



**RATINGS (FEBRUARY 2012)**  
**LIBERTY POWER TECH LIMITED**  
**(LPTL)**

	NEW (Feb12)	PREVIOUS (Apr11)
<b>ENTITY</b>		
Long Term	AA	AA
Short Term	A1+	A1+
<b>FACILITIES</b>		
<i>Sukuk – Secured, privately placed</i>		
PKR13,488mln	AA	AA
<i>Term Finance Facility – Secured, privately placed</i>		
PKR1,649mln	AA	AA

**FINANCIAL DATA**

	PKR in mln	
	1QFY12	FY11
Project Debt	15,137	15,137
Project Debt - Repaid	(326)	(164)
ST Debt	7,407	5,108
Total Debt - Outstanding	22,218	20,082
Equity	6,469	5,989
Debt /Equity (x)	3.5	3.4
Thermal Efficiency (Avg %)	44.8	44.9
Available Capacity (Avg %)	95.6	97.6
Electricity Generated (GWhrs)	374	745

**ANALYSTS**

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

Samiya Mukhtar  
+92 42 35869504  
samiya@pacra.com

**PROFILE:**

- LPTL is majority owned (79%) by Liberty Group through Liberty Mills Limited and members of the sponsoring (Mukaty) family. The ownership of the company is shared with two strategic investors: - 1) Wartsila Development and Financial Services (WDFS) – 11%, and (2) Soorty Enterprises - 10%. WDFS is mainly an investment / advisory arm of Wartsila. Soorty Enterprises – involved in the manufacturing and export of denim and garments – represents family friends.
- LPTL’s eight member board of directors is dominated by the sponsors, with seven members belonging to the Mukaty family, and one representative of WDFS.

**RATING RATIONALE AND KEY DRIVERS**

- The ratings reflect the guaranteed cashflows by GoP under the Power Purchase Agreement (PPA), subject to adherence to agreed upon operational performance benchmarks. The ratings incorporate low operational risk emanating from established track record of the O&M operator - Wartsila, a firm of international repute with considerable experience in Pakistan, as a power plant operator. Meanwhile, the accumulation of circular debt arising from the weak financial discipline of the sole customer, National Transmission and Despatch Company (NTDC), is the key challenge faced by the company. Nonetheless, the ratings draw comfort from the explicit commitment to support by the parent – Liberty Mills Limited – in case the need arises.
- The ratings are dependent upon the company’s ability to adhere to agreed performance parameters as set by the power purchaser. Meanwhile, maintaining optimal efficiency, strengthening the governance structure, and managing liquidity requirements in the midst of circular debt crisis remain critical. Furthermore, external factors such as any adverse changes in the regulatory framework, although less likely, may impact the ratings.

**ASSESSMENT**

- Pakistan is an energy deficit country. The total electricity generation capacity of the country is ~ 23,000MW. However, a sizeable portion of this is inefficient (thermal plants of WAPDA) and seasonal in nature (hydel). Meanwhile, consistent growth in population and gradual electrification along with industrialization have magnified the significance of dependable electricity supply. In the absence of any noteworthy development in hydel, the government’s reliance on thermal generation has increased – particularly IPPs. Therefore, the government incentivized the private sector to setup IPPs. As of now, there are 27 IPPs with installed capacity of ~ 7,500MW. IPPs are now playing a critical role to manage the electricity shortfall at acceptable level. However, the power sector has been plagued by the circular debt crisis which has resulted in an accumulation of receivables for the IPPs. Going forward, GoP’s failure to resolve circular debt and consistent piling up of receivable could have a negative implication for the IPPs’ sector.
  - LPTL is an independent power producer (IPP) under Power Policy 2002. The plant, with a total cost of 20,191mln (US\$ 240mln) and net capacity of 196MW, is located near Faisalabad. Based on residual fuel oil (RFO), the plant commenced its commercial production in January 2011. The electricity generated is being sold to NTDC under PPA.
  - For operations and maintenance (O&M) of the plant, the company has entered into five year contract (maturing in July 2016) with Wartsila Pakistan (WPK). WPK has proven track record of providing O&M services with over 20 years of presence in Pakistan. In 2011, plants using WPK equipment supplied approximately 5% of Pakistan’s national generation capacity. The agreement allows LPTL to pass on liquidity damages to the operator in case of any non performance.
  - The Fuel Supply Agreement (FSA) has been executed with Shell Pakistan Limited, a leading local oil marketing company. Shell is responsible for providing LPTL with RFO (including additives and lubricants). The agreement is valid for a period of 10 years from the COD. In case of Shell’s inability to provide LPTL with the required fuel, the damages imposed by the power purchaser would be passed on to Shell to a certain extent. To ensure stable supply, in case of problems at Shell, LPTL has made arrangements with Attock Refinery, Hascol Petroleum, and PARCO for the procurement of furnace oil.
  - LPTL’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 LPTL’s core profitability. National Electric Power Regulatory Authority (NEPRA) approved generation tariff (levelized for years 1-25) of PKR 13.9847/ Kwh for LPTL in Aug11 [Initial Reference Tariff: PKR 7.8672/ Kwh].
  - The company’s profitability is a function of its capacity payments and level of energy production. LPTL’s efficiency hovers around the required level of 45% as per the PPA. The variations in efficiency during 2011 are the result of inconsistency in furnace oil blends from the various refineries. However, this issue has been addressed and LPTL has achieved the required efficiency.
  - Currently, the power purchaser is facing financial constraints which results in delay in payments to IPPs. As a result, the cashflows of IPPs, which are heavily dependent on these payments, become volatile causing the IPPs to resort to external financing. IPPs also face difficulties in maintaining required inventory levels, which are a key performance parameter, due to liquidity constraints. Overdue receivables of LPTL from NTDC stood at PKR 9,020mln at end-Dec11 Cognizant of this situation the GoP, power purchaser and IPP are in the process of extending a Settlement Agreement which is expected to become a permanent part of the PPA. As per the agreement LPTL is entitled to receive full capacity payments from the GoP in case of non-payment by the power purchaser. Furthermore, to ease power sector liquidity problems, the GoP has lately proposed a PKR 151 billion debt swap deal with commercial banks to help clear the circular debt. This is expected to reduce LPTL’s receivables by 40%. Moreover, the company has an explicit commitment from its parent – Liberty Mills – to extend support if need arises. In this regard, LPTL received a short-term loan of PKR 250mln from the parent in 1QFY12 to meet its funding requirements.
- RATED FACILITIES:**
- Sukuk:** The project has a debt:equity structure of 75:25. The company obtained project financing in the form of long term facilities to the tune of PKR 15,137mln. The facilities include a diminishing musharaka sukuk of PKR 13,488mln (Outstanding: PKR 13,197mln) and term finance facility of PKR 1,649mln (Outstanding: PKR 1,614mln). The tenor of both the facilities is 12 years and carries a profit rate of 3-months KIBOR plus 3%. Principal is to be repaid in 40 consecutive quarterly installments that commenced from March 2011. Currently, these installments are being repaid within forbearance period of 90 days as practiced in the banking industry.
  - Term Finance Facility:** The senior term finance facility of PKR 1,649mln has been arranged through conventional bank borrowing. The facility has a structure similar to the Sukuk, including tenor, interest and repayment.
  - Security:** The facilities are secured by assignment over CPP receivables from the power purchaser due under the PPA and first charge by way of hypothecation on immovable property, mortgage of project receivables, all present and future assets (excluding fuel stock) and all property of LPTL.