

## Foundation Alert

### Power: ECC approved payment of second installment to IPPs

#### Event

- ECC approved payment of second installment to IPPs established under Power Policy 2002 in lieu of agreement executed between GoP/CPPA and IPPs.

#### Impact

- Economic Coordination Committee (ECC) approved payment of ~Rs96bn second installment to IPPs established under 2002 power policy and renewables power plants.
- 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 13 IPPs received the first installment of Rs64bn on Jun 7'2021.
- Going with the same precedent it would take a month for the disbursement of the payment to the IPPs.
- 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, HUBC, NPL and NCPL in our universe would be major beneficiary of disbursement of second installment made to clear circular debt.
- HUBC/NPL/NCPL would likely receive an amount of Rs7.5/24.1/23.9 per share.

#### 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	9,698	36,383	36,264	7,604	7.5	(55,345)	(42.7)
NPL	8,551	-	787	744	24.1	8,508	24.0
NCPL	8,771	5,915	1,260	500	23.9	2,097	5.7

Source: Company Accounts, Foundation Research, June 2022

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**Recommendations definitions**

If

Expected return  $>+10\%$ 

Outperform.

Expected return from  $-10\%$  to  $+10\%$ 

Neutral.

Expected return  $<-10\%$ 

Underperform.