof from banking lines, remaining cushion in the available working capital facilities is limited, warranting management's immediate attention. The ratings draw comfort from the sponsors' demonstrated support to the Company.

Upholding operational performance in line with agreed performance levels would remain a key rating driver. Improving, indeed aligning, the Company's repayment behavior with its financial profile would be ratings positive. Meanwhile, any significant increase in overdue receivables 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 Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18),Methodology IPP (Jun-18)
Related Research	Sector Study Power(Apr-18)
Rating Analysts	Hamza Ghalib hamza.ghalib@pacra.com +92-42-35869504

Profile

Plant The power plant comprises eleven Residual Fuel Oil fired diesel generators having a capacity of 16.5MW each, along with a steam turbine. Net rated capacity, after accounting for auxiliary consumption, is 196.139MW.

Tariff Company's key source of earnings is the generation tariff from the power purchaser, NTDC. The reference generation tariff comprises a capacity charge component and an energy charge component. The former is based upon dependable capacity and constitutes a minimum tariff guaranteed to the company which covers the fixed O&M costs, insurance charges, working capital funding costs and return on equity. The latter is a function of actual electricity dispatched. The levelized tariff for the period of 25 years is PKR/Kwh 7.8672

Return On Project The dollar IRR of Liberty power, as agreed with NEPRA, is ~15%.

Ownership

Ownership Structure Liberty Power Tech Limited (Liberty Power Tech) 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, Mukaty family's main entity, 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 Company's sponsors have the ability to support the entity both on a continuing basis, and support in times of crisis. Additionally, financial strength of the sponsors is considered strong as the 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. Saleem Mukaty, the 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 Deloitte is the external auditor of the company. They have expressed an unqualified opinion on the company's financial statements at end-Jun18.

Management

Organizational Structure LPTL's 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, has been spearheading the company. Mr. Sakrani carries with him over two decades of experience in the banking and finance industry and industrial finance. The CFO, Mr. Adamjee Yakooob, is a qualified Chartered Accountant, has an experience of ~17 years in his portfolio.

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, LPTL's quality of the I.T. Infrastructure and the breadth and depth of activities performed has remained well satisfactory.

Operational Risk

Power Purchase Agreement According to the agreement, the obligations of the power purchaser are guaranteed by the GoP. Furthermore, a stable revenue stream is also ensured through the minimum guaranteed capacity charge (the component of the tariff received irrespective of electricity production). Nevertheless, if APL is unable to supply electricity as agreed with NTDC, it would be liable to pay liquidated damages as per provisions of the PPA. Also, if the plant is unable to supply electricity due to its own inefficiencies, or fails to notify NTDC of the available capacity 12 hours prior to the dispatch, the company would have to settle all due penalties.

Operation And Maintenance O&M activities are outsourced to Wartsila Pakistan. The O&M contract was renewed for a second term in June 2015 for a period of six years, therefore the contract will be expired in 2021. The CEO maintain regular monitoring of the O&M operations, via LPTL's technical head who oversees the operations on the plant.

Resource Risk The NCPL is procuring fuel through various OMCs including Attock Petroleum, Byco Petroleum, Hascol Petroleum.

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 the viability of thermal power plants. During FY18, there has been a growth of ~30% in the actual power generation. Moreover, there has been an increase of ~17% in the installed capacity as at end-Jun18 to 32,641MW (FY17: 27,731MW).

Generation The reduction can be seen in Generation of electricity in FY18 with net electrical output for the period at 1,175,616,362 KWhr (FY17: 1,274,141,283) due to reduced demand by power purchaser.

Performance Benchmark The contracted efficiency of the plant is 45% and availability has been set up to ~90%. The plant has performed up to the mark with greater availability and efficiency factor than of its set benchmark.

