The Pakistan Credit Rating Agency Limited

Rating Report

Kohinoor Energy Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Jun-2018	AA	A1+	Stable	Maintain	-
22-Dec-2017	AA	A1+	Stable	Maintain	-
23-Jun-2017	AA	A1+	Stable	Maintain	-
31-Oct-2016	AA	A1+	Stable	Maintain	-
20-Nov-2015	AA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

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. KEL continues to meet its availability (88%) and efficiency (45%) benchmarks - an outcome of technically sound O&M team, robust systems and controls, and strong governance structure. The management is also 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. Lately, company's short-term borrowing has increased in turn finance cost, which has slightly affected the profitability. 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.

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.

Disclosure	
Name of Rated Entity	Kohinoor Energy Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation between long-term and short-term rating scale(Jun-17),Methodology | Criteria Modifiers(Jun-17),Methodology | Independent Power Producers (IPP)(May-17)
Related Research	Sector Study | Power(Apr-18)
Rating Analysts	Hamza Ghalib | hamza.ghalib@pacra.com | +92-42-35869504

Kohinoor Energy Limited (KEL) – Profile	
Incorporated	1994
Major business lines	Independent Power Producer
Legal status	Public Limited
COD	1997
Name plate capacity	131 MW
Primary Fuel	RFO
Plant Location	Lahore

INDUSTRY SNAPSHOT

- Pakistan total power generation is increasing on the back of new power projects under CPEC
- Pakistan's energy mix is shifting towards Gas/RLNG and coal from Furnace Oil and other expensive sources
- Gas fired power plants have lowest per unit cost among all fossil fuel power plants.
- Going forward, cheap renewable electricity will be a challenge to viability of Thermal power plants.

OWNERSHIP

- KEL has a diversified shareholding pattern - majority held by Toyota Tsusho Group (36%) followed by Saigol family (26%). Meanwhile, National Bank of Pakistan (NBP) holds 6% and Wartsila Pakistan a meager 2%. The remaining shareholding is held by financial institutions, joint stock companies and individuals.
- Saigols have presence in all major sectors with flagship company PEL. Toyotta tsusho is rated 'A3' by Moody's and 'A+/A-1' by Standard & Poor's.
- Toyota Tsusho Corporation (TTC) is one of the largest trading corporations in the world. In addition to automobiles the company deals in metals, chemicals, electronics, food, machinery and energy globally.
- Tomen Power Limited, Singapore, an affiliate of TTC, is in the business of operating and managing wind based power projects globally.

GOVERNANCE

- BoD comprises seven members including the Chief Executive Officer. The board members are professionals with experience of managing business affairs of companies in different sectors.
- 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.
- A.F. Ferguson & Co. Chartered Accountants are the external auditors of the company. They expressed an unqualified opinion on the company's accounts for the period ended June 30, 2017.

MANAGEMENT AND CONTROL

- The management's role in an IPP is confined largely to financial matters and regulatory interaction. In light of this, KEL has a lean organizational structure.
- Mr. Sheikh M. Shakeel replaced Mr. Tatsuo Hisatomi as Chief Executive Officer in April 2016.
- Various MIS reports are prepared for the management to keep track of all operating activities and operational efficiencies. Apart from daily reporting, a more detailed MIS on a monthly basis is also generated.

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

- During 9MFY18, revenue has decreased (9MFY18: PKR 5,668mln; 9MFY17: PKR 5,912mln) on back of lower power generation in comparison to same period last year (9MFY18: 465GWhr, 9MFY17: 578GWhr). This decline has been seen owing to less demand of electricity by power purchaser.
- Company's profit (9MFY18: PKR 527mln; 9MFY17: PKR 589mln) largely maintained at the same level on the back of maintained compliance with efficiency and availability.

FINANCIAL RISK

- During 9MFY18, free cash flows from operations (FCFO) stood at PKR 988mln (9MFY17: PKR 945mln). However, coverages has been declining owing to higher interest cost during the period under review [Interest coverage: 9MFY18: 5.3x, 9MFY17: 7.9x].
- Working capital requirements are met through short term borrowing due to delayed payments from power purchaser.
- Cash cycle has increased (9MFY18: 296 days; 9MFY17: 215 days) – owing to dip in the revenue and surge in the receivables.
- KEL's leverage increased slightly on the back of increase in short term borrowings (D/D+E: 9MFY18: 44; FY17: 37%). Debt mainly comprises short-term borrowings to finance working capital requirements.

