



The Pakistan Credit Rating Agency Limited

Rating Report

Kohinoor Energy Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Mar-2024	AA	A1+	Stable	Maintain	-
24-Mar-2023	AA	A1+	Stable	Maintain	-
25-Mar-2022	AA	A1+	Stable	Maintain	-
26-Mar-2021	AA	A1+	Stable	Maintain	-
26-Mar-2020	AA	A1+	Stable	Maintain	-
27-Sep-2019	AA	A1+	Stable	Maintain	-
28-Mar-2019	AA	A1+	Stable	Maintain	-
27-Dec-2018	AA	A1+	Stable	Maintain	-
30-Jun-2018	AA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect the strong business profile of Kohinoor Energy Limited (Kohinoor Energy), emanating from the demand risk coverage under the Power Purchase Agreement signed between Power Purchaser and the Company. Meanwhile, the Implementation Agreement provides a sovereign guarantee for cashflows, given adherence to agreed performance benchmarks. Kohinoor Energy continues to meet its availability and efficiency benchmarks - an outcome of technically sound O&M team, robust systems and controls. During 6MFY24 under review three major maintenances occurred while during the corresponding HY of the previous FY no engine was overhauled. During 6MFY24 Kohinoor Energy operated at 19.11% (6MFY23: 30.69%) capacity factor and delivered 104,642 MWh (6MFY23: 168,042 MWh) of electricity. This decrease in generation is mainly attributed to the shift of electricity demand towards a less expensive source of generation i.e., Hydro, local coal, Solar, Wind, and Biogas from the power purchaser in the wake of a cost-effective energy basket. The same trend is expected to be followed in upcoming periods. During 6MFY24 the top line of the company reported PKR 5,150mln (FY23: PKR: 12,583mln. 6MFY23: PKR: 7,039mln). Despite the fall in revenue, margins benefitted from lower load factors, and appreciation of USD against PKR. Gross and Net margins for 6MFY23 clocked to 20% & 14.7% respectively. Currently leveraging stood at 40% representing short-term borrowing only (FY23:15.6%). There is adequate cushion available to the company to meet its working capital requirement in its approved STB limits. The ratings stemmed from the fact that the long-term debt of the company was fully paid successfully in June 2008.

The ratings continue to take comfort from Kohinoor Energy's association with 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, sustained profitability and performance levels will also remain critical.

Disclosure

Name of Rated Entity	Kohinoor Energy Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jul-23),Methodology Rating Modifiers(Apr-23),Methodology Independent Power Producer Rating(Jul-23)
Related Research	Sector Study Power(Jan-24)
Rating Analysts	Muhammad Mubashir Nazir mubashir.nazir@pacra.com +92-42-35869504

Profile

Plant The power plant comprises of eight Residual Fuel Oil fired diesel generators having a capacity of 15.68 MW each along with a combined heat cycle recovery system providing an additional output of 6MW through a steam turbine. While using RFO as the primary fuel, the plant also has the capacity to use light fuel oil (LFO) for startup. Net rated capacity, after accounting for auxiliary consumption, is 124MW.

Tariff Company's key source of earnings is the generation tariff from the power purchaser, WAPDA. The reference generation tariff comprises a capacity charge component and an energy charge component. The former is based upon dependable capacity and constitutes a minimum tariff guaranteed to the company which covers the fixed O&M costs, insurance charges, working capital funding costs and return on equity. The levelized tariff for the period of 30 years is US cents/kWh 5.2492.

Return On Project The components of Capacity Payments are being indexed with the variation in US Dollar Exchange rate and US CPI to ensure the dollar-based return on investment.

Ownership

Ownership Structure The company has a diversified shareholding pattern - majority held by Saigol Family (62%). Meanwhile, National Bank of Pakistan (NBP) holds 4% and Wartsila Pakistan a meager 2%. The remaining shareholding is held by financial institutions, joint stock companies and individuals.

Stability Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. Stability factor is considered strong.

Business Acumen PEL, the flagship company of the Saigol Group, is mainly engaged in the manufacturing and sale of electrical equipment and home appliances. However, despite the diversification, the group has a strong financial profile and proven business acumen.

