



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
02-Sep-2021	A-	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Hub Power Holdings Ltd. (Hub Power Holding) along with Thal Power (Pvt.) Limited and Nova Powergen Limited are setting up a 330MW coal power plant, under the umbrella of ThalNova Power Thar (Pvt.) Limited (ThalNova). Hub Power Holding reflect very strong credentials, as also reflected by their Entity Ratings (AA+). The financial strength and experience in the energy chain of the sponsoring companies is positive to the ratings, while the controlling interest lies with Hub Power Holding. ThalNova has been awarded an upfront tariff, with the payments to be received from CPPA-G backed by the sovereign guarantee. China East Resource Import & Export Corporation and China Machinery Engineering Corporation are the EPC contractors; comfort is drawn that they have ~30 years of worldwide experience. Currently, project is exposed to completion risk because as of June-2021, 46.93% construction work is completed.

The EPC contractors have provided bank guarantees in the form of performance bond and warranty bond. These bank guarantees provide additional cushion for the sustainable financial risk profile. Further, the company will maintain the Debt Service Reserve Account, which will be filled by 6 months SBLCs, providing coverage of six months on its financial obligations till maturity. Moreover, the operations of the plant are exposed to resource risk, because the Thar Block II is under construction but SECMC (coal supplier) has notified to ThalNova that they are confident of completing construction by Mar-2022 and will supply them the required coal.

The Company has signed Power Purchase Agreement (PPA) with CPPA-G and as per the PPA, in case of no demand from the power purchaser, CPPA-G shall be liable to pay the capacity payments at applicable tariff rates. The Government of Pakistan has given payment guarantee against dues from CPPA-G. The Company has adequate insurance coverage to cover the risk of business interruptions, marine & erection, startup-delay etc. Furthermore, external factors such as any adverse changes in the regulatory framework or prolonged delay in achieving COD may impact the ratings.

#### Disclosure

<b>Name of Rated Entity</b>	ThalNova Power Thar (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Independent Power Producer Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Power(Jan-21)
<b>Rating Analysts</b>	Anam Waqas Ghayour   anam.waqas@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”).

**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 seven members. Hub Power Holdings Ltd., NovaPowergen Ltd. and Thal Power Ltd. each have representation in board with two members while one member represents CMEC. There is no independent director on the board.

**Members' Profile** Mr. Kamran Kamal is currently the Chairman of the board and has been associated with the Group for over eight years.

**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 FY20 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.

**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 maintains an adequate MIS which helps management to keep track of all operations and liaison with O&M operator.

## Completion Risk

**Engineering And Procurement** ThalNova has signed an Onshore Contract with China East Resource Import & Export Corporation and Offshore supply contract with China Machinery Engineering Corporation of ~USD 29mln and ~USD 261 mln respectively. CMEC is responsible for the overall management, coordination, and implementation of the project.

**Power Purchase Agreement** ThalNova is being developed on a Build-Own-Operate (“BOO”) basis and is an Independent Power Producer (“IPP”) PPA is with CPPA-G, and has tenure of 30 years.

**Pre-Commissioning Progress** ThalNova's Offshore Supply Agreement is between ThalNova and China Machinery Engineering Corporation dated April 10, 2017. Onshore Supply and Service Agreement is between ThalNova and China East Resource Import & Export Corporation dated April 10, 2017.

**Performance Default Risk** Insurance is attained for material damage, third party liability, and delay in startup affecting the profits. EPC contractors will be liable to pay Liquidated Damages (LDs) as per the contract in case of not achieving the performance benchmark.

## Performance Risk

**Industry Dynamics** Pakistan has total coal reserves of 186bln tones. Pakistan total power generation is increasing on the back of new power projects under CPEC. As at Sep FY19, dependable generation capacity of electricity reached 34,523 MW, which was 32,574 MW in June FY2019, thus, posting a growth of 5.9 percent. In 2017 first coal-based power plant had come online in Sahiwal.

**Operation And Maintenance** The long term O&M contract of ThalNova Power Thar (Pvt.) Ltd. is with Hub Power Service Limited (subsidiary company of HUBCO).

**Resource Risk** ThalNova 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 TPTPL and SECMC on May 13, 2017.

**Performance Benchmark** The required availability for ThalNova Power Thar (Pvt.) Ltd. under the PPA is 85%. Meanwhile, the required efficiency of the plant is 37%.