Kohinoor Energy Limited

PKR mln

BALANCE SHEET	30-Mar-18	30-Jun-17	31-Mar-17	30-Jun-16	30-Jun-15
	9M	FY17	9M	FY16	FY15
Non-Current Assets	**3,566**	**3,681**	**3,675**	**3,909**	**4,142**
Investments (Others)	-	-	-	-	-
Current Assets	**7,421**	**6,194**	**5,869**	**4,880**	**4,819**
Inventory	567	579	549	539	640
Trade Receivables	5,896	4,910	4,649	3,607	3,552
Other Current Assets	630	561	576	700	485
Cash & Bank Balances	329	145	96	34	142
Total Assets	**10,987**	**9,875**	**9,544**	**8,789**	**8,961**
Debt					
Short-term	4,791	3,579	3,258	2,474	2,246
Long-term (Inlc. Current Maturity of long-term debt)	-	-	-	**30**	**159**
Other Short term liabilities (inclusive of trade payables)	205	240	200	193	219
Other Long term Liabilities	-	-	-	-	-
Shareholder's Equity	**5,991**	**6,057**	**6,087**	**6,092**	**6,336**
Total Liabilities & Equity	**10,987**	**9,875**	**9,544**	**8,789**	**8,961**
INCOME STATEMENT					
Turnover	**5,668**	**8,224**	**5,912**	**7,284**	**11,661**
Gross Profit	906	1,236	888	1,109	1,368
Other Income	1	0	0	0	1
Financial Charges	(187)	(178)	(120)	(140)	(263)
Net Income	**527**	**805**	**588**	**696**	**842**
Cashflow Statement					
Free Cashflow from Operations (FCFO)	988	1,321	945	1,183	1,392
Net Cash changes in Working Capital	(1,087)	(1,166)	(880)	(202)	931
Net Cash from Operating Activities	(282)	(5)	(52)	843	2,044
Net Cash from InvestingActivities	(150)	(110)	(58)	(121)	(150)
Net Cash from Financing Activities	616	226	172	(831)	(1,973)
Net Cash generated during the period	184	111	62	(109)	(79)
Ratio Analysis					
Performance					
Turnover Growth	-4.1%	12.9%	6.6%	-37.5%	-22.0%
Gross Margin	16.0%	15.0%	15.0%	15.2%	11.7%
Net Margin	9.3%	9.8%	9.9%	9.5%	7.2%
ROE	11.7%	13.3%	12.9%	11.4%	13.3%
Coverages					
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	5.3	7.4	7.9	6.9	3.6
Interest Coverage (X) (FCFO/Gross Interest)	5.3	7.4	7.9	8.4	5.3
FCFO Pre-WC/Gross interest+CMLTD	5.3	7.4	7.9	6.9	3.6
Liquidity					
Short Term Borrowings Coverage (Adjusted Quick Assets/Short Term Borrowings)	1.3	1.4	1.4	1.5	1.7
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	296.0	227.6	215.7	187.8	117.4
Capital Structure (Total Debt/Total Debt+Equity)	44.4%	37.1%	34.9%	29.1%	27.5%

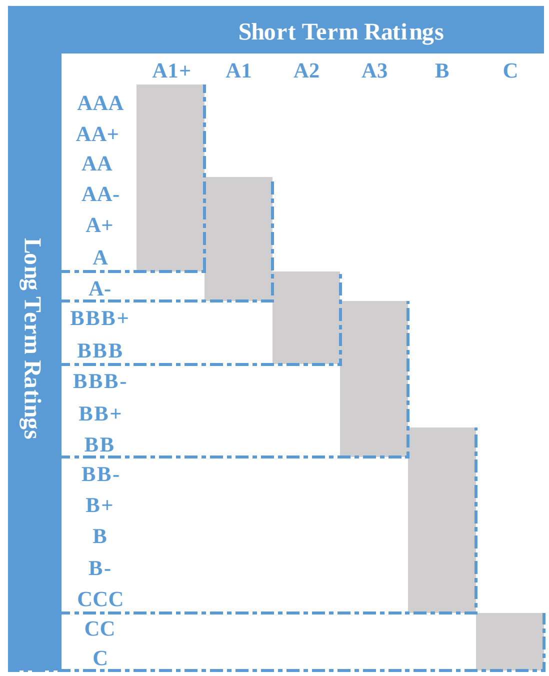
Rating Scale

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	
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 and in 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.** Substantial 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.



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 surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

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(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) 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 fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is 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 | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) 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 | Chapter III | 14-(f-VII)
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