The Pakistan Credit Rating Agency Limited

CHINIOT POWER LIMITED

	UPDATE [DEC-16]	PREVIOUS [DEC-15]
Long-Term	A	A
Short-Term	A1	A1
Outlook	Stable	Stable

REPORT CONTENTS

DECEMBER 2016

Profile &Ownership

- A 62.4 MW Renewable Energy (Bagasse based) Independent Power Producer under the Renewable Energy policy 2006.
- Chiniot Power Limited (CPL) commissioned in November 2015, well before the RCOD (Jun-16).
- Total project cost PKR 8,993mln with a debt to equity ratio of 75:25.
- CPL is majority owned by Mr. Suleman Shehbaz Sharif (94%) and Nobel Energy Limited (6%).

Governance

- Mr. Suleman Shehbaz Sharif is Chairman of the board and CEO of CPL.
- CPL's three member board, including CEO, comprises the wife of Mr. Suleman Shehbaz Sharif, and Mr. Sajjad Anwar who is also the Business Head of the company.
- Domination of the sponsor family on the board and limited power sector experience shows room for improvement in governance profile of the company.

Management

- Mr. Suleman Shehbaz Sharif, the CEO, is a graduate from Oxford University and has entrepreneurial experience in energy, sugar, dairy and poultry sectors.
- Mr. Sajjad Anwar, a mechanical engineer, is the Business Head of CPL. He has more than 16 years' experience in construction, operations and project management.
- The Company has a new CFO, Mr. Nadeem Saeed (CA) since Dec16. He has over 20 years of experience.
- Lean organizational structure with a professional management team.

Performance Risk

- CPL has an experienced in-house Operations and Maintenance (O&M) team.
- The company has significant insurance coverage for property damage and business interruption.
- Majority of fuel - bagasse - is supplied by Ramzan Sugar Mills Limited (RSML). RSML has a cane crushing capacity of 14,000 MT per day.
- Bagasse available to CPL from RSML will be around 5 months of its operational needs. The rest will be procured from other suppliers. Biogas will be available from associated dairy farm.
- During FY16, the plants availability remained well above the required 45% and efficiency also remained above the required 24.5%.
- Generation of electricity for the period since COD is 219GWh, out of which 74% is supplied to NTDC and remaining to RSML.
- Although the company made an operating profit of PKR 288mln but it incurred net loss of PKR 149mln. The main reason of this accounting loss is the calibrations of various equipment and resolution of teething problem for the smooth operation of the plant.

Financial Risk

- Debt financing constitutes 75% of the project cost.
- The facility amount of PKR 6,700mln will be repaid in 39 consecutive quarterly installments at 3M Kibor + 300 bps; payments started end-Mar16.
- Furthermore all the debt obligations of the company will be met on account of operating of plant of 5.5 months (availability of 45%).
- Company's net cash cycle was at 52 days. CPL has observed an efficient repayment behavior from NTDC on account of lower cost of bagasse based electricity.
- The company has been meeting its working capital requirements (PKR 388mln) requirements through internal cash flows and short-term borrowing (STB: PKR 1,074mln).
- CPL had a positive FCFO (PKR 641mln).
- The Company's debt and interest coverages stood at 0.7x and 1.4x, respectively at end-FY16.
- FCFO (pre & post WC) coverages were .7x and .3x. [calculated as (FCFO pre /post working capital requirements) divided by (current maturity of long-term debt plus interest)].
- CPL's leveraging stood at 83% at end-FY16 owing to short term borrowing of PKR1,074mln.

RATING RATIONALE

Chiniot Power Limited (CPL), a bagasse based IPP, achieved commissioning in Nov-15, well before required COD of Jun-16. CPL, with in-house Operations and Maintenance (O&M), has a well-experienced team. The company has adequate insurance coverage; providing comfort against operational risk factors. It has firm off-take agreements with NTDC (main buyer) and Ramzan Sugar Mills Limited (RSML), a group company. The Government of Pakistan has given payment guarantee against dues from NTDC. This along with the fact that CPL's financial burden is designed to be met on operations of around six months in a year is expected to keep eventual financial risk manageable. Revenues and cash flows are primarily dependent upon maintaining plant's availability and capacity factors at adequate levels and also upon availability of bagasse, which it is buying from RSML. The Company has arrangements with other mills to cover additional requirement of bagasse. Since its CoD last year, the Company has outperformed its required parameters and has generated positive free cash flow from operations (FCFO). Meanwhile, better repayment behavior of NTDC to CPL provided comfort in managing working capital needs. To manage its working capital requirements, the Company used mix of internal cash flows and short-term borrowing.

KEY RATING DRIVERS

Effective execution of plant operations by the in-house O&M team would remain important. Furthermore, external factors such as any adverse changes in the regulatory framework and weakening of financial profile of the company owing to delays in cash flow receipts, may impact the ratings.

PKR mln

Chiniot Power Limited

BALANCE SHEET	30-Jun-16	30-Jun-15	30-Jun-14
	FY16	FY15	FY14
Inventory	508	-	-
Trade Receivables	933	-	-
Total Assets	**11,488**	**8,909**	**1,822**
Debt	**7,859**	**6,340**	**919**
Short-term	1,074	-	500
Long-term (Inlc. Current Maturity of long-term debt)	6,785	6,340	419
Other Short term liabilities (inclusive of trade payables)	1,959	755	166
Total Liabilities & Equity	**11,488**	**8,909**	**1,822**
INCOME STATEMENT			
Turnover	**2,596**	-	-
Gross Profit	374	-	-
Financial Charges	(443)	(1)	(0)
Net Income	**(149)**	**(7)**	**(3)**
Cashflow Statement			
Free Cashflow from Operations (FCFO)	631	(5)	(2)
Net Cash changes in Working Capital	(388)	(185)	(31)
Net Cash from Operating Activities	(426)	(190)	(34)
Net Cash from InvestingActivities	(693)	(6,111)	(1,607)
Net Cash from Financing Activities	1,459	6,624	1,659
Net Cash generated during the period	340	323	18
Ratio Analysis			
Coverages			
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	0.7		
Interest Coverage (X) (FCFO/Gross Interest)	1.4		
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Day	52.1		
Capital Structure (Total Debt/Total Debt+Equity)	82.6%	77.8%	55.5%

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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.

Rated Entity

Name of Rated Entity Chiniot Power Limited
Sector Renewable Energy - Independent Power Producer
Type of Relationship Solicited

Purpose of the Rating: Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
30-Dec-15	A	A1	Stable	Upgrade
31-Dec-14	A-	A2	Stable	Initial

Related Criteria and Research: Sector Study | Independent Power Producers (Feb 16)

Methodology: IPP's Rating Methodology

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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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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
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Prohibition

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.