



The Pakistan Credit Rating Agency Limited

Rating Report

Thar Energy Limited PP Short Term Sukuk - PKR 5.0 Bln | TBI

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Dec-2023	AA-	A1	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The Hub Power Company Limited (HUBCO) of Pakistan along with Fauji Fertilizer Company Limited (FFCL), has set up a 330MW, mine-mouth lignite-fired power plant at Thar Coal Block-II Sindh, under the umbrella of Thar Energy Limited (TEL). Both major shareholders collectively represent 90% shareholding, and have very strong presence, as also reflected by their Entity Ratings (AA+). The ratings depicts the commissioning of the plant along with the fact that the plant is part of the China Pakistan Economic Corridor (CPEC) and is fueled by coal extracted from Thar Block-II by the Sindh Engro Coal Mining Company. Being on local coal the plant reduces dependence on imported fuels and resultantly positively affects the overall basket price of the electricity generated. The plant is prioritized in the merit order list by NTDC, which also translates into the assigned ratings. Additionally, the plant efficiency and utilization factor are high. Previously, the evacuation issue from the Thar Block, now stands resolved by NTDC, as a result the plant is supplying uninterrupted electricity to the National Grid, which further provides comfort. TEL has been awarded an upfront tariff, with the payments to be received from CPPA-G against Energy and Capacity, backed by the sovereign guarantee. The plant successfully achieved its Commercial Operations (COD) on 1st October 2022. As per the Power Purchase Agreement (PPA), CPPA-G has charged Liquidated Damages (LD) to the Company for the delay in COD from the required date. In accordance with the agreement, Hub Power Services Limited (HPSL) an associated company will provide Operations and Maintenance (O&M) services for the plant. The O&M contractor will be responsible for maintaining the operational benchmarks (Availability: 85%, Efficiency: 37%). During FY23, the plant generated net electrical output of 1,045GWh while maintaining its operational benchmarks. Repayment against the project debt has started which will be completely repaid over a period of 10 years. The smooth operations of the plant since its COD and timely payment of the debt is also an added consideration to the ratings. The plant is expected to receive payments from CPPA-G on a priority basis considering its importance to the energy sector.

Going forward, the capacity of the Company to generate stable cash flows in order to make timely repayments against the project debt remains crucial. Further, with rising concerns about circular debt, the trend of payments received from CPPA-G against invoices and any, regulatory changes might impact ratings.

Disclosure	
Name of Rated Entity	Thar Energy Limited PP Short Term Sukuk - PKR 5.0 Bln TBI
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Independent Power Producer Rating(Jul-23),Methodology Rating Modifiers(Apr-23),Methodology Debt Instrument Rating(Aug-23)
Related Research	Sector Study Power(Jan-23)
Rating Analysts	Hashim Yazdani hashim.yazdani@pacra.com +92-42-35869504

Issuer Profile

Profile Thar Energy Limited (TEL) is an Independent Power Producer (IPP) and has developed a 330MW coal fired power plant in Thar Block II on Build-Own-Operate (BOO) basis. The plant achieved its COD on 1st October 2022. TEL is awarded an upfront tariff for coal power projects by NEPRA of US\$8.5015/KWh. Tariff control period is 30 Years from the COD. The tariff is indexed to the Pakistan Rupee-US Dollar exchange rate and US and Pakistan CPI inflation. Principal and interest repayments, ROE, Insurance, Fixed and Variable O&M costs are part of the escalable (adjustable) component. Fuel price and all the taxes/levies are completely pass through to power purchaser. The return on equity (ROE) as per the tariff determination of the project is at 30.65%.

Ownership TEL's main sponsors are The Hub Power Company Limited (HUBCO), Fauji Fertilizer Company Limited and China Everbest Development International Limited. The HUBCO group has the controlling interest at 60%, Fauji Fertilizer at 30% and China Everbest Development has 10% ownership through CMEC (SPV) in TEL. Sponsor groups have significant experience of development and operation of power projects, including coal-fired, natural gas, and various of renewable energies such as thermal, LNG, wind, solar, waste-to-energy, mine-mouth coal project (with integrated production of coal and power) and so on.

