

RATING REPORT

Sindh Nooriabad Power Company (Pvt.) Limited

REPORT DATE:

November 19, 2018

RATING ANALYSTS:

Talha Iqbal

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
Sukuk	A+ (Preliminary)	N/A
TFC	A	A-
Rating Date	Nov 15, '18	Oct 14, '17
Rating Outlook	Stable	Negative
Outlook Date	Nov 15, '18	Oct 14, '16

COMPANY INFORMATION

Incorporated in 2012	External auditors: M/s Anjum Asim Shahid Rahman Chartered Accountants
Private Limited Company	Chairman of the Board: Mr. Saiyed Asif Mahmood
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	RATING RATIONALE
<p>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.</p>	<p>Sindh Nooriabad Power Company (Pvt.) Limited, (SNPC-1) is a Public Private Partnership between the Government of Sindh (GoS) and Technomen Kinetics (Pvt.) Limited (TKL) for a 50 MW (CIRCA) gas based 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. SNPC-1 started commercial operations in January'2018 and sells power to K-Electric Limited. Dedicated transmission lines for the project from Nooriabad to KDA-33 Grid Station of KE have been laid down by Sindh Transmission and Dispatch Company under a wheeling arrangement. The EPC was a hybrid arrangement between Wartsila Pakistan (Pvt.) Limited (Wartsila) and TKL. TKL is the primary operations and maintenance (O&M) contractor has been sub-contracted to Wartsila by TKL. Total project cost has been funded through a debt to equity ratio of 80:20.</p> <p>Strong Sponsor Profile</p> <p>The rating incorporates the implicit support of Government of Sindh as one of the key stakeholder in the institution under the Public-Private Partnership. Besides being a key shareholder, GoS through the 'GoS employee pension fund' has also provided a sizeable portion of the outstanding debt in addition to security for the purpose of securing funding. Both sponsors have demonstrated support in the form of additional equity injection, sub-ordinated loans and through various other means.</p>
	<p>Satisfactory operating track record since commercial operations and adequate coverage for losses in O&M contract in case stipulated parameters are not met</p>
	<p>Operating performance of the company has remained compliant with stipulated parameters. Plant availability has remained over 92% while heat rate efficiency has remained around benchmark of 41.6% since CoD. Comfort is also drawn from O&M being overseen by Wartsila, who are the OEM of the main equipment, having significant experience in the local market. Moreover, performance guarantees in built in the O&M contract provide adequate coverage in case stipulated parameters are not achieved. SNPC-1 has arranged adequate insurance coverage from a AA+ rated insurance company providing comfort against various operational risk factors.</p>
	<p>Demand risk limited due to take or pay tariff awarded and 25 year PPA with KE</p>
	<p>SNPC-1's tariff based on 'take or pay basis' ensuring guaranteed payment on long-term basis if capacity is made available at stipulated benchmark level limits demand risk. Relatively high position in KE's merit order along with dispatch guarantees from KE through a 25 year PPA (growing demand for electricity of Karachi) supports business risk profile.</p>
	<p>Fuel Supply and Price Risk is limited due to long-term supply contract and cost pass through mechanism built in the tariff.</p>
	<p>SNPC-1 has negotiated a 25 year gas supply agreement with SSGC. Quantity of gas allocated is 20mmscfd. Risk of increase in gas prices is mitigated due to a cost pass through mechanism.</p>

Other risk factors including increase in KIBOR and rupee depreciation are mitigated through a quarterly indexation mechanism in place.

Financial Performance

Since CoD (18th Jan'2018 till Sep'2018), the company recorded revenues of Rs. 2.47b. Capacity payments represented 40% of total revenues while remaining income has been generated through energy payments. Gas charges have represented 53.6% of total revenues since CoD. Accounting for other expenses (excluding finance cost), the Company is projected to post cash flows in excess of Rs. 1.3b on an annualized basis.

Given the funding mix, leverage indicators are currently high but are projected to decline gradually with debt repayments and increase in equity base.

Debt carried on balance sheet is almost entirely long-term in nature with limited short-term borrowings mobilized for working capital needs. Long-term debt currently comprises loans from two commercial banks and a TFC issued. Management is currently in the process of reprofiling its existing debt which will extend and stagger long-term debt repayments over the next 10 years. At end-FY18, equity base was reported at Rs. 1.68b (including subordinated loan). Gearing of the company was reported at 3.4(x) at end-FY18 and is on the higher side but will decline gradually with debt repayments and increase in equity base.

Proposed Sukuk to stagger debt repayments over a longer time horizon

SNPC-1 is in the process of issuing a Sukuk of Rs. 3billion. The Sukuk will be for a tenor of 10 years inclusive of a grace period of one year and will have quarterly repayments. Security features of the Sukuk entail first pari-passu charge on all present and future moveable and immoveable fixed assets with a margin. Moreover, a debt servicing account (DSA) will be created whereby one installment in advance will always remain deposited in the DSA. Debt payment mechanism also entails progressively retaining upcoming installment so that debt payment account is equal to quarterly installment. Dividend payment to shareholders will also be subject to timely servicing of all outstanding obligations.

Liquidity profile is supported by adequate cash flows, working capital cycle and debt servicing ability. Limited exposure to circular debt (with timely repayments by KE) also supports assessment of liquidity profile.

Planned reprofiling of existing debt along with growing cash flows is expected to result in increase in cushion in debt servicing. In contrast to other IPPs, cash flows are supported by timely repayments by power purchaser KE. Given the funding mix, FFO/total debt is currently on the lower side but is expected to increase with debt repayments.

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

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

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.

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	PPTFC & Sukuk			
Rating History	Rating Date	Long Term	Rating Outlook	Rating Action
	RATING TYPE: TFC			
	11/15/2018	A	Stable	Upgrade
	10/14/2016	A-	Negative	Negative
	Rating Date	Long Term	Rating Outlook	Rating Action
	RATING TYPE: Sukuk			
11/15/2018	A+	Stable	Preliminary	
Instrument Structure TFC	<ul style="list-style-type: none"> • Second ranking charge by way of hypothecation on all present and future moveable assets of issuer in favor of the security trustee inclusive of a 25% margin. • Hypothecation over fixed & moveable assets, stock and book debts. • Lien and set off, if any, on present and future receivables of the issuer. 			
Instrument Structure Sukuk	<p>SNPC-1 is in the process of issuing a Sukuk of Rs. 3billion. The Sukuk will be for a tenor of 10 years inclusive of a grace period of one year and will have quarterly repayments. Security features of the Sukuk entail first pari-passu charge on all present and future moveable and immovable fixed assets with a margin. Moreover, a debt servicing account (DSA) will be created whereby one installment in advance will always remain deposited in the DSA. Debt payment mechanism also entails progressively retaining upcoming installment so that debt payment account is equal to quarterly installment. Dividend payment to shareholders will also be subject to timely servicing of all outstanding obligations.</p>			
Statement by the Rating Team	<p>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.</p>			
Probability of Default	<p>JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.</p>			
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