



RATINGS (MARCH 2010)

LIBERTY POWER TECH LIMITED (LPTL)

	NEW	PREVIOUS
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Sukuk – Secured, privately placed

PKR14,668mln* AA- AA-

Term Finance Facility – Secured, privately placed

PKR1,782mln* AA- AA-

*The facilities' amount may vary, though not significantly due to change in total project cost

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PROFILE

- Liberty Power Tech Limited (LPTL) has been set up for the purpose of electricity generation. The company will be commissioned under the Power Policy 2002 as an Independent Power Producer (IPP). The project envisages the erection of a 200 MW thermal power plant, based on the Build Operate and Own (BOO) model.
- It is majority owned (79%) by Liberty Group through Liberty Mills Limited and members of sponsoring (Mukaty) family. The family's main entity, Liberty Mills, is in the business of manufacturing and processing of all kinds of textile fabrics and made ups. It was taken public in 1969 and is listed on Karachi Stock Exchange. Under the equity participation plan, two strategic investors have been brought in LPTL. These are: (1) Wartsila Development and Financial Services (WDFS) – 11%, and (2) Soorty Enterprise – 10%.
- WDFS is mainly an investment / advisory arm of Wartsila.
- Soorty Enterprises - involved in the manufacturing and export of denim and garments – represents family friends.
- The eight members Board of Directors is composed of seven representatives from the Liberty Group and a representative from WDFS.

RATING RATIONALE AND KEY DRIVERS

- The ratings of LPTL's facilities reflect the company's stable projected cash flows emanating from the long-term Power Purchase Agreement (PPA), which allows for guaranteed returns subject to adherence to agreed performance benchmarks. However, LPTL is exposed to completion risk, which, to a certain extent, has been minimized by the appointment of Wartsila, a firm of international repute with considerable experience in Pakistan, as the Engineering Procurement and Construction (EPC) contractor. The project is progressing according to original plans (76% complete as at end-Jan10), and the management is confident to achieve the Required Commercial Operations Date (RCOD), Dec-10.
- The ratings are dependent on the management's ability to achieve timely RCOD and maintain operations as per PPA agreed performance parameters. Meanwhile, the external factors such as any material change in the IPP industry would be critical for the ratings.

PROJECT

- The Tariff:** LPTL's key source of earnings would be the generation tariff from the power purchaser, National Transmission and Dispatch Company (NTDC). The reference generation tariff comprises a capacity charge component and an energy charge component. The former is based on dependable capacity and constitutes a minimum tariff guaranteed to the company which covers the fixed Operations and Maintenance (O&M) costs, insurance charges, debt and working capital funding costs, and return on equity. The latter is a function of actual electricity dispatched.
- Project Risk:** LPTL has executed an EPC contract with the world's leading power solution provider, Wartsila Finland, and its wholly-owned subsidiary in Pakistan, Wartsila Pakistan (Pvt.) Limited (WPK). The EPC contractor has provided a completion guarantee for achieving the RCOD. Any delays in the completion of the project deadlines as specified in the PPA may result in the company having to pay liquidated damages to NTDC. However, risks related to the timely completion of the project, including design, construction, commissioning and testing of the power plant are transferred to the EPC contractor. Currently, the project is 76% complete. The management is confident of achieving the same in advance by three months, signifying cushion available against any contingency.
- Cost Overruns:** Positive cost overruns are a pass through item for the company caused by currency and interest rate fluctuations. These can move the project cost upward or downward. LPTL has estimated cost overruns to be PKR3,493mln since financial close (original project cost: PKR18,467mln; revised project cost: PKR21,960mln). However, the estimated cost overruns may further change because of currency and interest rate changes. At COD, the tariff is adjusted to reflect these cost overruns subject to the approval of NEPRA. Under the Project Funds Agreement (PFA), the sponsors and lenders have committed to fund all positive cost overruns in the ratio of 25:75 respectively. Therefore, LPTL is in process of negotiating additional funding of PKR2,600mln (Sukuk: PKR2,318mln; Term finance facility: PKR282mln). Furthermore negative cost overruns, which are not pass-through, are to be funded solely by the sponsors. In this regard, they have committed to pay US\$ 10mln. To date, no negative overruns have occurred.
- Operations and Maintenance Risk:** LPTL is in the final stages of negotiating an O&M contract with WPK. The O&M contractor would be responsible for ensuring that the installation meets set performance targets. Thus operational risk will be lessened owing to WPK's over 20 years of experience in running and maintaining power plants in Pakistan. Any changes in the O&M arrangement would require prior approval of the Sukuk Trustee.
- Fuel Supply Risk:** The Fuel Supply Agreement (FSA) has been executed with Shell Pakistan Limited, a leading local oil marketing company. Shell will be responsible for providing LPTL with Residual Fuel Oil (RFO), additives and lubricants. The agreement will be valid for a period of 10 years from the COD. In case of Shell's inability to provide LPTL with the required fuel, the damages imposed by the power purchaser, would be passed on to Shell to an extent. However, Shell has adequate storage capacity and widespread distribution networks, which mitigates the risk of fuel supply disruption.
- Cash Flow Risk:** The stability of cash flows is ensured through the minimum guaranteed capacity charge component of the power tariff that the IPP receives even if there is zero electricity demand from the power purchaser. However, if LPTL fails to supply electricity, due to its inefficiency, to NTDC in the presence of demand, it would be liable to pay liquidated damages.
- Working Capital Requirements:** The availability of adequate working capital during the operational stage of the project is essential. The IPP may be required to inject liquidity in case the payments from NTDC are delayed and payments to Shell fall due. Therefore, LPTL would be required to have adequate running finance lines in view of potential delay in payments from NTDC. At least 30 days working capital should be available.
- Reserve Fund:** The company, prior to commencement of each repayment, would create a reserve account equivalent to one upcoming installment in three equal monthly installments. The reserve would be maintained in the form of cash. This reserve would take care of any temporary disruption in the cash flows.

RATED FACILITIES

- Sukuk:** The company has arranged a senior syndicated Islamic finance facility in the form of a diminishing musharaka Sukuk issue. Based on current cost estimate of the project, the Sukuk size is planned to be PKR14,668mln. However, this may vary, though not significantly, depending on the actual project cost. The term of instrument is 12 years and carries profit at the rate of 3-months KIBOR plus 300 bps, payable on quarterly basis. The Issuer has a call option available after two years of operations. The repayment would commence in 2011.
- Term Finance Facility:** The senior term finance facility of PKR1,500mln, which is to be enhanced to PKR1,782mln, has been arranged through conventional bank borrowing. The facility has a structure similar to Sukuk, including tenor, interest and repayment.
- Security:** The facilities are secured by assignment over receivables from the power purchaser due under the PPA and first charge by way of hypothecation on all present and future movable assets (excluding fuel stock) of LPTL.

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