



The Pakistan Credit Rating Agency Limited

KOHINOOR ENERGY LIMITED

	NEW [JUN-17]	PREVIOUS [OCT-16]
Long-Term	AA	AA
Short-Term	A1+	A1+
Outlook	Stable	Stable

REPORT CONTENTS
1. RATING ANALYSES
2. FINANCIAL INFORMATION
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

Profile & Ownership

- Kohinoor Energy Limited (KEL) - an independent power producer (IPP) under the power policy 1994.
- KEL started commercial operations in Jun-97
- Completed 19 years out of 30 year tenor under the PPA.
- Operates a thermal power plant with a net capacity of 131MW.
- Total project cost USD ~139mln with a debt to equity ratio of 80:20.
- KEL has a diversified shareholding pattern - majority held by Toyota Tsusho Group (36%) followed by Saigol family (26%).
- Saigols have presence in all major sectors with flagship company PEL. Toyota Tsusho is rated 'A3' by Moody's and 'A+/A-1' by Standard & Poor's.
- Listed on Pakistan Stock Exchange.

Governance

- BoD comprises seven members including the Chief Executive Officer.
- Diversified representation having four members from Toyota Tsusho Group, two members from Saigol group, and one member of Wartsilla.
- The board has made two committees namely Audit Committee and Human Resource & Remuneration Committee which ensures effective governance of the company.
- Mr. Naseem Saigol is the chairman of the board and also chairman of Saigol Group. Saigol Group is a leading conglomerate of the country with investments in various sectors of the country.

Management

- Mr. Sheikh M. Shakeel replaced Mr. Tatsuo Hisatomi as Chief Executive Officer in April 2016. Mr. Shakeel – formerly the COO of the company, is a chartered accountant and has served Saigol group in various capacities.
- Professional management team with sound experience in energy have been associated with KEL for a long time.

Business and Operational Risk

- Previously daily O&M activities were handled in house while major maintenance work was managed by Wartsilla Pakistan. Recently, the company has hired a new team and it has also started to undertake major O&M in house.
- Fuel supply risk terminates at the fuel supplier - PSO who will be responsible for payment of damages to KEL resulting from its failure to deliver fuel as per Fuel Supply Agreement.

Performance

- KEL's availability and efficiency remained above benchmark.
- Nominal decline in generation of electricity period on period owing to less demand of electricity by power purchaser.
- Revenue increased on the back of increased load factor. (9MFY17: 5,912mln; 9MFY16: 5,545mln).
- Company's net profit remained strong on the back of maintained compliance with efficiency and availability benchmarks.

Financial Risk

- Working capital requirements are met through short term borrowing due to delayed payments from power purchaser.
- Cash cycle has increased (9MFY17: 216 days; FY16: 189 days; FY15: 118 days) – owing to increased receivable days (9MFY17: 215 days; FY16: 181 days; FY15: 112 days).
- Post-Working Capital coverage (FCFO/Interest + Current Maturity) stayed strong (9MFY17: 0.5x, FY16: 5.7x; FY15: 5.9x) declined on the back of increased working capital requirements.
- Debt mainly comprises of short-term borrowings to finance working capital requirements.
- KEL's leverage increased slightly on the back of increase in short term borrowings (D/D+E; 9MFY17: 34.9%; FY16: 29.1%; FY15: 27.5%).

RATING RATIONALE

The ratings of KEL reflect its stable business profile emanating from a secured regulatory structure. This entails sovereign guaranteed revenues and cashflows, given adherence to agreed performance benchmarks. The ratings incorporate KEL's strong operational performance as reflected by efficiency (89% vs required: 88%) and availability (45.2% vs required: 45%) measures - an outcome of technically sound O&M team, robust systems and controls, and strong governance structure. Although the company's efficiency gains are intact, reducing fuel prices are lowering positive impact on bottom line; hence reduction in reported profits. Thus the management is making efforts to squeeze its cost structure. Along with regular O&M, which is already taken care by KEL's own team, major maintenance has also been carried out by in-house O&M team. This has brought slight uptick to business margins reflected in better profitability in 9MFY17. Meanwhile, the company continues to enjoy sound coverages. However, its financial profile is still highly dependent on the behavior of the power purchaser. The ratings continue to take comfort from KEL's association with strong business conglomerates - Toyota Tsusho Corporation and Saigol Group.

KEY RATING DRIVERS

Although well-managed, in-house O&M activities expose the company to operational risk; thus upholding strong operational performance in line with agreed performance levels would remain a key driver of the ratings. Meanwhile, any significant accumulation in receivables, thereby impacting the financial profile of the company may have negative effects.



