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
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	-
30-Jun-2018	A+	A1	Stable	Maintain	-
30-Dec-2017	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 plant 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 'take or pay' provision, starting from the COD (Jan-2011). It enjoys a sovereign guarantee against receivables from power purchaser given adherence to agreed performance benchmarks. The Company continues to meet its availability (90%) and efficiency (45%) benchmarks. Fuel supply risk is adequately covered as they procure from different suppliers with good credit terms; being managed since 2011. During FY23, the plant generated 545 GWh (FY22: 925 GWh) of net electrical output, a decline of 42% (YoY), and thereafter reported a sales revenue of ~PKR 22,178mln (FY22: ~PKR 27,715), a decline of 20%. This decrease in generation is mainly attributed to shift of electricity demand towards the less expensive sources of generation i.e., Hydro, Solar, Wind and Biogas from the power purchase in wake of a cost-effective energy basket. Despite fall in revenue margins benefitted from lower load factors and appreciation of USD against PKR due to indexed-based tariff structure. Gross margin improved to 20% during FY23 (FY22: 15%). 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 65% as at June 2023 (Jun 2022: 42%), mainly on account of accumulation of receivables from the off taker. Moreover, with strong financial strength and experienced & visionary sponsors, the Liberty group plans to expand itself and evolve towards acquiring equity stakes in the Energy sector, further strengthening the Company's foothold in the industry, going forward.

The Company's management of its financing required to meet the future plans and its effect on the financial risk profile, albeit long outstanding receivables from the off taker in respect of reported circular debt, remains integral to the assigned ratings.

Disclosure

Name of Rated Entity	Liberty Power Tech Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity 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)
Related Research	Sector Study | Power(Jan-23)
Rating Analysts	Shujat Ehsanullah Wasim | Shujat.Ehsan@pacra.com | +92-42-35869504

Profile

Plant Liberty Power Tech Limited (Liberty Power) 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 reference generation tariff comprises a capacity charge component and an energy charge component dispatched. The levelized tariff for the period of 25 years is PKR/Kwh 7.87. Currently, capacity charge including insurance stands at PKR 2.4777/Kwh and energy charge including variable O&M stands at PKR 42.0772/Kwh.

Return On Project Pursuant to Agreement, the Company had agreed that, the discounts in tariff components i.e. Return on Equity (ROE) including Return on Equity During Construction (ROEDC) shall be changed to 17% per annum in Pak Rupee (PKR) calculated at PKR/USD exchange rate of PKR 148/USD, with no future USD indexation.

Ownership

Ownership Structure Liberty Power 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 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 Sponsors have the ability to support the entity both on a continuing basis, and support in times of crisis. Financial strength of the sponsors is considered strong as 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. Ashraf Saleem Mukaty, the acting 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 Yousaf Adil Chartered Accountants (Deloitte) is the external auditor of the company. They have expressed an unqualified opinion on the company’s financial statements at end-Jun 2023.

Management

Organizational Structure The 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, carries with him over two decades of experience in the banking and finance industry and industrial finance. Mr. Kashif Hanif is working in capacity of CFO and company secretary since Sept-19.

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, 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 Liberty Power's key source of earnings is the revenue generated through sale of electricity to the power purchaser, CPPA-G. The obligations of the power purchaser are guaranteed by the Government of Pakistan. Furthermore, a stable revenue stream is also ensured through the minimum guaranteed capacity charge. PPA signed is of 25 years and is valid till 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.

Resource Risk The Company is procuring fuel through various local OMCs including Attock Petroleum, Byco Petroleum, Pakistan State Oil.

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

Performance Risk

Industry Dynamics Power generation in Pakistan stood at ~153,874GWh in FY22, up ~7% YoY. Generation capacity, on the other hand, stood at ~43,775MW up ~10% YoY. With ~61% share in FY22, Pakistan’s power generation capacity mix is highly concentrated in thermal technology. However, it has been transitioning towards nuclear and renewables, albeit slowly (i.e., FY18 mix: 66.4% Thermal, 24.5% Hydel, 5% Renewable and 4.1% Nuclear V/S FY22 mix: 60.6% Thermal, 24.5% Hydel, 8.3% Nuclear and 6.5% Renewable).

Generation Liberty Power generated 545GWh of electricity with load factor of 32% during FY23 as compared to 925GWh (load factor: 54%) during FY22.

Performance Benchmark The required availability for LPTL under the PPA is 90%. During FY23, average plant availability is maintained according to agreed parameter. During FY23 the topline stood at PKR 22,178mln as compared to PKR 27,715mln during FY22 due to less energy load demanded by the power purchaser. Net income surged to PKR 3,367mln during FY23 as compared to PKR 967mln during FY22 due to efficient control and conservative approach in short term investments.

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 12 years with quarterly repayments 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 at FY23, total receivables of the company stood at ~PKR 16,401mln (FY22: ~PKR 10,453mln). As 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.