Governance TEL's Board of Directors (BoD) comprises of seven members. Four members represent HUBCO Group including CEO, while three represents Fauji Fertilizer Company Limited and one member represents CMEC. Mr. Kamran Kamal is the Chairman of the Board of Directors of Thar Energy Limited and CEO of Hub Power Company Limited. The remaining members possess sufficient experience of different business sectors.

Management IPPs are generally featured by a flat organizational structure, mainly comprising finance and technical staff, while the engineering, construction and operations of the plant are outsourced. The management team is led by Mr. Saleemullah Memon, appointed as CEO. Mr. Saleemullah Memon has been associated with TEL since last 5 years, having overall experience of 22 years.

Business Risk TEL's key source of earnings is the revenue generated through sale of electricity to the power purchaser, CPPA-G. The Company has entered into a Power Purchase Agreement with CPPA-G for a period of 30 years from the COD i.e. 1st October 2022. The total generation of the country during 9MFY23 stood at 94,121 GWh with share from Hydel (28.6%), Thermal (46.2%), Nuclear (21.0%) and Renewable (4.2%). The electricity demand is catered through cheaper sources including Renewables, Hydel, Gas and Thar Coal based projects. The remaining demand is met through costly alternatives including RFO and RLNG based plants. Since its COD in Oct 2022, the plant has generated Net Electrical Output of 1,045GWh till June 2023. As a result, the Company reported Energy revenue of PKR 20,128mln along with Capacity revenue of PKR 19,801mln. The required availability for Thar Energy Limited under the PPA is 85%. Meanwhile, the required efficiency of the plant is 37%. The plant maintained its required benchmarks throughout FY23. Hub Power Services Limited (HPSL) is the O&M contractor of the Company. It is also delivering O&M services for other plants of HUBCO. TEL will procure fuel required for plant operation through Coal Supply Agreement (CSA) with Sindh Engro Coal Mining Company (SECMC) for 30 years uninterrupted supply of coal, which has been signed between TEL and SECMC on May 13, 2017. Insurance is attained for material damage, third party liability, and delay in startup affecting the profits. Contractors will be liable to pay Liquidated Damages (LDs) as per the contract if benchmark performance ratio is not met.

Financial Risk The actual project cost is USD 520mln, debt financing constitutes 75% (USD 390mln). Total project debt has been funded by a mix of foreign (~67%) and local debt (~33%). The foreign debt has been sponsored by Chinese lenders with the consortium led by CDB and China Minsheng Banking Corporation Limited. Foreign debt has the pricing of 6ML + 4.05% spread p.a. payable semi-annually. The local debt has been sponsored by Pakistani Banks with the consortium led by Bank Alfalah Limited including HBL, BAHF, NBP, MCB, SBL and Soneri Bank Limited. Local debt has the pricing of 3MK + 3.5% spread p.a. payable semi-annually. The principal repayment shall be made in 20 semi-annual payments. TEL, in its off-take agreement with CPPA-G, will receive capacity payments given the plant meets contract availability, even if no purchase order is placed. As on June 2023, the Company's trade receivables from CPPAG stood at PKR 7,316mln. 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 and internal cash generation. Due to rising trade receivables from CPPAG, Gross Working Capital stood at 72 days as at end June 2023. As per the rising operational needs, the Company plans on procuring further working capital financing in addition to the already available facilities of approx. PKR 5,700mln. During FY23, the Company reported FCFO of PKR 17,273mln from the sale of electricity to CPPAG. EBIDTA/Finance Cost stood at 2.4x. Cash flow position is expected to improve with increased generation in the coming period since the plant is placed on priority in the merit order list. Leveraging stood at 77.6% as at end June 2023 as a result of project debt and STB to support operations.

Instrument Rating Considerations

About The Instrument TEL is in the process of issuing an unsecured, privately placed short term sukuk of PKR 5bln in January 2024 to finance the Company's working capital requirements. The Privately Placed Short Term Sukuk, having a tenor of six months, carries an indicative profit rate of 6M KIBOR + up to 0.75%. The profit and principal will be paid in bullet at the time of maturity.

