



The Pakistan Credit Rating Agency Limited

Rating Report

ThalNova Power Thar (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Oct-2023	AA-	A1	Stable	Upgrade	-
16-Feb-2023	A	A2	Stable	Upgrade	-
17-Aug-2022	A-	A2	Stable	Maintain	Yes
02-Sep-2021	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

ThalNova Power Thar (Pvt) Limited (“the Company”) has set up a 1x330 (gross) mine mouth Thar coal-based power plant located at Block – II, Thar Coalfield, District Tharparkar, Sindh. The Hub Power Company Limited (HUBCO) holds significant stake of 38% in the Company. The upgrade not only depicts the commissioning of the plant but also 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. Furthermore, the financial strength and experience in the energy chain of the sponsoring companies validates the upgrade. ThalNova has been awarded an upfront tariff, with the payments to be received from CPPA-G backed by the sovereign guarantee. The plant successfully achieved its Commercial Operations (COD) on 17th February 2023 while its Required Commercial Operations Date (RCOD) was in June 2022. The Company has applied for extension in the RCOD otherwise they will be liable to pay LDs to CPPAG. 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 758GWh while maintaining its operational benchmarks. The project debt will be repaid over a period of 10 years with repayment starting in FY24. 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. Currently the working capital requirements are managed through mix of internal cash generation and short-term borrowings from the banks. However, as per rising operational needs, the Company plans on procuring further working capital financing in the near future, is in pipeline.

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	ThalNova Power Thar (Pvt.) 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	Hashim Yazdani hashim.yazdani@pacra.com +92-42-35869504

Profile

Plant ThalNova Power Thar (Pvt) Ltd (ThalNova) was duly organized and incorporated on 18th April 2016, ThalNova is being developed on a Build-Own-Operate (BOO) basis and is an Independent Power Producer (IPP). The plant achieved its COD on 17th February 2023.

Tariff ThalNova 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.

Return On Project The return on equity (ROE) as per the tariff determination of the project is at 30.65%.

Ownership

Ownership Structure HUBCO is one of the major sponsors of ThalNova and invested through The Hub Power Holdings Limited while other Sponsors are Thal Ltd who has invested through Thal Power (Pvt) Ltd, Novatex Ltd who has invested through Nova Powergen Ltd and China Everbest Development International Ltd invested through CMEC ThalNova Power Investments Ltd. Hub Power Holdings Ltd. has a major ownership of 38.3%, Thal Power (pvt) Ltd. have 26%, Nova Powergen Ltd. have 24.7%, CMEC Thalnova Power Instruments Ltd. have 10% whereas Descon Engineering holds 1%.

Stability Comfort is drawn from the association of company with HUBCO group.

Business Acumen 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.

Financial Strength HUBCO and Other Sponsors have strong financial position. Hence, the financial strength of the sponsors is considered strong.

Governance

Board Structure ThalNova's Board of Directors (BoD) comprises eight members including CEO. Three members from HUBCO, two from NovaPowergen Ltd. and Thal Power Ltd. each, while one member represents CMEC

Members' Profile Mr. Kamran Kamal is currently the Chairmen of the board and has been associated with the Group for over eight years. The remaining members possess sufficient experience of different business sectors.

Board Effectiveness The experiences of board will help guiding the management in developing effective operational and financial policies.

Financial Transparency A. F. Ferguson & Co Chartered Accountants are the external auditor of the company. The auditor has given an unqualified opinion on FY22 financial statements.

Management

Organizational Structure 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.

Management Team 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.

Effectiveness The management of ThalNova is mostly engaged in the finance and company management related activities. The main operations and maintenance of the plant have been outsourced to Hub Power Services Limited (HPSL).

Control Environment The Company has appointed third party contractors for regular operations and maintenance of the plant while the management oversees day to day financial and business matters.

Operational Risk

Power Purchase Agreement TNPTL has signed the PPA with CPPAG for a period of 30 years from the COD. Under the agreement, TNPTL will supply electricity to CPPAG against Energy and Capacity payments.

Operation And Maintenance Hub Power Services Limited (HPSL) is the O&M contractor of the Company. It is also performing O&M services for other plants of HUBCO.

Resource Risk TNPTL 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 TNPTL and SECMC on May 13, 2017.

Insurance Cover 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.

Performance Risk

Industry Dynamics As on June 2022, total installed capacity of Pakistan (CPPAG and KE) stood at 43,775MW. During 11MFY23, total power generation of Pakistan stood at 115,877GWh (FY22: 143,175 GWh) with major contribution from Thermal (48.2%) followed by Hydel (27.7%), Nuclear (19.2%) and Renewables (4.5%). Electricity generation by coal IPPs stood at 18,315GWh during the eleven months. With other Thar coal based IPPs becoming operational during FY23, generation from local coal has increased due to its low cost.

