

RATING REPORT

Neelum Jhelum Hydropower Company (Private) Limited

REPORT DATE:

September 18, 2017

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Preliminary Rating
	Long-term	Long-term
Sukuk	AAA	AAA
Rating Date	Sep'13,2017	April'12, 2016
Rating Outlook	Stable	Stable

COMPANY INFORMATION

Incorporated on November 18 th , 2004	External auditors: Ernst & Young Ford Rhodes Sidat Hyder
Private Limited Company	Chairman of the Board: Lt. Gen (Retd) Muzammil Hussain
Key Shareholders (with stake 5% or more): WAPDA (Water & Power Development Authority) – 99%	Chief Executive Officer: Brig (Retd) Muhammad Zareen

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Industrial Corporate (May 2016)

<http://jcrvis.com.pk/kc-meth.aspx>

Notching The Issue (June 2016)

<http://jcrvis.com.pk/kc-meth.aspx>

Neelum Jhelum Hydropower Company (Private) Limited

OVERVIEW OF THE INSTITUTION

Neelum Jhelum Hydropower Company (Private) Limited (NJHPC) was incorporated on 18th November 2004. The company is a Special Purpose Vehicle (SPV) constituted as a subsidiary of WAPDA (Water and Power Development Authority) for the generation and sale of electricity via the development of Neelum Jhelum Hydropower Project (NJHPP) project.

Profile of Chairman

Lt. Gen. (Retd.) Muzammil Hussain, HI (Mil) assumed charge as Chairman of WAPDA on 24th August, 2016. He carries over 38 years of experience in Armed forces and is graduated from Pakistan Military Academy (PMA) with distinction.

Profile of CEO

Brig (Retd.) Muhammad Zareen has been appointed as CEO of NJHPC in September, 2016. Previously, he has served as *Advisor* Northern Area Projects for WAPDA and General Manager Projects (Northern Areas) for WAPDA.

Financial Snapshot

Net Equity: 1HFY17: Rs. 93.9b; FY16 - Rs. 90.9b; FY15 - Rs. 83.9b

Total Assets: 1HFY17: Rs. 349.7; FY16 - Rs.290.8b; FY15 - Rs. 206.8b

RATING RATIONALE

The rating assigned to the Sukuk issue incorporate unconditional and irrevocable first demand guarantee issued by the President Islamic Republic of Pakistan (on behalf of the Government of the Islamic Republic of Pakistan) (GoP) covering issue amount of the Sukuk alongwith profit payments. GoP would pay the entire called amount immediately upon receiving a demand notice from the trustee. Ratings also reflect financial strength and demonstrated support from the parent entity, Water and Power Development Authority (WAPDA), in the form of equity injection and funding support.

NJHPC was setup to design, construct, own, operate and maintain Neelum Jhelum Hydropower Project (NJHPP); a 969MW run-of-the-river project located in the vicinity of Muzaffarabad (AJ&K). The project is based on a perennial river system and the supply of water has been determined to be adequate, given the water treaty arrangements. Moreover, hydrological risk is to be borne by the power purchaser as per power policy. As per the latest progress report of the project, total physical completion stands at 93.6%. Expected project completion timeline has been revised. While the 1st electricity generating unit was expected to start production by mid-2017, it is now expected to start production by end-February, 2018, and the other three units are planned to come online in a phased manner by end-June, 2018. Transmission scheme for dispersal of power from NJHPC is a project of NTDCL. According to the management, Phase-I of the transmission line has been 90% completed while full completion is expected by Dec'17.

As per the revised PC-1 2015, the total project cost is estimated at Rs. 404billion which is being funded through a 76:24 mix of debt and equity. While tariff structure is not yet finalized, a proposal has been submitted for approval. Final tariff approved by NEPRA will remain critical to the debt servicing capacity of the company. As per the management, any price escalation due to delay in commercial operation date is likely to be compensated by inclusion in the proposed tariff structure and reduction in interest rates.

The Sukuk is an unlisted, privately placed and non-SLR eligible. It has a tenor of 10 years inclusive of a grace period of 2 years beginning from first drawdown of the Sukuk. First drawdown of Rs. 30b occurred in June'2016; while second drawdown of Rs. 35b was completed at end-Dec'16. Remaining drawdown of Rs. 35b is planned to be drawn by end-Jun'18. The profit rate on the Sukuk is payable semi-annually and is equivalent to 6-month KIBOR +175bps; however, NJHPP is entitled to a rebate of up to 62bps in case payment is made within 30 days of the due date. As per the waterfall mechanism, an amount equivalent to one-sixth of the installment amount will be deposited each month so that debt payment account (DPA) on the installment date is equivalent to the installment amount. In case of any shortfall in DPA Account by NJHPC, WAPDA will inject the required funds.

Equity base of the company stood higher at Rs. 94.8b (FY16: Rs. 90.9b; FY15: Rs. 83.9b) by end-1HFY17 mainly on account of contribution from Neelum Jhelum Surcharge (NJ-Surcharge). Contribution of NJ-Surcharge to total equity stood at Rs. 48.2b (FY16: Rs. 44.2b; FY15: 37.2b) at end-1HFY17. The remaining equity to the tune of Rs. 47b has been contributed by WAPDA.

Apart from CEO, change has also been witnessed at the position of Chief Financial Officer (CFO). The incumbent CFO is a Fellow member of the Institute of Cost & Management Accountant of Pakistan (FCMA) and Fellow member of the Institute of Public Finance Accountant of Pakistan (FPFA) and carries around 20 years of experience. Stability at the senior management level will play a pivotal role in effective implementation of the business strategy.

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

Neelum-Jhelum Hydropower Company (NJHPC)

Appendix I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>			
BALANCE SHEET	1HFY17	FY16	FY15
Operating Fixed Assets	1,042.7	444.9	54.3
Capital Work in Progress	311,711.1	275,760.3	205,971.5
Other Non-Current Assets	2.2	2.3	2.6
Other Current Assets	46.1	53.7	25.9
Bank Balances	36,901.9	14,491.1	744.9
TOTAL ASSETS	349,711.0	290,752.2	206,799.1
EQUITY			
Issued, subscribed and paid up capital	41,663.5	41,656.5	0.01
Accumulated Profit/(Loss)	(313.9)	(288.4)	(239.7)
Share Deposit Money	53,475.1	49,478.9	84,119.6
LIABILITIES			
Long-term Financing	102,493.0	100,447.9	77,523.0
NBP Sukuk	65,000	30,000	-
Retention Money Payable	10,927.1	10,355.4	8,148.0
Current Liabilities	76,466.3	59,094.9	37,248.3
TOTAL EQUITY & LIABILITIES	349,711.0	290,752.2	206,799.1

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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.

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REGULATORY DISCLOSURES					Appendix III
Name of Rated Entity	Neelum Jhelum Hydropower Company (Private) Limited				
Sector	Power				
Type of Relationship	Solicited				
Purpose of Rating	Sukuk rating				
Rating History		Medium to			
	Rating Date	Long Term	Short Term	Rating Outlook	Rating Action
		<u>RATING TYPE: ENTITY</u>			
	13/09/2017	AAA	N/a	Stable	Reaffirmed
	12/04/2016	AAA	N/a	Stable	Preliminary
Instrument Structure	Apart from GoP guarantee, security structure of the Sukuk entails charge on all unencumbered present and future assets of the company and exclusive lien over debt payment account (DPA). As per the waterfall mechanism, an amount equivalent to one-sixth of the installment amount will be deposited each month so that DPA on the installment date is equivalent to the installment amount. In case of any shortfall in DPA Account by NJHPC, WAPDA will inject the required funds.				
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