

Foundation Alert

Power: ECC approved payment of second installment to IPPs

Event

- ECC approved payment of second installment to IPPs in lieu of agreement executed between GoP/CPA and IPPs.

Impact

- Economic Coordination Committee (ECC) approved payment of ~Rs135bn in second installment to HUBC, KAPCO, IPPs established under 1994 power policy and renewables power plants.
- Thermal power plants and IPPs based on renewables would receive ~Rs128bn and Rs7bn, respectively.
- To highlight, disbursement of payment to different IPPs has earlier been approved by Economic Coordination Committee (ECC) on May 05'2021 and ratified by the Federal Cabinet on May 18'2021. While IPPs received payment on Jun 7'2021.
- Going with the same precedent it would take a month for the disbursement of payments to IPPs.
- Earlier, the government had paid the first installment amounting of Rs90bn to 35 IPPs (out of total 47) whereas payment to the remaining 12 IPPs (under Power Policy 2002) was withheld owing to the NAB investigation.
- As per the agreement, second installment of 60% payable to IPPs will be paid in the form of:
 - ✓ One third (1/3) in cash
 - ✓ One third (1/3) in floating rate 10 year Pakistan Investment Bonds (PIBs)
 - ✓ One third (1/3) in Government Ijara Sukuk (GIS)
- The payment to IPPs would be made on overdue receivables as on Nov 30'2020.
- PSO, KAPCO, HUBC, LPL and PKGP in our universe would be major beneficiary of disbursement of second installment made to clear circular debt.
- KAPCO/HUBC/LPL/PKGP would likely receive an amount of Rs67.5/26.8/24.5/26.3 per share.
- However, NCPL, NPL and subsidiaries of Hub power including Hubco Narowal Energy Limited and Laraib Energy have not received their first installment yet despite approval from ECC and Federal Cabinet.

Outlook

- Revision in tariff structure would improve cash flow position of the IPPs in the near term.
- However, establishment of competitive market would require shifting of current PPA to take and pay basis which would substantially reduce capacity payments amid lower reliance of national grid on FO based generation, in our view.

Analyst

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Fig 1: Expected net position of the IPPs under second installment

	2nd Tranche	Short term Borrowing	Payables	Cash	2nd Tranche per share	Net Position (Rs mn)	Net Position (Rs sh)
HUBC*	34,789	26,436	55,851	7,316	26.8	(40,182)	(31.0)
KAPCO	59,401	35,630	19,874	16,521	67.5	20,418	23.2
LPL	9,290	9,912	492	96	24.5	(1,018)	(2.7)
PKGP	9,802	4,065	1,156	97	26.3	4,678	12.6

Source: Company Accounts, Foundation Research, November 2021

* also include liabilities of Hubco Narrowal

Fig 2: Net working capital position of the IPPs as per balance sheet of Sep 30'21

	Total Receivables	Borrowing	Payables	Cash	Net Working Capital (Rs/sh)
HUBC	111,880	26,436	55,851	7,316	28.5
KAPCO	113,767	35,630	19,874	16,521	85.0
LPL	15,651	9,912	492	96	14.1
PKGP	17,004	4,065	1,156	97	31.9
NCPL	20,319	11,830	2,018	2,831	25.3
NPL	19,483	3,117	1,376	97	42.1

Source: Company Accounts, Foundation Research, November 2021

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