Generation Since its COD in Feb 2023, the plant has generated Net Electrical Output of 758GWh till June 2023. As a result, the Company reported Energy revenue of PKR 12,856mln along with Capacity revenue of PKR 10,843mln.

Performance Benchmark The required availability for ThalNova Power Thar Ltd under the PPA is 85%. Meanwhile, the required efficiency of the plant is 37%. The plant maintained its required benchmarks throughout FY23.

Financial Risk

Financing Structure Analysis Debt financing constitutes 75% of the project cost i.e. USD 395mln. The Debt has been arranged with a syndicate of a foreign and local group. The First and major sponsor of Debt are Chinese lenders with the consortium of China Development Bank (CDB), China Minsheng Banking Corporation Limited and China Zheshang Bank funding ~67% of the total debt which equates to USD 264.9mln and is priced at 6MLIBOR plus 4.05% per annum. The rest of project debt (33%) is financed by a consortium of local banks being led by Habib Bank Limited and is priced at 3MKIBOR plus 3.5% per annum. Principal repayment shall be made in 20 semi-annual payments.

Liquidity Profile TNPTL, 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 8,052mln. 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.

Working Capital Financing Due to rising trade receivables from CPPAG, Gross Working Capital stood at 168 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 4,500mln.

Cash Flow Analysis During FY23, the Company reported FCFO of PKR 9,996mln from the sale of electricity to CPPAG. EBIDTA/Finance Cost stood at 2.7x. 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.

Capitalization As on 30th June 2023, leveraging stood at 73.7% as a result of Long term project cost of PKR 72,912mln along with CMLTB of PKR 4,900mln. Short term borrowings to support coal purchases amounts to PKR 500mln. Going forward, STB are expected to increase as a result of increase in working capital financing to procure coal due to delays from payments from CPPAG.



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Financial Summary

PKR mln

ThalNova Power Thar (Pvt) Limited Power	Jun-23 12M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	108,811	66,702	31,807	8,283
2 Investments	-	-	-	-
3 Related Party Exposure	46	-	-	-
4 Current Assets	30,594	4,590	296	822
<i>a Inventories</i>	2,339	-	-	-
<i>b Trade Receivables</i>	8,052	-	-	-
5 Total Assets	139,452	71,292	32,103	9,104
6 Current Liabilities	30,277	3,794	1,060	86
<i>a Trade Payables</i>	11,101	2,304	-	85
7 Borrowings	78,312	51,951	21,634	-
8 Related Party Exposure	2,984	242	96	170
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	27,879	15,305	9,312	8,849
11 Shareholders' Equity	27,879	15,305	9,312	8,849
B INCOME STATEMENT				
1 Sales	22,523	-	-	-
<i>a Cost of Good Sold</i>	(14,122)	-	-	-
2 Gross Profit	8,401	-	-	-
<i>a Operating Expenses</i>	(130)	(149)	(28)	(46)
3 Operating Profit	8,271	(149)	(28)	(46)
<i>a Non Operating Income or (Expense)</i>	486	141	(10)	60
4 Profit or (Loss) before Interest and Tax	8,757	(8)	(38)	14
<i>a Total Finance Cost</i>	(3,925)	(0)	(0)	(1)
<i>b Taxation</i>	(39)	(5)	(4)	(11)
6 Net Income Or (Loss)	4,794	(13)	(42)	2
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	9,996	(30)	(43)	(38)
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	4,961	(1,197)	(43)	(38)
<i>c Changes in Working Capital</i>	(14,640)	(3,286)	671	(101)
1 Net Cash provided by Operating Activities	(9,679)	(4,482)	627	(138)
2 Net Cash (Used in) or Available From Investing Activities	(4,765)	(23,540)	(24,790)	(2,224)
3 Net Cash (Used in) or Available From Financing Activities	15,731	29,626	23,611	2,168
4 Net Cash generated or (Used) during the period	1,287	1,603	(552)	(194)
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	N/A	N/A	N/A	N/A
<i>b Gross Profit Margin</i>	37.3%	N/A	N/A	N/A
<i>c Net Profit Margin</i>	21.3%	N/A	N/A	N/A
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	-20.6%	N/A	N/A	N/A
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]</i>	22.8%	N/A	N/A	N/A
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	168	N/A	N/A	N/A
<i>b Net Working Capital (Average Days)</i>	60	N/A	N/A	N/A
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	1.0	1.2	0.3	9.6
3 Coverages				
<i>a EBITDA / Finance Cost</i>	2.7	-382.4	-1732.7	-28.0
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.1	-604.7	-0.1	-46.2
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	12.3	-1750.6	-514.9	0.0
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	73.7%	77.2%	69.9%	0.0%

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.

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 surveil 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

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2) Conflict of Interest

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- 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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- (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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