The Pakistan Credit Rating Agency Limited

LIBERTY POWER TECH LIMITED

	NEW [DEC-16]	PREVIOUS [DEC-15]
ENTITY		
Long-Term	A+	A+
Short-Term	A1	A1
Outlook	Stable	Stable

REPORT CONTENTS

DECEMBER 2016

Profile &Ownership

- An Independent Power Producer (IPP) under the power policy 2002.
- Liberty Power Tech Limited (LPTL) started commercial operations in Jan-11.
- Operates a Residual FuelOil based thermal power plant with a net capacity of 196MW.
- Total project cost USD 240mln with a debt to equity ratio of 75:25.
- LPTL majority owned by Liberty Group (Liberty Mills Limited: 29% & Mukaty Family: 61%) and Soorty Enterprises (10%).

Governance

- BoD comprises eight members including CEO.
- All members from Liberty Group, depicting family dominance.
- Mr. Salim Mukaty - chairman of the board - has rich experience in running family textile business.

Management

- Mr. Azam Sakrani, the CEO, has over 20 years of experience in the banking and finance industry and industrial finance.
- Lean organizational structure with a professional management team.
- The Group has a new CFO, Mr. Adamjee Yakoob (CA) since Sept16.

Performance Risk

- The Company has an O&M contract with Wartsila Pakistan till 2021.
- The plant's availability remained well above required level in FY16 (Required: 88%; Actual: 94%).
- Thermal efficiency remained above the required level of 45%.
- Fuel being supplied by Attock Petroleum Limited, HASCOL, and Byco.
- Generation of electricity reduced a little in FY16 with net electrical output for the year at 1,250 GWh (FY15: 1,514 GWh).
- The revenue decreased significantly on YoY basis on account of lower Energy Purchase Price (EPP) owing to reduced oil prices (FY16: PKR 14,773 mln; FY15: PKR 24,390 mln).
- Trickle-down effect of revenue decline resulted in a slight reduction in after tax profit (FY16: 3,490mln; FY15: 3,680mln).
- However, on account of lower fuel costs for the year, the business margins of the Company improved (PAT Margin: FY16: 23.6%; FY15: 15.1%)

Financial Risk

- LPTL's working capital requirements reduced on a YoY basis due to lower trade receivables and inventory, a facet of lower oil prices.
- Company's cash cycle has witnessed a surge on account of delayed payments (Net cash cycle: end-FY16: 211 days; end-FY15: 155 days; end-FY14: 143 days).
- The company has been meeting its cash requirements via a combination of internal cashflows and short-term borrowing (STB), with the company's reliance on STB reducing over time (STB: FY16: PKR 873mln; FY15: PKR 2,646mln).
- LPTL has arranged working capital lines of PKR 9,000 mln, out of which PKR 872mln was utilized at end-FY16 (end-FY15: 27%).
- During FY16, with decline in PAT, FCFO also reduced (FY16: PKR 6,000mln; FY15: PKR 6,855 mln).
- The Company's debt and interest coverages stood at 2.6 and 5.2x, respectively at end-FY16, showing improvement on a YoY basis (FY15: 2.2x and 3.7x respectively).
- With continuous repayment of debt, LPTL's leveraging stood at 41% at end-FY16 (FY15: 51%; FY14: 60%).
- The Company paid dividends worth PKR 1,766mln during FY16, and expects to continue the practice going forward.

Financial Facilities

- LPTL issued a Sukuk in January 2011 for PKR 13,488 mln. The profit on issue, payable quarterly, is at 3M Kibor + 300bps, maturing in Jan 2021.
- LPTL issued a TFC in January 2011 for PKR 1,649 mln. The profit on issue, payable quarterly, is at 3M Kibor + 300bps, maturing in January 2021

RATING RATIONALE

Liberty Power Limited (LPTL) 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 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. The Company's financial risk profile is largely dependent on repayment behaviour of the power purchaser. Although capacity payments observed improvement, the Company's cash cycle has witnessed a surge on account of delayed energy payments by CPPA. The Company has been paying consistent dividends. Nevertheless, strong internal cash generation has helped it in managing its working capital requirements efficiently, while it significantly reduced its short-term borrowings. The Company, while managing its financial obligations, makes use of the cushion available from the lenders. The ratings draw comfort from the sponsors' demonstrated support to the Company.

KEY RATING DRIVERS

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, any significant increase in overdue receivables, as a result of rise in circular debt, may impact the ratings, though this risk is expected to be curtailed on the back of CPEC and increased foreign investor involvement in Pakistan's power sector.

PKR mln

Liberty Power Tech Limited

BALANCE SHEET	30-Jun-16	30-Jun-15	30-Jun-14
	FY16	FY15	FY14
Inventory	340	849	843
Trade Receivables	8,593	10,171	11,912
Total Assets	**26,027**	**28,272**	**30,265**
Debt	**10,466**	**13,883**	**16,677**
Short-term	873	2,646	4,345
Long-term (Inlc. Current Maturity of long-term debt)	9,593	11,237	12,331
Other Short term liabilities (inclusive of trade payables)	640	1,059	2,267
Total Liabilities & Equity	**26,027**	**28,272**	**30,265**
INCOME STATEMENT			
Turnover	**14,773**	**24,390**	**28,698**
Gross Profit	4,783	5,583	5,349
Financial Charges	(1,157)	(1,852)	(2,061)
Net Income	**3,490**	**3,680**	**3,204**
Cashflow Statement			
Free Cashflow from Operations (FCFO)	6,000	6,855	6,784
Net Cash changes in Working Capital	1,480	793	(6,230)
Net Cash from Operating Activities	6,267	5,649	(1,590)
Net Cash from InvestingActivities	(1,062)	(1,567)	(445)
Net Cash from Financing Activities	(5,206)	(4,499)	(3,864)
Net Cash generated during the period	(1)	(418)	(5,899)
Ratio Analysis			
Coverages			
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	2.6	2.2	2.1
Interest Coverage (X) (FCFO/Gross Interest)	5.2	3.7	3.3
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Day	210.5	154.5	143.0
Capital Structure (Total Debt/Total Debt+Equity)	41.2%	51.2%	59.6%

The Pakistan Credit Rating Agency Limited

STANDARD RATING SCALES & DEFINITIONS

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 RATINGS

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 or 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.** "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 RATINGS

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.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

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'.

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, a suspended rating should be considered withdrawn.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

Regulatory and Supplementary Disclosure

Rated Entity

Name of Rated Entity	Liberty Power Tech Limited
Sector	Independent Power Producer
Type of Relationship	Solicited

Purpose of the Rating — Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Rating Watch
17-Dec-15	A+	A1	Stable	-
19-Dec-14	A+	A1	Stable	-
07-Nov-13	A+	A1	Stable	-
30-Nov-12	A+	A1	Stable	-
09-Apr-12	AA	A1+	Stable	RW

Methodology: IPP Rating Methodology

Sector Research: IPPs - Feb2016

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Rating Team Statement

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

Disclaimer

Rating Shopping

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The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest

The analysts and members of the rating committees including the external member members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA

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PACRA ensures that the credit rating assigned to an entity or instrument should 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

Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

Reporting of Misconduct

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality

PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties

Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

Prohibition

Probability of Default (PD)

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.