

Pakistan Power Sector

Breakthrough in the power sector circular debt resolution

07-Mar-2025

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- According to the recent media reports the government has made a major stride in resolving the power sector's circular debt of amount PKR 1.5trn. As per the news, PKR 1.25trn of the total amount will be financed through new loans from banks, while PKR 250bn is already allocated in the budget.
- Under this plan, the government is expected to borrow PKR 1.25trn from commercial banks in order to resolve the circular debt in the power sector.
- Moreover, the government will repay the PKR 1.25trn over the next six years, with the repayment being serviced through an additional surcharge (PHL) of PKR 3.23/KWh, which is already being charged to consumers. To note, this will not increase any additional financial burden (in form of tariff hikes) on the consumers.
- The commercial banks lending to the government will be at an interest rate of 0.90% lower than the KIBOR. Although the government initially sought a fixed interest rate of 7-8%, but the agreement was not finalized at the fixed rate.
- The debt will be recorded on the books of the Central Power Purchasing Agency (CPPA) and will not be included in the total public debt.
- As of Nov'24, the circular debt stands at PKR 2.4trn, with PKR 1.7trn owed to power generation companies (IPPs/GENCOs) and PKR 683bn held in Power Holding Ltd.
- The payment breakdown for circular debt includes PKR 683bn for PHPL, PKR 292bn for nuclear plants, PKR 232bn for coal plants, PKR 218bn for RLNG plants, and PKR 79bn for other plants.
- Resolving the RLNG-based power plants circular debt will be beneficial for PSO (receivables: PKR 467bn, ST Borrowings: PKR 363bn) and SNGP (receivables: PKR 300bn, ST Borrowings: PKR 136bn). In case of circular debt resolution of coal-based power plants, the following listed IPPs will benefit; LUCK (LEPCL), HUBC (CPHGC, TEL, and TNPTL), FFC (TEL), and THALL (TNPTL).

Exhibit: Breakdown of Payment for Power Circular Debt

Company/Plants	PKR bn
Power Holding Ltd (PHPL)	683
Nuclear Plants	292
Coal Plants	232
RLNG Plants	218
Others	79
Total	1,505

Source (s): News Report, AHL Research

Key beneficiaries in the listed space

Exhibit: RLNG-based beneficiaries of circular debt resolution

PKR bn	Receivable	Short-term Borrowings
PSO	467	363
SNGP	300	136

Source (s): Company Reports, AHL Research

Exhibit: Coal-based* beneficiaries of circular debt resolution

Coal Plant	Beneficiary	Fuel	Overdue receivables (PKR bn)
CPHGC	HUBC	Imported Coal	64
LEPCL	LUCK	Local Coal	25
TEL	HUBC, FFC	Local Coal	6
TNPTL	HUBC, THALL	Local Coal	5
Total			100

Source (s): Analyst Briefings, AHL Research, *held by listed companies

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