The Pakistan Credit Rating Agency Limited

LALPIR POWER LIMITED

	NEW [OCT-16]	PREVIOUS [NOV-15]
Long-Term	AA	AA
Short-Term	A1+	A1+
Outlook	Stable	Stable

REPORT CONTENTS

OCTOBER 2016

Profile &Ownership

- An independent power producer (IPP) under the power policy 1994. It operates a thermal power plant with a net capacity of 362MW.
- Lalpir Power Limited started commercial operations in Nov-97 and it has completed 18 years out of 30 year tenor under the PPA.
- Lalpir majority owned by Nishat Group (45%) and The City Schools (18%).
- Major Sponsor – Nishat Group – is the biggest conglomerate of the country with interests in textile,cement, power, real estate,banking and insurance.
- Listed on Pakistan Stock Exchange.

Governance

- BoD comprises seven members including CEO and one executive director.
- The board has formed two committees Audit Committee and Human Resource & Remuneration Committee.
- Five members from Nishat Group ensuring majority control.
- Mr. Hassan Mansha - chairman of the board holds position of Group Head-Energy and directorship of six other companies.
- Key management directly reports to chairman which compromises efficacy of the board.

Management

- Mr. Aurangzeb Feroz is CEO for the past four years, he has over 22 years of experience in business development and strategic management.
- Lalpir has a lean organization structure with an efficient professional management team.
- The company maintains an adequate MIS system which helps management to keep track of all O&Ms.

Business and Operational Risk

- O&M activities are carried in house which ensures control over O&M.
- The plant's availability remained well above required level in CY15 (Required: 84%; Actual: 99%).
- Thermal efficiency remained below par despite newly carried efficiency programs (Required: 38%: Actual: 35%), resultantly efficiency losses absorbed by Lalpir.
- Plant’s conversion into Coal is in pipeline, financial close is expected in Dec16. Conversion will take 3 years and existing plant will be shut down for 6 months. Power Purchaser has agreed to pay Capacity payment for all three months including 6 month in which plant will not be operational.

Performance

- Generation of electricity remained adequate due to capacity factor (CY15: 66%; CY14: 55%) .
- Net profit increased marginally (CY15: PKR 850mln; CY15: PKR 793mln) on the back of lesser finance cost.
- Lately completed efficiency enhancement projects are expected to reduce the drag of in-efficiency on the bottomline in the future.

Financial Risk

- Debt mainly comprises short-term borrowings to finance working capital requirements and maintenance projects (STB: 90%; LTL: 10%).
- Deteriorating cash cycle due to piling up of receivables (receivable days 1HCY16: 179, CY15: 113, CY14: 91).
- Coverages though declined owing to increased advances to suppliers needing higher short term borrowing (Post working capital coverage 1HCY16: -1.5x, CY15: 2.42x, CY14: 3.61x).
- Inceasing leverage in capital structure (Debt:Equity ratio, 1HCY16: 47:53, CY15: 41%, CY14: 45%).

RATING RATIONALE

The ratings reflect the regulated structure of Lalpir's business; whereby revenues and cashflows are guaranteed by the sovereign government given adherence to agreed operational parameters. On standalone basis, reduced delta loss between required and actual efficiency levels has helped in better operational performance. However, negative delta, though reducing, remained a drag. Business risk is considered low exhibited by demand risk coverage under Power Purchase Agreement signed between Power purchaser and the company. Receivable days have shown increase in FY16, yet the entity managed to sustain its financial strength.

KEY RATING DRIVERS

Upholding operational performance in line with agreed performance levels would remain a key rating driver. Accumulation of debt to finance CAPEX - the coal conversion project and/or fresh investment in new power project – may impact financial risk profile of the company. Meanwhile, any significant increase in overdue receivables, as a result of rising circular debt, may negatively impact the ratings.

Lalpir Power Limited *PKR mln*

BALANCE SHEET	30-Jun-16	30-Dec-15	31-Dec-14	31-Dec-13
	HY	Annual	Annual	Annual
Non-Current Assets	**10,024**	**10,312**	**11,098**	**8,333**
Investments (Others)	**1**	**1**	**3**	**-**
Current Assets	**14,201**	**11,173**	**12,523**	**14,038**
Inventory	1,148	1,340	1,219	1,063
Trade Receivables	7,867	6,677	8,480	10,506
Other Current Assets	5,184	2,474	2,191	2,437
Cash & Bank Balances	1	681	632	32
Total Assets	**24,226**	**21,487**	**23,623**	**22,371**
Debt				
Short-term	9,521	6,610	7,919	9,174
Long-term (Inlc. Current Maturity of long-term debt)	**1,613**	**1,889**	**1,991**	**242**
Other Short term liabilities (inclusive of trade payables)	481	580	1,398	1,091
Other Long term Liabilities	33	22	18	26
Shareholder's Equity	**12,579**	**12,386**	**12,298**	**11,837**
Total Liabilities & Equity	**24,226**	**21,487**	**23,623**	**22,371**

INCOME STATEMENT				
Turnover	**7,805**	**22,079**	**30,917**	**8,888**
Gross Profit	1,011	2,039	1,879	585
Other Income	(0)	4	5	0
Financial Charges	(355)	(809)	(976)	(237)
Net Income	**572**	**850**	**793**	**323**

Cashflow Statement				
Free Cashflow from Operations (FCFO)	1,339	2,647	2,111	672
Net Cash changes in Working Capital	(3,754)	652	2,883	(276)
Net Cash from Operating Activities	(2,801)	2,434	3,886	192
Net Cash from InvestingActivities	(134)	(216)	(3,054)	(15)
Net Cash from Financing Activities	2,255	(2,169)	(204)	(149)
Net Cash generated during the period	(680)	49	627	27

Ratio Analysis				
Performance				
Turnover Growth	-36.9%	-28.6%	-15.5%	10.0%
Gross Margin	13.0%	9.2%	6.1%	6.6%
Net Margin	7.3%	3.8%	2.6%	3.6%
ROE	9.6%	6.6%	6.4%	10.9%
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	2.1	1.9	1.8	2.8
Interest Coverage (X) (FCFO/Gross Interest)	3.8	3.3	2.2	2.8
FCFO Pre-WC/Gross interest+CMLTD	0.8	1.9	1.5	2.8
Liquidity				
Short Term Borrowings Coverage (Adjusted Quick Assets/Short Term	1.0	1.0	1.0	1.1
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	178.8	113.3	91.5	105.4
Capital Structure (Total Debt/Total Debt+Equity)	47.0%	40.7%	44.6%	44.3%

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

Name of Rated Entity Lalpir Power Limited
Sector IPP
Type of Relationship Solicited

Purpose of the Rating Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
20-Nov-15	AA	A1+	Stable	Maintain
20-Nov-14	AA	A1+	Stable	Maintain
31-Oct-13	AA	A1+	Stable	Maintain
28-Nov-12	AA	A1+	Stable	Maintain
13-Jan-12	AA	A1+	Stable	Maintain

Related Criteria and Research

Rating Methodology — IPP's Rating Methodology
Sector Research — Power Sector - Viewpoint | Feb-16

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Rating Team Statement

Rating Procedure
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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

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