Working Capital Financing Net Cash cycle have decreased to 229 days as at FY23 (FY22: 234 days) on account of decrease in receivable days (FY23: 221days, FY22: 234 days) due to the receipt of outstanding dues from the authority subsequent to the master agreement in FY22. Moreover, Company manages its cash flows needs partially through short term borrowings. STB stood at PKR 10,070mln as at FY23 (FY22: PKR 7,218mln). As at FY23, STB limit stood at PKR 15,445mln (utilization: 65%) and PKR 17,005mln at FY22 (Utilization: 42%).

Cash Flow Analysis During FY23, free cash flows from operations (FCFO) slightly decreased to PKR 4,906mln (FY22: 5,015mln) despite high PBT. As at FY23, coverages improved and showed a very strong trend. Interest coverage increased to 6.2x (FY22: 4.4x). Similarly, debt coverage (FCFO/ Finance cost+CMLTB) increased to 6.1x (FY22: 3.1x).

Capitalization As at FY23, the Company's leveraging increased but stood strong at ~29% (FY22: 23%). STB comprises 100% of total debt structure.

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Financial Summary
PKR mln

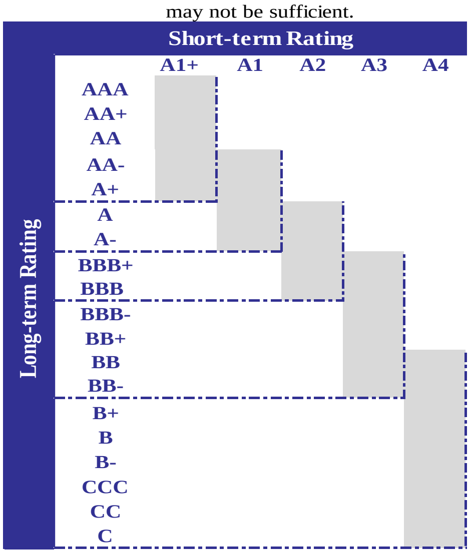
Liberty Power Tech Power	Jun-23	Jun-22	Jun-21	Jun-20
	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	9,443	9,366	10,101	10,871
2 Investments	8,869	11,565	2,820	1,770
3 Related Party Exposure	-	-	-	261
4 Current Assets	22,418	14,850	29,375	26,595
a Inventories	*1,137*	*1,699*	*670*	*838*
b Trade Receivables	*16,401*	*10,453*	*25,822*	*24,057*
5 Total Assets	40,730	35,781	42,296	39,497
6 Current Liabilities	2,012	2,301	1,716	1,405
a Trade Payables	*160*	*1,710*	*1,442*	*994*
7 Borrowings	10,082	7,680	15,006	15,071
8 Related Party Exposure	1,089	-	-	557
9 Non-Current Liabilities	96	76	57	40
10 Net Assets	27,452	25,724	25,517	22,424
11 Shareholders' Equity	27,452	25,724	25,517	21,059
B INCOME STATEMENT				
1 Sales	22,178	27,715	15,011	15,022
a Cost of Good Sold	*(17,689)*	*(23,619)*	*(9,292)*	*(7,261)*
2 Gross Profit	4,489	4,096	5,719	7,761
a Operating Expenses	(247)	(2,093)	(322)	(132)
3 Operating Profit	4,242	2,003	5,397	7,629
a Non Operating Income or (Expense)	*(31)*	*150*	*208*	*67*
4 Profit or (Loss) before Interest and Tax	4,211	2,153	5,605	7,696
a Total Finance Cost	*(795)*	*(1,147)*	*(1,134)*	*(2,133)*
b Taxation	*(50)*	*(39)*	*8*	*(5)*
6 Net Income Or (Loss)	3,367	967	4,479	5,558
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*4,906*	*5,015*	*6,405*	*8,460*
b Net Cash from Operating Activities before Working Capital Changes	*4,679*	*3,782*	*5,157*	*6,363*
c Changes in Working Capital	*(7,715)*	*842*	*(3,345)*	*(3,369)*
1 Net Cash provided by Operating Activities	(3,037)	4,624	1,813	2,995
2 Net Cash (Used in) or Available From Investing Activities	1,465	3,231	(1,166)	(1,731)
3 Net Cash (Used in) or Available From Financing Activities	(1,279)	(1,045)	(1,741)	(1,263)
4 Net Cash generated or (Used) during the period	(2,851)	6,811	(1,095)	1
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-20.0%	84.6%	-0.1%	-14.8%
b Gross Profit Margin	20.2%	14.8%	38.1%	51.7%
c Net Profit Margin	15.2%	3.5%	29.8%	37.0%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-12.7%	21.1%	20.4%	33.9%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	13.1%	3.4%	18.2%	28.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	244	254	643	544
b Net Working Capital (Average Days)	229	234	613	527
c Current Ratio (Current Assets / Current Liabilities)	11.1	6.5	17.1	18.9
3 Coverages				
a EBITDA / Finance Cost	6.4	4.4	5.7	4.0
b FCFO / Finance Cost+CMLTB+Excess STB	6.1	3.1	3.0	2.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.3	0.1	0.2	0.4
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	28.9%	23.0%	37.0%	42.6%
b Interest or Markup Payable (Days)	260.5	106.7	88.1	0.0
c Entity Average Borrowing Rate	9.4%	13.4%	8.8%	16.5%

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.



**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

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 | 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)

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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)

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)
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