Relative Seniority/Subordination Of Instrument The claims of the PPSTS Certificate holders will rank superior to the claims of ordinary shareholders.

Credit Enhancement The instrument is unsecured.



The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Thar Energy Limited Power	Jun-23 12M	Jun-22 12M	Jun-21 12M	Jun-20 12M
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A BALANCE SHEET

1 Non-Current Assets	108,389	74,454	41,303	32,095
2 Investments	-	-	-	-
3 Related Party Exposure	-	8	8	64
4 Current Assets	33,415	3,206	697	1,225
a Inventories	181	-	-	-
b Trade Receivables	7,317	-	-	-
5 Total Assets	141,803	77,668	42,008	33,383
6 Current Liabilities	18,529	3,035	23,806	19,190
a Trade Payables	12,962	702	147	206
7 Borrowings	93,223	58,449	3,195	3,189
8 Related Party Exposure	3,095	430	3,247	441
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	26,957	15,754	11,761	10,563
11 Shareholders' Equity	26,957	15,754	11,761	10,563

B INCOME STATEMENT

1 Sales	37,869	-	-	-
a Cost of Good Sold	(23,009)	-	-	-
2 Gross Profit	14,860	-	-	-
a Operating Expenses	(228)	(144)	(36)	(104)
3 Operating Profit	14,632	(144)	(36)	(104)
a Non Operating Income or (Expense)	534	105	(17)	83
4 Profit or (Loss) before Interest and Tax	15,166	(39)	(53)	(21)
a Total Finance Cost	(7,848)	(0)	(0)	(0)
b Taxation	(67)	(7)	(2)	(20)
6 Net Income Or (Loss)	7,252	(46)	(55)	(42)

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	17,273	(78)	(53)	(88)
b Net Cash from Operating Activities before Working Capital Changes	11,232	(4,586)	(46)	(18)
c Changes in Working Capital	(12,306)	1,666	7,396	217
1 Net Cash provided by Operating Activities	(1,074)	(2,921)	7,350	199
2 Net Cash (Used in) or Available From Investing Activities	(15,018)	(49,748)	(9,173)	(5,403)
3 Net Cash (Used in) or Available From Financing Activities	19,353	53,899	1,252	4,630
4 Net Cash generated or (Used) during the period	3,261	1,230	(571)	(574)

D RATIO ANALYSIS

1 Performance				
a Sales Growth (for the period)	N/A	N/A	N/A	N/A
b Gross Profit Margin	39.2%	N/A	N/A	N/A
c Net Profit Margin	19.1%	N/A	N/A	N/A
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	13.1%	N/A	N/A	N/A
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	34.8%	N/A	N/A	N/A
2 Working Capital Management				
a Gross Working Capital (Average Days)	72	N/A	N/A	N/A
b Net Working Capital (Average Days)	6	N/A	N/A	N/A
c Current Ratio (Current Assets / Current Liabilities)	1.8	1.1	0.0	0.1
3 Coverages				
a EBITDA / Finance Cost	2.4	N/A	N/A	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	1.1	N/A	0.0	0.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	9.1	-744.9	-496.3	-239.8
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	77.6%	78.8%	21.4%	23.2%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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.

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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

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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Book Value of Assets (PKR mln)	Nature of Assets	Lead Advisor
Privately Placed Short Term Sukuk (PPSTS)	PKR 5,000mln	6 months	Unsecured	N/A	N/A	The Bank of Punjab

Name of Issuer	Thar Energy Limited
Issue Date	Jan-24
Maturity	Jul-24
Profit Rate	6M KIBOR + 0.75%

Thar Energy Limited | PP Short Term Sukuk - PKR 5.0 bln | TBI

Sr.	Due Date Principal	Opening Principal	6M Kibor	Markup/Profit Rate 6MK + 0.75%	Markup/Profit Payment	Principal Payment	Total	Principal Outstanding
		PKR (mln)						
Issue Date	Jan-24	5,000			-	-	-	5,000
1	Jul-24	5,000	21.44%	22.19%	581.00	5,000	5,581	-
					581	5,000	5,581	