



The Pakistan Credit Rating Agency Limited

Rating Report

Orient Power Company (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-Jun-2024	AA-	A1	Stable	Maintain	-
09-Jun-2023	AA-	A1	Stable	Maintain	-
10-Jun-2022	AA-	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Orient Power Company (Private) Limited (Orient Power or the Company) has been established to set up and operate, combined cycle dual fuel, 212.7 MW net power generation plant, for generation of electricity and onward sale of electricity to the Power Purchaser (CPPA-G). The plant achieved its commercial operations date (COD) on May 24, 2010. The ratings reflect strong business profile of the Company emanating from the demand risk coverage under 30 year Power Purchase Agreement (PPA) signed between CPPA-G and the Company starting from the COD. Meanwhile, the Implementation Agreement provides sovereign guarantee for cash flows, given adherence to agreed performance benchmarks (Availability: 90%, Efficiency: 51.2% on gas/RLNG and 48.5% on HSD, subject to annual heat rate degradation and part load curves. During the period under review the Company continues to meet its performance benchmarks. Comfort is drawn from General Electric International Inc. (G.E) which is the Operations, Maintenance and Service (O&M) Contractor having both local and international experience in the energy sector. The primary fuel of the plant is Gas/Re-gasified Liquefied Natural Gas (RLNG) which is supplied by Sui Northern Gas Pipeline Limited (SNGPL) and HSD is the backup fuel. Thus, fuel supply risk is considered adequate, pertaining to the meaningful addition of RLNG in Pakistan's fuel mix. During the period 9MFY24, Orient Power delivered ~343GWh of electricity to the national grid due to lower demand posted by the Power Purchaser. The Company recorded sales revenue of PKR ~14,408mln, with a Net Profit of PKR ~2,607mln. Equity of the Company as of 3QFY24 stood at PKR ~17,992mln. Pursuant to Master Agreement dated 11 February 2021, the Company has revised its ROE in respect of local equity portion (29%) to 17% from 15% with no dollar indexation and in respect of foreign equity portion (71%) ROE has been revised to 12% from 15% with dollar indexation intact. The working capital requirements of the Company are fulfilled through mix of short term borrowing and deployment of internal cashflows. Currently, the Company has arranged amicable working capital lines of PKR ~10,487mln out of which 3% (PKR ~307mln) have been utilized as of 3QFY24. This lower utilization is due to decrease in system demand resulting in lower dispatch requirement by the Power Purchaser. Orient Power has successfully paid its project related debt in March'20.

Upholding operational performance in line with agreed performance levels would remain a key rating driver. Sustained good financial discipline and upholding strong operational performance in line with agreed performance levels remains imperative for the assigned ratings.

Disclosure

Name of Rated Entity	Orient Power Company (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-24)
Related Research	Sector Study Power(Jan-24)
Rating Analysts	Andleeb Zahra andleeb.zahra@pacra.com +92-42-35869504

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Profile

Plant Orient Power Company (Private) Limited (OPCOL) is operating a Combined Cycle dual fuel thermal power plant with capacity of 229MW (Gross ISO) on build-own-operate basis. The plant, located in Balloki District Kasur. The plant is into its Commercial Operations since May 2010.

Tariff Orient Power's key source of earnings is based on the generation tariff determined by NEPRA. Tariff consists of two components i.e., Energy Purchase Price and Capacity Purchase Price with indexations. Levelized tariff on Gas as per NEPRA determination is PKR 2.4538 per Kilowatt hour (KWh) at COD, and on HSD fuel is PKR 9.9456 per Kilowatt hour (KWh) at COD.

Return On Project Pursuant to Master Agreement dated 11 February 2021, the Company has revised its ROE in respect of local equity portion (29%) to 17% from 15% with no dollar indexation and in respect of foreign equity portion (71%) ROE has been revised to 12% from 15% with dollar indexation intact.

Ownership

Ownership Structure The sponsors include O.Q.S.A.O.C. (42.8%), Mr. Nadeem Babar (21.14%), Mahmood Textile Mills Ltd. (20.97%), Whistler Partners FZ LLC (1.67%), Pak Oman Investment Company (5.43%) and Grindlewald FZE (8%).

Stability The sponsors of the project have penetration in other business segments like oil, gas, aluminum, power and food sector. Therefore, stability is considered strong.

Business Acumen OPCOL's sponsors have strong business skills, particularly Mr. Nadeem Babar, have development and industry-specific working knowledge and strategic thinking capability

Financial Strength The financial strength of the sponsors is considered strong as the sponsors have well diversified profitable businesses. The sovereign support of the government in the shape of Sovereign Guarantee, has further enhanced this capability

Governance

Board Structure OPCOL has a seven-member board, including the CEO. The board comprises of three nominees of O.Q.S.A.O.C, one each from Mahmood Textile Mills Ltd. and Grindlewald FZE, Mr. Nadeem Babar and one is deemed directors by virtue being CEO.

