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
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	-
22-Jun-2017	A+	A1	Stable	Maintain	-
17-Dec-2016	A+	A1	Stable	Maintain	-
17-Dec-2015	A+	A1	Stable	Maintain	-
19-Dec-2014	A+	A1	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Liberty Power Limited (Liberty Power Tech) runs a 200MW power plant based on Residual Fuel Oil. The Company operates in the regulated power sector. It enjoys sovereign guarantee against receivables from power purchaser CPPA-G given adherence to agreed performance benchmarks. The Company's operations and maintenance operator, Wartsila Pakistan (WPK), is a key source of comfort in managing the plant's operations. Fuel supply risk is adequately covered as they procure from different suppliers with good credit terms; being managed since 2011. Liberty Power Tech continues to meet its availability (90%) and efficiency (45%) benchmarks. The Company's financial risk profile is dependent on the timely receipt of receivables from the power purchaser. Nevertheless, strong internal cash generation and available working capital lines have helped it in managing its working capital requirements. As at end March-20 available working capital lines stood at PKR 14,245mln out of which PKR 12,696mln are utilized (~89%). Because of the mounting receivables and consequent funding thereof from banking lines, remaining cushion in the available working capital facilities is limited, warranting management’s immediate attention; meanwhile, recovery in overdue receivables from the Energy Sukuk of PKR200bln is observed and settlement of pending receivables is considered crucial. As at end March-20 the company has outstanding principal for Sukuk and Islamic finance facility of PKR 2,787mln respectively. The ratings draw comfort from the sponsors’ demonstrated support to the Company.

Upholding operational performance in line with agreed performance levels would remain a key rating driver. Improving, indeed aligning, the Company's repayment behaviour with its financial profile would be ratings positive. Meanwhile, despite seeking comfort in take or pay tariff regime, any significant increase in overdue receivables, as a result of rising circular debt, coupled with insufficient available working capital financing, in turn weakening in financial risk profile may negatively impact the ratings.

Disclosure	
Name of Rated Entity	Liberty Power Tech Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | IPP(Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Power(Jan-20)
Rating Analysts	Sana Shameen | sana.shameen@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.

Return On Project The dollar IRR of Liberty power, as agreed with NEPRA, is ~15%.

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. Saleem Mukaty, the 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 Deloitte is the external auditor of the company. They have expressed an unqualified opinion on the company's financial statements at end-Jun19.

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 appointed as CFO during 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 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, NTDC. 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.

Operation And Maintenance O&M activities are outsourced to Wartsila Pakistan. The O&M contract was renewed for a second term in June 2015 for a period of six years, therefore the contract will be expired in 2021.

Resource Risk The Company is procuring fuel through various OMCs including Attock Petroleum, Byco Petroleum, Hascol Petroleum.

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

Performance Risk

Industry Dynamics Pakistan total power generation is increasing on the back of new power projects under CPEC. Going forward, cheap renewable electricity will be a challenge to viability of thermal power plants. During FY19, there has been a growth of ~9% in the actual power generation. Moreover, there has been an increase of ~15% in the installed capacity as at end-Jun19 to 37,633MW (FY18: 32,613MW).

Generation Liberty Power generated 866GWh of electricity during 6MFY20 as compared to 456GWh during 6MFY19 (FY19: 776GWH, FY18: 1,176GWh).

Performance Benchmark The required availability for LPTL under the PPA is 90%. During 9MFY20, average plant availability is maintained according to agreed parameter. During 9MFY20 the topline stood at PKR 11,645mln as compared to PKR 12,866mln during 9MFY19 (FY19: PKR 17,629 mln, FY18: 17,783mln). Net income stood at PKR 4,034mln during 9MFY20 as compared to PKR 3,196mln during 9MFY19 (FY19: PKR 4,529mln, FY18: 4,789mln).

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 is 12 years with quarterly repayments commencing from April 2011 at the rate of 3-months KIBOR plus 300 bps. As at end March-20 principal outstanding for Sukuk and Islamic finance facility is PKR 2,787mln respectively.