Financial Risk

Financing Structure Analysis Debt financing constitutes 75% of the project cost. In this regard, a senior Islamic facility, denominated in PKR, was arranged along with a long-term finance facility. The senior Islamic facility was arranged through a Sukuk issue based on Ijarah tul musharaka. The size of Sukuk is PKR 13,488mln, and the size of the long-term facility is PKR 1,649mln.

Liquidity Profile During FY18, total receivables of the company stood at ~PKR 15bln (FY17: ~PKR 11bln), an increase of ~33%. As circular debt continues to be an issue for companies operating in the power sector. The company has been meeting its cash requirements via a combination of internal cash flows and short-term borrowing (STB). Short-term borrowing has been significantly increased during FY18 to PKR 11,796mln (FY17: PKR 8,506mln; FY16: PKR 873mln) owing to increased working capital requirements.

Working Capital Financing During FY18, company's cash cycle days stood at 318 days (FY17: 242 days; FY16: 211 days). This increase has been seen due to the increase in trade debts during the period on account of delayed energy payments by power purchaser. Liberty Power Tech has arranged working capital lines of PKR 12.2bln, out of which ~96% has been utilized.

Cash Flow Analysis FCFO (FY18: ~PKR 5,927mln, FY17: PKR 5,614mln) of the company largely remained at the same level. Coverages have come down in comparison to the same period last year (SPLY) primarily due to a surge in the interest cost which is a result of increasing interest rate environment [Interest coverage: FY18: 4.8x, FY17: 5.6x].

Capitalization With continuous repayment of debt, LPTL's leveraging reached ~62% at end-FY18 (end-FY16: ~66%). Short-term borrowing constitutes ~66% of the total debt.

Liberty Power Tech Limited

BALANCE SHEET	30-Sep-18	30-Jun-18	30-Jun-17	30-Jun-16
	3M	FY18	FY17	FY16
	Un-Audited	Audited	Audited	Audited
Non-Current Assets	11,930	12,207	12,649	13,442
Investments (Others)	318	-	0	2,008
Current Assets	19,504	17,609	13,821	12,585
Inventory	1,209	841	834	340
Trade Receivables	16,323	15,015	11,260	8,593
Other Current Assets	1,970	1,751	1,726	3,651
Cash & Bank Balances	2	1	1	1
Total Assets	31,434	29,815	26,470	26,027
Debt	16,289	17,967	16,526	10,466
Short-term	10,109	11,796	8,506	873
Long-term (Inlc. Current Maturity of long-term debt)	6,180	6,171	8,020	9,593
Other Short term liabilities (inclusive of trade payables)	3,163	849	1,484	640
Other Long term Liabilities	31	29	22	21
Shareholder's Equity	11,951	10,971	8,438	14,901
Total Liabilities & Equity	31,434	29,815	26,470	26,027

INCOME STATEMENT

Turnover	5,808	17,783	16,706	14,773
Gross Profit	1,355	4,999	4,584	4,783
Financial Charges	(345)	(1,243)	(994)	(1,157)
Net Income	980	3,543	3,834	3,490

Cashflow Statement

Free Cashflow from Operations (FCFO)	1,599	5,927	5,614	5,803
Net Cash changes in Working Capital	(1,105)	(4,458)	(2,426)	1,480
Net Cash from Operating Activities	171	290	2,251	6,070
Net Cash from Investing Activities	(312)	(690)	2,059	(865)
Net Cash from Financing Activities	142	400	(4,311)	(5,206)
Net Cash generated during the period	1	1	(1)	(1)

Ratio Analysis

Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	2.1	2.1	2.4	2.5
Interest Coverage (X) (FCFO/Gross Interest)	4.6	4.8	5.6	5.0
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	269.7	318.3	242.3	211.1
Capital Structure (Total Debt/Total Debt+Equity)	57.7%	62.1%	66.2%	41.2%

Liberty Power Tech Limited

Dec-18

Credit Rating Scale & Definitions

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 Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

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

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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

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- (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)
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- (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)

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- (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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