Members' Profile Board members have deep understanding of the power sector and has strong professional profile that assists the management in terms of strategic guidance and implementation of strong control framework

Board Effectiveness Most of the board members have a long association with the board. Despite various commitments of experienced board members, attendance of the board meetings remained satisfactory. A strong control environment is maintained.

Financial Transparency The external auditor (A.F. Fergusons & Co.) has given an unqualified opinion on the financial statements as at end-Jun 23.

Management

Organizational Structure Orient Power has a lean management structure with small and efficient management team. The CEO is supported by a team of qualified and experienced professionals.

Management Team Mr. Kashif Bashir Rana (CEO) is a Chartered Accountant with over twenty-five years of post-qualification experience, primarily in Power Sector and three years in textile sector. Plant operations are overseen by Mr. Fayyaz Karim, GM plant is a qualified electrical engineer having vast experience in power sector operations and maintenance.

Effectiveness OPCOL management is mostly engaged in the finance, commercial, legal and technical supervision of O&M Contractor. The operations and maintenance of the plant have been outsourced to GE by way of the O&M contract.

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

Operational Risk

Power Purchase Agreement Orient Power key source of earnings is the revenue generated through sale of electricity to the power purchaser, CPPA-G. The Company receives the capacity payments, as long average annual availability is at least 90% and is available for dispatch by power purchaser to generate electricity, regardless of whether or not plant is dispatched by the power purchaser. Power Purchase Agreement (PPA) has been signed in 2006 for a term of 30 years from the date of COD.

Operation And Maintenance The Company has entered into an Operation, Maintenance & Services Agreement with the consortium of General Electric International, Inc and General Electric Energy Parts, Inc on 17 August, 2006 for a term of eighteen years. The term of the O&M agreement is valid till December 2040.

Resource Risk The Company has an agreement with SNGPL for Gas/RLNG which is the primary fuel. Also, the company has entered into a fuel supply agreement with multiple OMCs for supply of HSD which is used as a backup fuel. The plant is primarily a combined cycle power plant with two gas turbines from General Electric, a steam turbine from Skoda Power.

Insurance Cover OPCOL has adequate insurance coverage for political violence (PKR 15bln), property damage (PKR 57bln), business interruption (PKR 6.6bln) and public, product and pollution (PKR 3bln each) insurance.

Performance Risk

Industry Dynamics Owing to newly installed plants, Pakistan's energy mix is shifting towards Solar/Gas/and coal from Furnace Oil and other expensive sources. The total installed generation capacity was recorded at ~45,885MW as in FY23 (FY22: ~43,775MW, FY21: 39,772MW, FY20: ~38,719MW) up ~3% YoY basis, while actual power generation was recorded at 138,029 (153,874GWh in FY22, down by ~10% YoY basis.

Generation OPCOL generated 343GWh of electricity during 3QFY24 as compared to 605GWh in FY23 (FY21: 623GWh, FY20:338), with significant decrease YoY due to plant closure for maintenance.

Performance Benchmark The required capacity of the plant under the agreement is 90%. During the period Orient has been successful in meeting the required plant availability.

Financial Risk

Financing Structure Analysis OPCOL's project capital structure comprised 29% equity and 71% debt. The repayment tenor of the long-term project debt was ten (10) years with forty (40) consecutive quarterly payments, starting from March-2010. In March 2020 the company completely paid off its term project related debt.

Liquidity Profile As at end Mar-24, total receivables of the Company stood at PKR 10,976mln (FY23: PKR 14,017, FY22: PKR 11,241mln, FY21: PKR 12.735mln). As circular debt continues to be an issue for the power sector, consequently IPPs have to manage their liquidity requirements from short-term borrowings. Receivable days increased to 237 days as of end-Mar'24 (FY23: 198days, FY22: 184days).

Working Capital Financing Company mainly meet its working capital requirements – procurement of gas/fuel and funding of overdue receivables – from a mix of internal cashflow generations and short term borrowings. During 3QFY24, total working capital lines that are arranged to amount PKR 10,487mln (FY23: PKR 10,487mln, FY22: 8,387mln, FY21: PKR 7780mln) of which ~3% has been utilized. The cushion to borrow, in case the Company needs it, is ~97%. As at end Mar-24, total receivables of the Company stood at PKR 10,976mln (FY23: PKR 14,017, FY22: PKR 11,241mln, FY21: PKR 12.735mln).

