

Date

30-Sep-22

Analyst

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Applicable Criteria

- Methodology | Correlation Between Long-term & Short-term Rating Scales | Jun-22
- Methodology | Rating Modifiers | Jun-22
- Methodology | Independent Power Producer Rating | Jun-22

Related Research

- Sector Study | Power | Jan-22

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PACRA Maintains Entity Ratings of Lalpir Power Limited

Rating Type	Entity	
	Current (30-Sep-22)	Previous (30-Sep-21)
Action	Maintain	Maintain
Long Term	AA	AA
Short Term	A1	A1
Outlook	Stable	Stable
Rating Watch	-	-

The ratings reflect the regulated structure of Lalpir Power Limited (Lalpir Power) business; whereby revenues and cash flows are guaranteed by the sovereign government given adherence to agreed operational parameters. A risk of any decrease in efficiency factor against required benchmark would be borne by the Company itself given the fact, Lalpir Power is managing its operations and maintenance (O&M) in-house. Topline of the company, coupled with capacity utilization has slightly improved, owing to demand from power purchaser. Further the ratings take comfort from master agreement signed with the GoP leading to improved liquidity indicators as a sizeable amount of outstanding trade receivables were received during the rating review period. Consequently, the margins have trended downwards in line with tariff discounts given by the company to the power purchaser, albeit are considered to be adequate. Going forward, mounting receivables remains a cause of concern, and leverage indicators may increase slightly, owing to higher utilization of short-term funding to meet working capital requirements. During 6MCY22 the Company has dispatched 545,686 MWH of electricity as compared with 340,560 MWH dispatched during the corresponding period of the previous year. The profitability of the Company during 6MCY22 clocked to PKR 1,437mln (6MCY21 PKR: 263mln). The major reason of lower profitability in previous period was non-issuance of Capacity Purchase Price invoices amounting to Rs.3.922 billion started from 26-03-21 to 28-11-21(248 days) pursuant to PPA Amendment Agreement signed, accordingly Liquidated Damages under the PPA, imposed on the Company for this period have been waived by the CPPA-G . As per the agreement the shutdown period of the Complex on account of non-availability of fuel has been treated as Other Force Majeure Event (OFME) and Term of the PPA has been extended by 248 days. The Company has started issuing CPP invoices from 29th November 2021. Moreover, the Company is entitled to send CPP invoices for these 248 days at the end of the PPA Term at the applicable indexations (i.e. USD and USCPI applicable for last agreement year). The long term project debt was completely paid off in 2010; thus, company's debt position mainly reflects current borrowings secured to bridge the working capital requirements and maintenance of projects.

Upholding operational performance in line with agreed performance levels would remain a key rating driver. Further timely payment from the Power purchaser as per agreement remained imperative.

About the Entity

Lalpir Power Limited was established for electricity generation under the power policy 1994 as an Independent Power Producer (IPP). The plant, with a total project cost of USD 347mln, is located at Mehmood Kot, near Muzaffargarh (Punjab) and has an installed capacity of 362MW. The project has a remaining life of approx. 6 years under the PPA. The Company has entered into a contract for a period of thirty years for purchase of fuel from PSO. Lalpir Power is listed on Pakistan Stock Exchange. The major shareholder of the company is Nishat Group (62.94%) through individuals, associated companies and related parties. Mr. Hassan Mansha, heading the Nishat Group's interest in power sector, is the Chairman of the board. All the board members are seasoned professionals having interest in various sectors of the industry. The management team comprises of qualified professionals possessing sufficient experience in the power sector.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.