



RATINGS (APRIL 2011)

LIBERTY POWER TECH LIMITED (LPTL)

	NEW	PREVIOUS
ENTITY		
Long Term	AA	-
Short Term	A1+	-
FACILITIES		
<i>Sukuk – Secured, privately placed</i>		
PKR13,488mln	AA	AA-
<i>Term Finance Facility – Secured, privately placed</i>		
PKR1,649mln	AA	AA-

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RATING RATIONALE AND KEY DRIVERS

- The ratings reflect sound management quality that resulted into timely commissioning of LPTL's plant with minimal cost overruns. The returns are guaranteed subject to adherence of agreed operational performance benchmarks as agreed under long-term Power Purchase Agreement (PPA). The ratings incorporate the performance risk of the plant, which, to a greater extent, has been minimized by the appointment of Wartsila, a firm of international repute with considerable experience in Pakistan, as power plant operator. Though cash flows are guaranteed, weak financial discipline of the power purchasing authority remains a key rating factor.
- The ratings are dependent on the management's ability to adhere operations as per PPA agreement. Meanwhile, external factors such as any changes in the regulatory framework of IPPs and inability to adequately manage liquidity requirements, currently in focus due to the prevailing circular debt issue, remain critical to the ratings.

ASSESSMENT

- LPTL – an independent power producer (IPP) under Power Policy 2002 – with a total cost of PKR 20,183mln and capacity of 200MW has lately commissioned¹ its plant operations. For operations and maintenance (O&M) of the plant, the company has entered into five year contract with Wartsilla Pakistan (WPK). WPK has proven track record of providing O&M services with over 17 years of presence in Pakistan. Hence, it possesses requisite experience to carry out O&M activities effectively. In addition, the contractual terms of the O&M agreement provide guarantee of performance parameters set under PPA interalia, plant availability, output, and heat rate, thus limiting performance risk. The agreement allows LPTL to pass on liquidity damages to the operator in case of any non performance.
- The Fuel Supply Agreement (FSA) has been executed with Shell Pakistan Limited, a leading local oil marketing company. Shell is responsible for providing LPTL with Residual Fuel Oil (including additives and lubricants). The agreement is 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 network, which mitigates the risk of fuel supply disruption.
- LPTL's key source of revenue is the generation tariff² from the power purchaser. It comprises a capacity charge component and an energy charge component. With the exception of agreed return to project shareholders with adjustment for performance achievements, all other elements of cost are pass-through having no bearing on the LPTL's core profitability. The stability and sustainability of cash flows is ensured through the minimum guaranteed capacity charge component of the tariff that LPTL would receive even if it produces no electricity (in case of zero demand from the power purchaser). Meanwhile its prime location near major consumption center places it in a relatively better position to receive priority payments from the power purchaser.
- Availability of adequate working capital is essential. LPTL might be required to inject liquidity in case the payments from NTDC are delayed and payments to Shell fall due. LPTL would require working capital lines equivalent to 60 days at least to cover credit period allowed to NTDC according to the terms of the PPA. In this regard, LPTL has arranged working capital lines of PKR 6.095bln to cover its working capital requirements. The company has already utilized credit lines worth PKR 5.951bln. Unutilized working capital lines provide cover in case the need arises.

RATED FACILITIES:

- Sukuk:** The project has a debt:equity structure of 75:25. Till COD, the company has obtained project financing in the form of long term facilities to the tune of PKR 15,137mln. The facilities include a diminishing musharaka sukuk (PKR 13,488mln) and term finance facility (PJR 1,649mln). The tenor of both the facilities is 12 years and carries a profit rate of 3-months KIBOR plus 3%. Principal is to be repaid in 40 consecutive quarterly installments that have started from March 2011.
- Term Finance Facility:** The senior term finance facility of PKR 1,649mln 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. In addition, 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. Any changes in the O&M arrangement would also require prior approval of the Sukuk Trustee.

PROFILE:

- LPTL 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 nine members Board of Directors including the CEO, is composed of seven representatives from the Liberty Group and a representative from WDFS.

¹ Commercial Operations Date (COD) of LPTL is January 13, 2011. The plant is located near Faisalabad and consists of eleven Residual fuel Oil (RFO) fired diesel engines along with a combined cycle heat recovery system through a steam turbine

² The generation tariff is in the process of finalization. Initially generation tariff (levelized for year 1-25) of US\$12.5374 per Kilowatt hour (Kwh) was approved for LPTL. However, after commissioning the company has filed petitions for finalization of tariff whereby all tariff components would be adjusted as per actual costs incurred till COD.