Cash Flow Analysis During the 3QFY24 the Company posted growth in FCFOs on back of strong revenues. FCFO stands at PKR 3,167mln (FY23: PKR 3,557mln, FY22: 3,392mln). Thus, during the same period, OPCOL has shown a debt coverage ratio [FCFO / Finance Cost+ CMLTD+ Excess STB], to 9.1x with increase from FY23 (FY23: 3.8x, FY22: 5x, FY21: 6.1x).

Capitalization The Company has paid-off its long-term debt in March'2020 and has a short-term borrowing of PKR 307mln at 3QFY24 (FY23: PKR 4bln, FY22: PKR 5.29bln). Thus, during 3QFY24, OPCOL has shown a debt coverage ratio [FCFO/Finance Cost+ CMLTD+ Excess STB], of 7.5x with increase from FY23 (FY23: 3.8x, FY22: 4.0x, FY21: 6.1x). Gearing ratio stood at 1.7% representing 100% short term borrowings at end March'24.



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Financial Summary

PKR mln

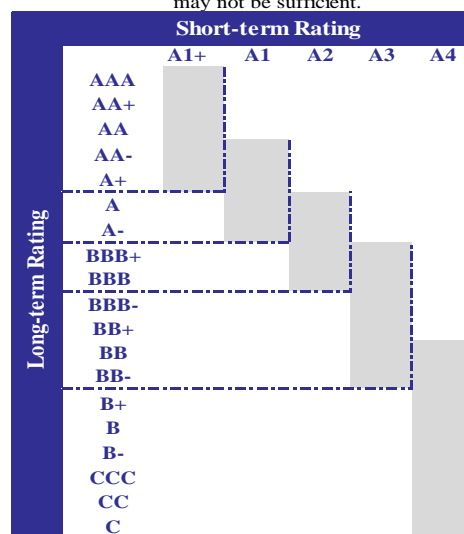
Orient Power Company Ltd. Power	Mar-24 9M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	8,551	8,944	9,001	9,480
2 Investments	-	-	2,888	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	16,924	20,236	15,642	16,329
a Inventories	463	463	467	381
b Trade Receivables	10,976	14,017	11,241	12,735
5 Total Assets	25,475	29,180	27,530	25,808
6 Current Liabilities	7,175	8,494	6,138	5,571
a Trade Payables	7,151	7,491	5,941	5,453
7 Borrowings	307	4,010	5,295	5,343
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	68	51	37
10 Net Assets	17,992	16,609	16,047	14,857
11 Shareholders' Equity	17,992	16,609	16,047	14,857
B INCOME STATEMENT				
1 Sales	14,408	23,335	23,736	11,643
a Cost of Good Sold	(11,366)	(20,135)	(20,718)	(9,094)
2 Gross Profit	3,042	3,200	3,018	2,549
a Operating Expenses	(106)	(140)	(132)	(69)
3 Operating Profit	2,936	3,060	2,886	2,480
a Non Operating Income or (Expense)	21	(285)	(29)	(601)
4 Profit or (Loss) before Interest and Tax	2,956	2,775	2,856	1,879
a Total Finance Cost	(349)	(1,172)	(833)	(685)
b Taxation	-	-	-	-
6 Net Income Or (Loss)	2,607	1,603	2,023	1,194
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	3,167	3,557	3,392	3,017
b Net Cash from Operating Activities before Working Capital Changes	1,810	2,734	2,837	2,527
c Changes in Working Capital	1,644	(2,915)	1,306	(2,437)
1 Net Cash provided by Operating Activities	3,455	(181)	4,143	90
2 Net Cash (Used in) or Available From Investing Activities	(428)	2,867	(2,831)	2
3 Net Cash (Used in) or Available From Financing Activities	(4,064)	(1,484)	(822)	(289)
4 Net Cash generated or (Used) during the period	(1,038)	1,202	490	(197)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-17.7%	-1.7%	103.9%	16.5%
b Gross Profit Margin	21.1%	13.7%	12.7%	21.9%
c Net Profit Margin	18.1%	6.9%	8.5%	10.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	33.4%	2.8%	19.8%	5.0%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sl	18.0%	9.9%	13.0%	8.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	246	205	191	370
b Net Working Capital (Average Days)	107	100	103	222
c Current Ratio (Current Assets / Current Liabilities)	2.4	2.4	2.5	2.9
3 Coverages				
a EBITDA / Finance Cost	9.1	3.9	5.1	6.1
b FCFO / Finance Cost+CMLTB+Excess STB	9.1	3.8	5.1	6.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	1.7%	19.4%	24.8%	26.5%
b Interest or Markup Payable (Days)	19.2	103.4	107.5	87.7
c Entity Average Borrowing Rate	16.6%	19.8%	11.9%	10.0%
#	Notes			

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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- 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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- (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).
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- (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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- (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)
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- (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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