Financial Strength Company's sponsors have the ability and showed the willingness to support the entity both on a continuing basis, and support in times of crisis. Additionally, the financial strength of the sponsors is considered strong as the sponsors have well diversified profitable businesses.

Governance

Board Structure BOD comprises of seven members including the Chief Executive Officer. The board members are professionals with experience in managing the business affairs of companies in different sectors. The board includes one representative of Wartsila Pakistan.

Members' Profile The chairman, Mr. Naseem Saigol, is nominated by the Saigol Group. He is a renowned businessman and also chairs the Board of Saigol Group. The board has been actively involved in providing strategic guidance to the company and implementing strong internal control framework.

Board Effectiveness The board has made two committees, namely the Audit Committee and Human Resource & Remuneration Committee which ensures effective governance of the company. The directors of the company have attended directors training programs as per the mandatory requirement of SECP to ensure that they are aware of their duties and responsibilities and can effectively manage the affairs of listed companies on behalf of the shareholders.

Financial Transparency A.F. Ferguson & Co. Chartered Accountants are the external auditors of the company. They expressed an unqualified opinion on the company's Financial Statements as at June 30th, 2023 and on review report of Dec 2023. However Auditors has draw attention to the certain receivables, which describe the uncertainties regarding the outcome of certain claims by WAPDA which have been disputed by the Company.

Management

Organizational Structure 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. The organizational structure of the company is divided into two major functional areas (i) Technical and (ii) Support functions.

Management Team Mr. Zeid Yousaf Saigol is the CEO of the company. He has been associated as Executive Director with Pak Elektron Limited since 2011 and is leading the Company's Power Division Operations.

Effectiveness Over the years Company's effective management played a significant role in empowering the organization through its progressive results. Additionally, management's effective decision-making cause processes more systematic while robustness of control systems is considered a reflection of strong management.

Control Environment The company takes advantage of advanced I.T. solutions to deliver comparatively better on many fronts. Moreover, KEL's quality of the I.T. infrastructure and the breadth and depth of activities performed has remained well satisfactory.

Operational Risk

Power Purchase Agreement According to the agreement, the obligations of the power purchaser are guaranteed by the Government of Pakistan. Furthermore, a stable revenue stream is also ensured through the minimum guaranteed capacity charge (the component of the tariff received irrespective of electricity production).

Operation And Maintenance Previously O&M activities were handled in-house while major maintenance work was managed by Wartsila Pakistan. Since 2016, the company started to undertake major O&M in-house that has produced a meaningful outcome.

Resource Risk Fuel supply risk terminates at the fuel supplier - PSO who will be responsible for payment of damages to the company resulting from its failure to deliver fuel as per the Fuel Supply Agreement.

Insurance Cover The company has adequate insurance coverage for property damage and business interruption.

Performance Risk

Industry Dynamics The total installed capacity of technology of the country is above 43,775MW. Total generation during FY23 was recorded at 129,592 GWh (FY22: 153,360GWh), witnessing a 15% decreased. Hydel power generation contributed 28% to the total generation during the period whereas Gas/RLNG 28.3% and Coal had share of 16%.

Generation During 6MFY24 the power plant on lower demand from the power purchaser operated at 19.11% capacity factor and delivered 104,642 MWh of electricity, while during the corresponding half year the power plant operated at 30.69% capacity factor and delivered 168,042 MWh of electricity.

Performance Benchmark Company's availability remained satisfactory.

Financial Risk

Financing Structure Analysis The company has repaid its long-term project debt in 2008.

Liquidity Profile During 6MFY24, KEL's receivables have slightly decreased to PKR 2,042mln as compared to PKR 2,320mln in FY23. The overall receivables days also shown some improvements representing sound recovery from the power purchaser. The KEL liquid investment during 6MFY24 also comforted its liquidity position.

Working Capital Financing KEL manages its working capital through mix of internal cash generation and uses short term working capital lines to bridge the delay in payments from the power purchaser. During 6MFY24, company's short-term borrowings stood at PKR 3,096mln (FY23: 998mln; FY22: 4,048mln; FY21: 3,790 mln). Company has utilized 43.6% of its working capital lines as at Dec 23.

