The Pakistan Credit Rating Agency Limited

KOHINOOR ENERGY LIMITED

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

REPORT CONTENTS

OCTOBER 2016

Profile &Ownership

- Kohinoor Energy Limited (KEL) - an independent power producer (IPP) under the power policy 1994.
- KEL started commercial operations in Jun-97
- Completed 18 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. Toyotta 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

- Daily O&M activities are handled in house while major maintenance work though currently being managed by Wartsilla Pakistan, would also be managed in house team by start 2017.
- 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 marginal variation in capacity factor.
- Revenue reduced on account of lesser energy payments – a facet of lesser load factor and drop in oil prices.
- Significant decline in profitability - a facet of lesser benefits on fuel savings.

Financial Risk

- Working capital requirements met through short term borrowing due to delayed payments.
- Cash cycle has increased (FY16: 189 days; FY15: 118 days) – owing to increased receivable days (FY16: 181 days; FY15: 112 days).
- Post-Working Capital coverage (FCFO/Interest + Current Maturity) stayed strong (FY16: 5.7x; FY15: 5.9x) despite decline in FCFO.
- Debt mainly comprises of short-term borrowings to finance working capital requirements.
- Capital structure remained stagnant on the back of slight increase in short term borrowings (D/D+E; 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 cash flows, given adherence to agreed performance benchmarks. The ratings incorporate KEL's strong operational performance as reflected by efficiency (45.2%) and availability (89%) measures - an outcome of technically sound O&M team, robust systems and controls, and strong governance structure. The company has experienced continuous decline in its bottom-line, a factor of lower oil prices that is limiting the monetary translation of efficiency gains. 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 work would also be performed by in-house team going forward. This is expected to bring slight breather to business margins. Meanwhile, the company continues to enjoy sound coverages. However, its financial profile is still highly dependent on the behavior of the power purchaser. Despite rising increasing receivable days the company managed to sustain its financial strength. 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	30-Jun-16	30-Jun-15	30-Jun-14
	Annual	Annual	Annual
Non-Current Assets	**3,909**	**4,142**	**4,324**
Investments (Others)	-	-	-
Current Assets	**4,880**	**4,819**	**5,857**
Inventory	539	640	681
Trade Receivables	3,607	3,552	4,598
Other Current Assets	700	485	356
Cash & Bank Balances	34	142	222
Total Assets	**8,789**	**8,961**	**10,181**
Debt			
Short-term	2,474	2,246	3,083
Long-term (Inlc. Current Maturity of long-term debt)	**30**	**159**	**279**
Other Short term liabilities (inclusive of trade payables)	193	219	318
Other Long term Liabilities	-	-	-
Shareholder's Equity	**6,092**	**6,336**	**6,501**
Total Liabilities & Equity	**8,789**	**8,961**	**10,181**
INCOME STATEMENT			
Turnover	**7,284**	**11,661**	**14,958**
Gross Profit	1,109	1,368	1,579
Other Income	-	1	-
Financial Charges	(140)	(263)	(263)
Net Income	**696**	**842**	**1,069**
Cashflow Statement			
Free Cashflow from Operations (FCFO)	1,183	1,392	1,596
Net Cash changes in Working Capital	(202)	931	(2,348)
Net Cash from Operating Activities	843	2,044	(995)
Net Cash from InvestingActivities	(121)	(150)	(468)
Net Cash from Financing Activities	(831)	(1,973)	1,099
Net Cash generated during the period	(109)	(79)	(364)
Ratio Analysis			
Performance			
Turnover Growth	-17.2%	-22.0%	21.1%
Gross Margin	15.2%	11.7%	10.6%
Net Margin	9.5%	7.2%	7.1%
ROE	11.4%	13.3%	16.4%
Coverages			
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	6.9	3.6	4.5
Interest Coverage (X) (FCFO/Gross Interest)	8.4	5.3	6.1
FCFO Pre-WC/Gross interest+CMLTD	6.9	3.6	4.5
Liquidity			
Short Term Borrowings Coverage (Adjusted Quick Assets/Short Ter	1.5	1.7	1.6
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	189.1	118.2	119.3
Capital Structure (Total Debt/Total Debt+Equity)	29.1%	27.5%	34.1%

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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	Kohinoor Energy 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
25-Nov-14	AA	A1+	Stable	Maintain
31-Oct-13	AA	A1+	Stable	Maintain
20-Nov-12	AA	A1+	Stable	Maintain
06-Jan-12	AA	A1+	Stable	Maintain

Related Criteria and Research

Rating Methodology — IPP's Rating Methodology

Sector Research — Power Sector - Viewpoint | Dec14

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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.

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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

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Probability of Default (PD)

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