Kohinoor Energy Limited

PKR mln

BALANCE SHEET	31-Mar-17	30-Jun-16	30-Jun-15	30-Jun-14
	9M	Annual	Annual	Annual
Non-Current Assets	3,675	3,909	4,142	4,324
Investments (Others)	-	-	-	-
Current Assets	5,869	4,880	4,819	5,857
Inventory	549	539	640	681
Trade Receivables	4,649	3,607	3,552	4,598
Other Current Assets	576	700	485	356
Cash & Bank Balances	96	34	142	222
Total Assets	9,544	8,789	8,961	10,181
Debt				
Short-term	3,258	2,474	2,246	3,083
Long-term (Incl. Current Maturity of long-term debt)	-	30	159	279
Other Short term liabilities (inclusive of trade payables)	200	193	219	318
Other Long term Liabilities	-	-	-	-
Shareholder's Equity	6,087	6,092	6,336	6,501
Total Liabilities & Equity	9,544	8,789	8,961	10,181

INCOME STATEMENT

Turnover	5,912	7,284	11,661	14,958
Gross Profit	888	1,109	1,368	1,579
Other Income	-	-	1	-
Financial Charges	(120)	(140)	(263)	(263)
Net Income	588	696	842	1,069

Cashflow Statement

Free Cashflow from Operations (FCFO)	945	1,183	1,392	1,596
Net Cash changes in Working Capital	(880)	(202)	931	(2,348)
Net Cash from Operating Activities	(52)	843	2,044	(995)
Net Cash from Investing Activities	(58)	(121)	(150)	(468)
Net Cash from Financing Activities	172	(831)	(1,973)	1,099
Net Cash generated during the period	62	(109)	(79)	(364)

Ratio Analysis

Performance				
Turnover Growth	6.6%	-37.5%	-22.0%	21.1%
Gross Margin	15.0%	15.2%	11.7%	10.6%
Net Margin	9.9%	9.5%	7.2%	7.1%
ROE	9.7%	11.4%	13.3%	16.4%
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	7.9	6.9	3.6	4.5
Interest Coverage (X) (FCFO/Gross Interest)	7.9	8.4	5.3	6.1
FCFO Pre-WC/Gross interest+CMLTD	7.9	6.9	3.6	4.5
Liquidity				
Short Term Borrowings Coverage (Adjusted Quick Assets/Short Term Borrowings)	1.4	1.5	1.7	1.6
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	215.8	189.1	118.2	119.3
Capital Structure (Total Debt/Total Debt+Equity)	34.9%	29.1%	27.5%	34.1%

Kohinoor Energy Limited

Jun-17

CREDIT RATING SCALE & 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		SHORT TERM RATINGS
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+	Very high credit quality. Very low expectation of credit risk.	
AA	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	
AA-		
A+	High credit quality. Low expectation of credit risk.	
A	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.	
A-		
BBB+	Good credit quality. Currently a low expectation of credit risk.	
BBB	The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	
BBB-		
BB+	Moderate risk. Possibility of credit risk developing.	
BB	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.	
BB-		
B+	High credit risk.	
B	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.	
B-		
CCC	Very high credit risk. Substantial credit risk	
CC	“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.	
C		
D	Obligations are currently in default.	

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’.

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. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

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, the 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, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.



Name of Rated Entity
Sector
Type of Relationship

Kohinoor Energy Limited
 IPP
 Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
31-Oct-16	AA	A1+	Stable	Maintain
20-Nov-15	AA	A1+	Stable	Maintain
25-Nov-14	AA	A1+	Stable	Maintain
31-Oct-13	AA	A1+	Stable	Maintain
20-Nov-12	AA	A1+	Stable	Maintain

Related Criteria and Research

Rating Methodology
 Sector Research

IPP's Rating Methodology
 Power Generation - Viewpoint | Mar17

Rating Analysts

Muhammad Hassan Rai Umar Zafar
muhammad.hassan@pacra.com rai.umar@pacra.com
 (92-42-35869504) (92-42-35869504)

[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

PACRA maintains principle of integrity in seeking rating business.
 PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information.

Conflict of Interest

PACRA, the analysts involved in the rating process, and members of its rating committee do not have any conflict of interest relating to the credit rating done by them
 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
 The analysts or any of its family members do not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This is, however, not applicable on investment in securities through collective investment schemes. PACRA has established appropriate policies governing investments and trading in securities by its employees
 PACRA may provide consultancy/advisory services or other services to any of its clients or to any of its clients' associated companies and associated undertakings that is being rated or has been rated by it. In such cases, PACRA has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities
 PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and ii) fee mandate - signed with the payer, which can be different from the entity
 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

None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's written consent. PACRA reports and ratings constitute opinions, not recommendations to buy or to sell

[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