Cash Flow Analysis During 6MFY24, free cash flows from operations (FCFO) stood at PKR 1,073 mln (FY23: PKR 2,466mln; FY22: PKR 2,150mln, FY21: PKR 1,446mln). Coverages also improved and clocked to 9.1x as of 6MFY24 (FY23: 5.0x; FY22: 9.6x, FY21: 5.1x).

Capitalization The Company has a moderately leveraged capital structure (6MFY24: 40.6%, FY23: 15.6%; FY22: 45.4%, FY21: 39%). Debt comprises 100% short-term borrowings to finance working capital requirements Kohinoor Energy.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Kohinoor Energy Limited	Dec-23	Jun-23	Jun-22	Jun-21
Power	6M	12M	12M	12M

A BALANCE SHEET

1 Non-Current Assets	2,518	2,366	2,694	2,846
2 Investments	2,213	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	3,330	4,769	6,917	7,367
a Inventories	381	984	916	756
b Trade Receivables	2,042	2,320	4,185	3,981
5 Total Assets	8,062	7,135	9,610	10,213
6 Current Liabilities	436	753	623	264
a Trade Payables	293	291	268	38
7 Borrowings	3,096	998	4,077	3,876
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	4,531	5,383	4,911	6,073
11 Shareholders' Equity	4,531	5,383	4,911	6,073

B INCOME STATEMENT

1 Sales	5,150	12,583	14,538	6,752
a Cost of Good Sold	(4,113)	(10,195)	(12,563)	(4,983)
2 Gross Profit	1,037	2,388	1,975	1,769
a Operating Expenses	(166)	(331)	(234)	(296)
3 Operating Profit	871	2,057	1,741	1,474
a Non Operating Income or (Expense)	5	7	(6)	12
4 Profit or (Loss) before Interest and Tax	876	2,064	1,735	1,486
a Total Finance Cost	(118)	(489)	(225)	(283)
b Taxation	(1)	(2)	(2)	(4)
6 Net Income Or (Loss)	757	1,573	1,507	1,199

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	1,073	2,466	2,150	1,446
b Net Cash from Operating Activities before Working Capital Changes	883	1,999	1,983	1,446
c Changes in Working Capital	981	1,654	(226)	3,294
1 Net Cash provided by Operating Activities	1,864	3,653	1,757	4,740
2 Net Cash (Used in) or Available From Investing Activities	(2,581)	(89)	(263)	(40)
3 Net Cash (Used in) or Available From Financing Activities	(1,579)	(1,114)	(2,723)	(1,610)
4 Net Cash generated or (Used) during the period	(2,296)	2,450	(1,230)	3,090

D RATIO ANALYSIS

1 Performance				
a Sales Growth (for the period)	-18.1%	-13.4%	115.3%	-10.6%
b Gross Profit Margin	20.1%	19.0%	13.6%	26.2%
c Net Profit Margin	14.7%	12.5%	10.4%	17.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	39.9%	32.7%	13.2%	70.2%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh	35.5%	24.9%	29.8%	17.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	101	122	124	347
b Net Working Capital (Average Days)	91	114	120	345
c Current Ratio (Current Assets / Current Liabilities)	7.6	6.3	11.1	27.9
3 Coverages				
a EBITDA / Finance Cost	9.4	5.1	9.6	7.0
b FCFO / Finance Cost+CMLTB+Excess STB	9.1	5.0	8.5	4.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.0	0.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	40.6%	15.6%	45.4%	39.0%
b Interest or Markup Payable (Days)	68.9	84.2	139.6	38.5
c Entity Average Borrowing Rate	8.8%	15.2%	7.3%	6.6%

#	Notes

Credit Rating

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
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.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.

Long-term Rating	Short-term Rating
AAA	A1+
AA+	A1
AA	A2
AA-	A3
A+	A4
A	
A-	
BBB+	
BBB	
BBB-	
BB+	
BB	
BB-	
B+	
B	
B-	
CCC	
CC	
C	

**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

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

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating	e) Holding Company Rating
b) Corporate Rating	f) Independent Power Producer Rating
c) Debt Instrument Rating	g) Microfinance Institution Rating
d) Financial Institution Rating	h) Non-Banking Finance Companies Rating

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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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- (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 | Clause 11-(A)(p).
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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)
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- (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)
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- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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