## 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 Zeesheng Bank funding ~70% of the total debt which equates to USD 264mln and is priced at 6MLIBOR plus 4.05% per annum. The rest of project debt (30%) 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** ThalNova, 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. In order to comfort the lenders, DSRA will be maintained.

**Working Capital Financing** Working Capital Lines will be procured once the company start its operations post Commercial Operation Date.

**Cash Flow Analysis** Free Cashflows from Financing Activities stood at PKR 505mln at end-Mar 21. The company would have to make semi-annual principal repayments of debt, which also includes foreign debt. The company will maintain the Debt Service Reserve Account (DSRA), which will be equivalent to one semiannual payment (6 months).

**Capitalization** The project cost is estimated to be USD 527mln with 75:25 debt to equity ratio. And 46% of the project equity has been injected by the sponsors out of USD 131mln.



00-Jan-00 ##	Mar-21 9M	Jun-20 12M	Jun-19 12M	Jun-18 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	24,959	8,283	6,019	934
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	259	822	825	361
<i>a Inventories</i>	-	-	-	-
<i>b Trade Receivables</i>	-	-	-	-
5 Total Assets	25,218	9,104	6,844	1,295
6 Current Liabilities	139	86	136	177
<i>a Trade Payables</i>	1	85	51	95
7 Borrowings	-	-	-	-
8 Related Party Exposure	15,768	170	30	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	9,311	8,849	6,678	1,118
11 Shareholders' Equity	9,311	8,849	6,678	1,118
<b>B INCOME STATEMENT</b>				
1 Sales	-	-	-	-
<i>a Cost of Good Sold</i>	-	-	-	-
2 Gross Profit	-	-	-	-
<i>a Operating Expenses</i>	(25)	(46)	(52)	(46)
3 Operating Profit	(25)	(46)	(52)	(46)
<i>a Non Operating Income or (Expense)</i>	(16)	60	88	18
4 Profit or (Loss) before Interest and Tax	(41)	14	35	(27)
<i>a Total Finance Cost</i>	(0)	(1)	(1)	(1)
<i>b Taxation</i>	(2)	(11)	(14)	(5)
6 Net Income Or (Loss)	(43)	2	20	(33)
<b>C CASH FLOW STATEMENT</b>				
<i>a Free Cash Flows from Operations (FCFO)</i>	(37)	(38)	(26)	(47)
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	(37)	(38)	(26)	(47)
<i>c Changes in Working Capital</i>	145	(101)	(15)	67
1 Net Cash provided by Operating Activities	108	(138)	(41)	19
2 Net Cash (Used in) or Available From Investing Activities	(1,193)	(2,224)	(5,047)	(491)
3 Net Cash (Used in) or Available From Financing Activities	505	2,168	5,541	550
4 Net Cash generated or (Used) during the period	(580)	(194)	453	79
<b>D RATIO ANALYSIS</b>				
1 Performance				
<i>a Sales Growth (for the period)</i>	N/A	N/A	N/A	N/A
<i>b Gross Profit Margin</i>	N/A	N/A	N/A	N/A
<i>c Net Profit Margin</i>	N/A	N/A	N/A	N/A
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	N/A	N/A	N/A	N/A
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sl</i>	N/A	N/A	N/A	N/A
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	N/A	N/A	N/A	N/A
<i>b Net Working Capital (Average Days)</i>	N/A	N/A	N/A	N/A
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	1.9	9.6	6.1	2.0
3 Coverages				
<i>a EBITDA / Finance Cost</i>	-2948.3	-28.0	-12.7	-82.6
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	-3055.6	-46.2	-27.0	-88.4
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.0	0.0	0.0	0.0
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	0.0%	0.0%	0.0%	0.0%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	0.0	0.0
<i>c Entity Average Borrowing Rate</i>	--	--	--	--

**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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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	<b>High credit quality.</b> 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	<b>Good credit quality.</b> 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+	<b>Moderate risk.</b> 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	
BB-	
B+	
B	<b>High credit risk.</b> 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	<b>Very high credit risk.</b> 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.
CC	
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.

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**Note.** This scale is applicable to the following methodology(s):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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- (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)
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