



The Pakistan Credit Rating Agency Limited

Rating Report

LalPir Power Limited

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Rating History

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

Rating Rationale and Key Rating Drivers

The ratings reflect the regulated structure of Lalpir Power business; whereby revenues and cash flows are guaranteed by the sovereign government given adherence to agreed operational parameters. On standalone basis, increase in delta losses between required and actual efficiency levels has impacted operational performance. Business risk is considered low exhibited by demand risk coverage under Power Purchase Agreement signed between Power purchaser and the company. Receivable days has increased significantly in 9MCY18 owing to delayed payments from the power purchaser. The Company has been consistent in paying dividends. Lalpir Power repaid its long term project debt in 2010. Current borrowings mainly short-term reflects the need to bridge the working capital requirements and maintenance projects. Because of the mounting receivables and consequent funding thereof from banking lines, remaining cushion in the available working capital facilities is limited, warranting management's immediate attention.

Company has cancelled its plan of converting the Lalpir Power plant from oil fired to coal fired boiler, owing to the government policy to restrict use of imported coal on certain projects only.

Upholding operational performance in line with agreed performance levels would remain a key rating driver. Meanwhile, any significant increase in overdue receivables, as a result of rising circular debt, coupled with insufficient available working capital financing, in turn weakening in financial risk profile may negatively impact the ratings.

Disclosure

Name of Rated Entity	LalPir Power Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18),Methodology IPP (Jun-18)
Related Research	Sector Study Power(Apr-18)
Rating Analysts	Faizan Arif faizan.sufi@pacra.com +92-42-35869504

Profile

Plant Lalpir Power commissioned a thermal power plant on a build-own-operate (BOO) basis with a capacity of 362 MW based on residual fuel power (RFO).

Tariff Lalpir Power has a generation tariff (levelized tariff for years 1-30) of US 5.7cents/Kilowatt hour (KWh), approved by National Electric Power Regulatory Authority (NEPRA).

Return On Project There is no IRR of Lalpir Power plant with reference of Power Purchase Agreement.

Ownership

Ownership Structure The Company is majority owned by Nishat Group and The City Schools. The shareholding is dominated by Nishat Group that collectively own 45% (37.8% Nishat group, 6.8% Individuals) of the shareholding, followed by City Schools through Engen (Pvt.) Ltd (18%).

Stability Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. However, sponsors association with Nishat group will continue to provide comfort.

Business Acumen Nishat Group is a distinguished business group in Pakistan. The emergence of the Group, as a conglomerate, spans over fifty years with interests in textile, cement, insurance, power and financial sectors.

Financial Strength The financial strength of the sponsors is considered strong as the sponsors have well diversified profitable businesses.

Governance

Board Structure Lalpir Power's board consists of seven members. The board is majority controlled by Nishat Group, with a total of five nominated members including the chairman Mr. Hassan Mansha.

Members' Profile Board members are from different educational and professional background bringing diversified professional experience and knowledge on the board.

Board Effectiveness For effective oversight of the matters the board has formed two board committees, the Audit Committee and Human Resource & Remuneration Committee. The chairman of the Audit, HR and Remuneration committee is an independent director in accordance with the code of corporate governance.

Financial Transparency Riaz Ahmad & Company is external auditors of the company. They expressed an unqualified opinion on the company's financial statements as at CY17.

Management

Organizational Structure The Company has largely a flat organizational structure. The CEO, Plant Manager and CFO report directly to the Chairman of the board. Lalpir has a technical team with well-defined roles that ensures a smooth flow of operations.

Management Team Previously, Mr. Aurangzeb Feroz who is a representative from City Schools on Lalpir Power's board was the CEO of the Company. However, Mr. Khalid Qadeer, is replaced as the new CEO of the Company with effect from 21st February-18. He has more than 45 years' experience of comprehensive in-depth financial management across corporate, finance, accounting, treasury, information systems development and implementation.

Effectiveness Lalpir Power management effectiveness plays a significant role in empowering the organization through positive results, which has made decision making process systematic.

Control Environment The Company maintains an adequate MIS reporting system for the management to keep track of all operating activities and operational efficiencies. The system generates daily and monthly reports containing information on production, inventory and efficiency maintained. The Company uses in-house built software to generate these reports.

Operational Risk

Power Purchase Agreement Lalpir Power's key source of earnings is the revenue generated through sale of electricity to the power purchaser, CPPA-G. The Company will receive the capacity payments if it is at the benchmark availability and is ready to provide electricity, even if no purchase order is placed by Power Purchaser.

Operation And Maintenance Lalpir Power O&M activities are handled by an in house team trained under the expertise of AES, former O&M operator. This team is involved in O&M activities since the plant's COD and hence carries significant experience.

Resource Risk The Company has engaged Pakistan State Oil (PSO) – the largest local oil-marketing company - as the fuel supplier. PSO is responsible for supplying Residual Fuel Oil (RFO) under the Fuel Supply Agreement (FSA) for 30 years and ensure delivery as agreed upon by both parties.

Insurance Cover Lalpir Power has significant insurance coverage for property damage and business interruption. The insured values for damages include a property damage cover (upto PKR 51bln) & business interruption cover (up to PKR 4bln).

Performance Risk

Industry Dynamics Pakistan total power generation is increasing on the back of new power projects under CPEC. Going forward, cheap renewable electricity will be a challenge to viability of thermal power plants. During FY18, there has been a growth of ~30% in the actual power generation. Moreover, there has been an increase of ~18% in the installed capacity as at end-Jun18 to 32,613MW (FY17: 27,703MW).

