

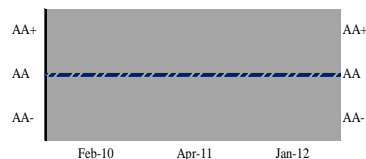


LAL PIR POWER LIMITED (LPPL)

RATINGS (JANUARY 2012)

	NEW	PREVIOUS
ENTITY		
Long Term	AA	AA
Short Term	A1+	A1+

LONG -TERM RATING HISTORY



FINANCIAL DATA

	PKR in mln	
	9MCY11	CY10
Debt-ST	5,423	4,452
Equity	11,751	12,262
Debt /Equity (%)	46.1	36.3
Thermal Efficiency (Avg %)	37.2	36.8
Available Capacity (Avg %)	97.0	93.4
Electricity Generated (GWhrs)	1,412	1,440

ANALYSTS

Naureen Hyat
+92 42 35869504
naureen.hyat@pacra.com

Samiya Mukhtar
+92 42 35869504
samiya@pacra.com

RATING RATIONALE AND KEY DRIVERS

- The ratings reflect strong financial profile of the company as indicated by a sound capital structure and guaranteed cash flows by GoP under the Power Purchase Agreement (PPA), subject to adherence to agreed upon performance benchmarks. LPPL's Operations and Maintenance (O&M) activities are performed in house, exposing the company to sizeable operational risk. However, the O & M team, carrying extensive experience of managing the plant, has been part of the company since long. The team is making efforts to improve the efficiency of the plant, which is currently less than the required level. Meanwhile, the accumulation of circular debt arising from the weak financial discipline of the sole customer, Water and Power Development Authority (WAPDA), is the key challenge faced by the company. Nonetheless, the ratings draw comfort from LPPL's association with the Nishat Group – a renowned and financially sound group - which has an explicit commitment to support, in case the need arises.
- The ratings are dependent upon the management's ability to manage and control its operations as per PPA agreed performance parameters. Meanwhile, reaching optimum efficiency, while upholding strong governance and control environment, managing liquidity requirements in the midst of circular debt crisis, and external factors such as any changes in the regulatory framework of IPPs remain critical to the ratings.

ASSESSMENT

- The total available capacity of electricity generation in Pakistan stands around 21,000MW. However, consistent growth in population and gradual electrification along with industrialization have increased the demand of electricity. In the absence of any noteworthy development in hydel, the government's reliance on thermal generation has increased – particularly IPPs. Given its financial constraints, the government incentivized the private sector to setup IPPs. As of now, there are 27 IPPs with installed capacity of ~ 7,500MW. With ~ 36% of the country's total capacity, IPPs are playing a critical role to manage the shortfall at acceptable level. However, the power sector has been plagued by the circular debt crisis which has resulted in accumulation of receivables for the IPPs. In order to ensure smooth and uninterrupted running of the plants, IPPs have resorted to enhance their working capital lines due to late payment by the single buyer (WAPDA/ NTDC). Going forward, GoP's failure to resolve circular debt and consistent piling up of receivable could have a negative implication for the IPPs' sector.
- LPPL is an IPP operating under the power policy 1994. The plant, with a capacity of 362 MW, is located at Mehmood Kot, near Muzaffargarh (Punjab) and is based on residual fuel oil (RFO). The plant commenced its commercial production in Nov97. The project has a remaining contractual life of 13 years under PPA with the Power purchaser.
- Prior to acquisition of the company by the Nishat Group in CY10, O&M activities were handled by an in house team trained under the expertise of AES, former O&M operator. This team has been involved in O&M activities since the plant's commencing and hence carries significant experience. The new sponsors of LPPL have retained the original team thereby largely mitigating any operational risk. However, in house O&M activities have constrained the company's ability to transfer liabilities arising from non-performance onto a third party.
- Pakistan State Oil (PSO), the largest oil-marketing company in Pakistan, is the fuel supplier for LPPL. PSO, under the Fuel Supply Agreement (FSA), delivers RFO to the company through pipelines. LPPL is required to maintain a fuel inventory of 30 days. However, currently the company is holding less than the required amount of fuel inventory owing to cashflow constraints due to the prevailing circular debt crisis.
- LPPL's key source of revenue is the generation tariff from the power purchaser. It comprises a capacity charge component and an energy charge component. With the exception of agreed return to project shareholders with adjustment for performance achievements, all other elements of cost are pass-through having no bearing on the LPPL's core profitability.
- During 9MCY11, LPPL had higher average available capacity as compared to last year (9MCY11: 97.0%; CY10: 93.4%), thereby producing slightly more electricity (9MCY11: 1,412 GWhr; CY10: 1,440GWhr). The lower production levels in CY10 can be attributed to the onset of flood crisis. During the last few years, the company has been unable to keep its efficiency at the required level of 38% as per the PPA (Average Efficiency Level during 9MCY11: 37.2%; CY10: 36.8%). The management is making efforts to narrow the gap between required and actual efficiency. The company is in the process of installing a 22MW captive power generation plant based on solid waste to meet the demand of auxiliary equipment. This would free up core capacity, improving performance against efficiency benchmark. The plant, with an initial cost of ~PKR 2,000mln, is expected to be installed by CY13.
- Although the company redeemed its project debt in 2008, the debt to equity ratio has increased with rise in short term financing (3QCY11: PKR 5,423mln; CY10: PKR 4,452mln; CY09: PKR 3,805mln). LPPL has lately enhanced its WC lines to PKR 8,750mln (CY09: PKR 6,800mln) in the wake of rising requirements. Nevertheless, the strong equity base of the company and its capacity to absorb risk arising from claim of any Liquidated Damages by WAPDA remains affirm. So far LPPL has utilized 70% of the WC lines. Currently these lines provide LPPL with sufficient cover against liquidity requirements. The receivables of the company are being financed by WC lines and equity. Although the company has a 90% dividend payout policy, it would be placed better to manage its receivables if it decides to retain most of its profits.

PROFILE

- Lalpir Power Limited (LPPL) is a special purpose company established for electricity generation under the power policy 1994 as an Independent Power Producer (IPP). LPPL, with a total cost of US\$ 347mln, has installed capacity of 362MW. In CY10, the company was acquired by a consortium led by Nishat Group, from AES Corporation, USA. The company has plans to get publicly listed in CY12. LPPL redeemed its entire project debt in 2008..
- The principal sponsors of the company are Nishat Group (50%), followed by Abu Dhabi Investment Council (30%) and City Schools (Private) Limited (20%). Majority of board members are nominated by Nishat Group. Mr. Aurangzeb Firoz is the CEO of the company with considerable professional experience.