Liquidity Profile As at end-March20, total receivables of the company stood at ~PKR 24,057mln (end-Jun-19: ~PKR 19,113mln). 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 Cash cycle days have increased to 572 days at end March-20 (FY19: 403 days) on account of increase in receivable days (end-March20: 565days, FY19: 395 days) a facet of delayed payments recovery from CPPA-G. Company managed its cash flows needs partially through borrowing (available credit lines: end December-19: PKR 14,245mln; end December-18: PKR 12,245mln). Short term borrowings stood at PKR 12,696mln as at end March-20 (end-June 19: PKR 11,029mln).

Cash Flow Analysis During 9MFY20, free cash flows from operations (FCFO) stood at PKR 6,330mln (FY19: PKR 7,125mln, FY18: PKR 5,927mln). Coverages during the period under review have shown a stable trend, on account of moderate net income and improved cashflows (9MFY20: 1.7x, FY19: 1.7x, FY18: 2.07x].

Capitalization Liberty Power leveraging for 9MFY20 stood at ~44% (FY19: 97%, FY18: 62%). STD comprised 100% of total debt structure.

Liberty Power Tech Limited

BALANCE SHEET	31-Mar-20	30-Jun-19	30-Jun-18	30-Jun-17
	9M	FY19	FY18	FY17
Non-Current Assets	**10,871**	**11,436**	**12,207**	**12,649**
Investments (Others)	**146**	**143**	**-**	**0**
Current Assets	**27,021**	**21,727**	**17,609**	**13,821**
Inventory	838	744	841	834
Trade Receivables	24,057	19,113	15,015	11,260
Other Current Assets	2,126	1,870	1,751	1,726
Cash & Bank Balances	1	1	1	1
Total Assets	**37,893**	**33,163**	**29,815**	**26,470**
Debt	**15,483**	**15,028**	**17,967**	**16,526**
Short-term	12,696	11,029	11,796	8,506
Long-term (Inlc. Current Maturity of long-term debt)	2,787	3,999	6,171	8,020
Other Short term liabilities (inclusive of trade payables)	2,837	2,603	849	1,484
Other Long term Liabilities	39	33	29	22
Shareholder's Equity	**19,533**	**15,499**	**10,971**	**8,438**
Total Liabilities & Equity	**37,893**	**33,163**	**29,815**	**26,470**
INCOME STATEMENT				
Turnover	**11,646**	**17,629**	**17,783**	**16,706**
Gross Profit	5,814	6,318	4,999	4,584
Financial Charges	(1,675)	(1,579)	(1,243)	(994)
Net Income	**4,034**	**4,529**	**3,543**	**3,834**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	6,330	7,125	5,927	5,614
Net Cash changes in Working Capital	(5,100)	(4,158)	(4,458)	(2,426)
Net Cash from Operating Activities	(405)	1,494	290	2,251
Net Cash from InvestingActivities	(53)	(338)	(690)	2,059
Net Cash from Financing Activities	458	(1,157)	400	(4,311)
Net Cash generated during the period	0	(0)	1	(1) H
Ratio Analysis				
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.7x	1.7x	2.1x	2.4x
Interest Coverage (X) (FCFO/Gross Interest)	3.8x	4.5x	4.8x	5.6x
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payat	572.1	403.6	318.3	242.3
Capital Structure (Total Debt/Total Debt+Equity)	44%	97%	62%	66%

PKR mln

Credit Rating

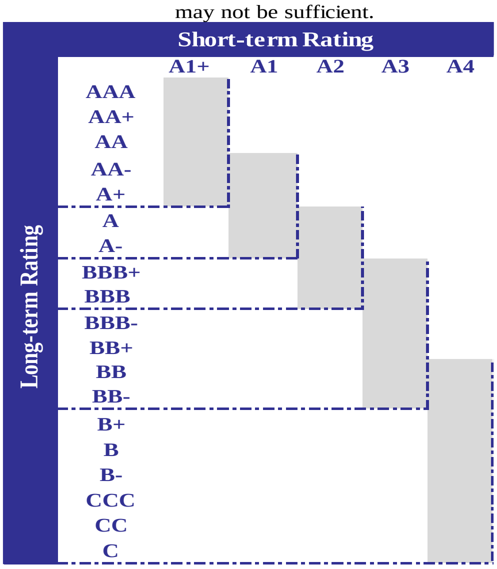
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

Entities
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(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.
(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)

Independence & Conflict of interest
(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 | 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)
Proprietary Information