Generation Company has dispatched 790GWh of electricity as compared with 1,246GWh during the corresponding nine months of the previous financial year. Resultantly, the capacity factor remained at 34.4% as against 54.4%.

Performance Benchmark During 9MCY18, Lalpir Power has made an operating profit of ~PKR 1,340mln (9MCY17: PKR 1,343mln), as Company's turnover during 9MCY18 stood at PKR 14,260mln (9MCY17: PKR 15,654) due to the lower electricity generation and reduction in power demand by the CPPA-G. Hence, on account of trickledown effect of Company's topline, Lalpir Power's profitability has declined to PKR 683mln (9MCY17: PKR 774mln). However, Company's gross profit as of 9MCY18 has improved to 10.4% (9MCY17: 9.27%). Company has cancelled its plan of converting the Lalpir Power's plant from oil fired to coal fired boiler. Main reason has been the government policy to restrict use of imported coal on certain projects only e.g. CPEC. Lastly there is recent SBP restriction on local financing for import of large project machinery.

Financial Risk

Financing Structure Analysis The total Lalpir Power project's cost was US\$ 347mln. The project financing capital structure comprised 27% equity (US\$ 94mln) and 73% debt (US\$ 253mln), as on Nov 97, mainly financed by a consortium of IFC – USA and Bank of Tokyo – Mitsubishi Ltd, Japan. The total project related debt remained completely paid by the Company.

Liquidity Profile Lalpir Power's total receivables reached at PKR 14,428mln as at end-Sep18 (end-Dec17: PKR 10,700mln) out of which PKR 8,248mln (~57%) are overdue by more than 90 days.

Working Capital Financing Payments from power purchaser remained at low pace. Resultantly during 9MCY18 receivable days increased to 285 days as compared to 216 days as of end Dec-17. Therefore, company's cash cycle days as of 9MCY18 has increased to 279 days (end Dec 17: 198 days) respectively. However to manage its working capital requirements and BMR purposes, the Company has procured working capital lines of PKR 15,128mln in 9MCY18 out of which 96% has been utilized (end Dec17: 61% utilization).

Cash Flow Analysis Free Cash Flow of the company stood at PKR 2,082mln during 9MCY18 (CY17: PKR 2,685mln; CY16: PKR 2,528mln). Owing to the increased pressure on working capital requirement, Company's debt coverage (FCFO post WC / Gross Interest + CMLTD) turned negative during 9MCY18 (-6.79x) (CY17: 1.29x; CY16: 0.23x).

Capitalization The Company currently has a moderately leveraged capital structure comprises 53% debt as at 9MCY18 (end Dec17: 42%). As of 9MCY18, STD comprises 97% (PKR 14,546mln)(end Dec17: 98%) of total debt. Leveraging depicts a continued upward trend respectively, as the Company's almost entire debt represents short-term financing facilities for working capital management.



The Pakistan Credit Rating Agency Limited

Financial Summary

Lalpir Power Limited

PKRmln

BALANCE SHEET	Sep/18 9M	Dec/17 CY17	Dec/16 CY16	Dec/15 CY15
Non-Current Assets	8,363	9,093	9,933	10,312
Investments (Others)	-	-	1	1
Current Assets	20,261	14,580	13,884	11,173
Inventory	1,691	1,247	1,326	1,340
Trade Receivables	14,834	10,849	8,597	6,677
Other Current Assets	3,644	2,484	3,460	2,474
Cash & Bank Balances	91	1	502	681
Total Assets	28,624	23,673	23,818	21,487
Debt				
Short-term	14,546	8,665	8,632	6,610
Long-term (Incl. Current Maturity of long-term debt)	369	783	1,336	1,889
Other Short term liabilities (inclusive of trade payables)	556	1,383	1,212	580
Other Long term Liabilities	46	38	19	22
Shareholder's Equity	13,108	12,804	12,619	12,386
Total Liabilities & Equity	28,624	23,673	23,818	21,487

INCOME STATEMENT

Turnover	14,260	18,313	15,366	22,079
Gross Profit	1,486	1,805	1,856	2,039
Other Income	71	89	25	4
Financial Charges	(657)	(739)	(718)	(809)
Net Income	683	972	995	850

Cashflow Statement

Free Cashflow from Operations (FCFO)	2,082	2,685	2,528	2,647
Net Cash changes in Working Capital	(6,546)	(1,024)	(2,203)	652
Net Cash from Operating Activities	(5,003)	935	(434)	2,434
Net Cash from Investing Activities	3	(157)	(455)	(216)
Net Cash from Financing Activities	5,091	(1,280)	710	(2,169)
Net Cash generated during the period	91	(501)	(179)	49

Ratio Analysis

Performance				
Turnover Growth	-8.9%	19.2%	-30.4%	-28.6%
Gross Margin	10.4%	9.9%	12.1%	9.2%
Net Margin	4.8%	5.3%	6.5%	3.8%
ROE	7.6%	7.6%	7.9%	6.9%
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	3.2	2.1	2.0	1.9
Interest Coverage (X) (FCFO/Gross Interest)	3.2	3.6	3.5	3.3
FCFO Pre-WC/Gross interest+CMLTD	3.2	2.1	1.8	1.9
Liquidity				
Short Term Borrowings Coverage (Adjusted Quick Assets/Short Ter	1.0	1.0	1.0	1.0
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	293.2	198.8	189.5	113.3
Capital Structure (Total Debt/Total Debt+Equity)	53.2%	42.5%	44.1%	40.7%

Lalpir Power Limited

Dec-18

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	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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.

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

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(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)
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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)
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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)
- (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)

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- (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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