

RATING REPORT

Sindh Nooriabad Power Company (Pvt.) Limited

REPORT DATE:

October 20, 2016

RATING ANALYSTS:

Talha Iqbal

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RATING DETAILS

Rating Category	Latest Rating	Preliminary Rating
	Long-term	Long-term
Entity	A-	A+
Rating Date	Oct 14, '16	Dec 22, '14
Rating Outlook	Negative	Stable
Outlook Date	Oct 14, '16	Dec 22, '14

COMPANY INFORMATION

Incorporated in 2012	External auditors: M/s Anjum Asim Shahid Rahman Chartered Accountants
Private Limited Company	Chairman of the Board: Mr. Khurshid Anwer Jamali
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Najam ul Hasnain
Technomen Kinetics (Pvt.) Limited (TKL) -51%	
Government of Sindh (GoS) -49%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria <http://www.jcrvis.com.pk/images/methodology.pdf>

Sindh Nooriabad Power Company (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Sindh Nooriabad Power Company (Pvt.) Limited (SNPC) was incorporated on September 04, 2012 under the Companies Ordinance 1984. The company has been established under a Public-Private Partnership scheme with the Government of Sindh (GoS) and Technomen Kinetics (Pvt.) Limited (TKL). The board has appointed M/s Anjum Asim Shahid Rahman Chartered Accountants as external auditors.

RATING RATIONALE

Sindh Nooriabad Power Company (Pvt.) Limited (SNPC) is a Public Private Partnership between the Government of Sindh and Technomen Kinetics (Pvt.) Limited (TKL) for setting up a 50 MW power generation project at Nooriabad, Sindh under the provision in National Policy for Power Generation Projects, 2002 for small power projects by provinces. The project is majority owned by TKL having 51% equity stake while the remaining shares are held by the GoS. TKL is part of the Technomen group having multi-dimensional business experiences primarily in Engineering, Procurement and Construction (EPC) of power and related projects since 1993. The rating incorporates the support of Government of Sindh as one of the key stakeholder in the institution under the Public-Private Partnership.

The EPC is a hybrid arrangement between Wartsila Pakistan (Pvt.) Limited (Wartsila) and TKL. Wartsila is a reputed supplier of power engines having significant experience in the local market. The project has achieved a number of key milestones including installation of major plant and machinery and laying of gas pipeline for provision of gas. However, Commercial Operation Date (CoD) has been extended from January 2016 primarily on account of delays in completion of transmission line. The transmission line is being laid down by Sindh Transmission and Distribution Company, an independent entity of the Sindh Government. The management now expects installation of transmission lines to be complete by end-October 2016 while CoD is targeted by December 2016. The ratings may face downward pressure in case COD is delayed further than already envisaged by management.

Power Sale Request has been filed by SNPC with K-Electric Limited (KE) and subsequently Power Acquisition Request has been filed by KE to NEPRA for Tariff determination. However, tariff is yet to be finalized. Management has assumed tariff of Rs. 8.63/KWh which translates into revenues of Rs. 3.3b (including capacity and energy payments) while debt service coverage is projected to remain at 1.29x.

Total project cost (including interest during construction) was initially set at \$68.1m. However, given the significant depreciation in Euro, cost savings to the tune of around \$6m were realized. The sponsors have injected equity to the tune of Rs. 1.2b while Rs. 5.1b has been raised as debt. Of the total debt, Rs. 2.6b and Rs. 1b have been raised from National Bank of Pakistan and Sindh Bank Limited, respectively. The remaining amount has been raised through PPTFCs to the tune of Rs. 1.5b. The issue has been fully subscribed by GoS through Sindh Employees' Pension/ Retirement Fund. As per final legal documents, security structure of the Sukuk entails a second ranking charge by way of hypothecation on all present and future assets of the issuer inclusive of a 25% margin. The management has communicated to JCR-VIS that the same may be upgraded after CoD.

Principal repayments commences after CoD (NBP Principal repayment in July 2017 is bullet payment, Sindh Bank principal payment is 1 year from CoD with tenor of 10 years, TFC payment is 3 months from CoD with the TFC having a tenor of 10 years). Given the delay in CoD and resultant increase in interest payments, management plans to raise an additional 520.7m in order to fund the cost over-runs. Debt to equity mix of the amount raised will be 80:20. SNPC also intends to issue a secured Sukuk upon COD that would replace the long-term financing from a bank.

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix I

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES		Appendix II		
Name of Rated Entity	Sindh Nooriabad Power Company (Pvt.) Limited (SNPC)			
Sector	Power			
Type of Relationship	Solicited			
Purpose of Rating	TFC-2			
Rating History	Rating Date	Long Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY			
	10/14/2016	A-	Negative	Negative
	1/16/2015	A+	Stable	Preliminary
Instrument Structure	N/A			
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.			
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