

## RATING REPORT

### Neelum Jhelum Hydropower Company (Private) Limited

**REPORT DATE:**

January 11, 2019

**RATING ANALYSTS:**

Maham Qasim

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#### RATING DETAILS

Rating Category	Instrument Rating	
	Long-term	Long-term
Sukuk	AAA	AAA
Rating Date	Jan'02'2019	Sep'13'2017
Rating Outlook	Stable	Stable

#### COMPANY INFORMATION

**Incorporated in 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):**
**Chief Executive Officer:** Brig (Retd) Muhammad Zareen

WAPDA (Water &amp; Power Development Authority) – 99%

#### 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 November 18, 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 Power project (NJHPP).

#### Profile of Chairman

Lt. Gen. (Retd.) Muzammil Hussain, HI (Mil) assumed charge as Chairman of WAPDA on August 24, 2016. He carries over 38 years of experience in Armed forces and is a graduate 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 and General Manager Projects (Northern Areas) for WAPDA.

#### Financial Snapshot

Net Equity: FY18: Rs. 100.4b; FY17: Rs. 96.1b; FY16: Rs. 90.9b;  
Total Assets: FY18: Rs. 463.5b; FY17: Rs. 376.5b; FY16: Rs. 290.8b;

### RATING RATIONALE

The rating assigned to the Sukuk issue take into account 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 along with profit payments. GoP would immediately pay the entire called amount once the demand notice from the trustee is received. Ratings also incorporate strong financial muscle and implicit support from the parent entity, Water and Power Development Authority (WAPDA), in the form of equity injection and funding support.

**Physical progress stands at 99.25%:** NJHPC was setup to design, construct, own, operate and maintain Neelum Jhelum Hydropower Power Project (NJHPP) which is a state-of-the-art, world class underground facility with installed capacity of 969 MW. The main purpose is the development of NJHPP for generation and sale of electricity to NTDC. It is a Composite Dam (Gravity + Rock fill) having height of 60 meters, comprising four Turbines of 242.25 MW each. All four units became operational by end-Aug'18 with plant attaining full generation capacity; the first unit was commissioned in April'18, followed by the remaining three units coming into operation, each after almost one month's interval. However, currently only one unit is contributing to the national grid owing scarcity of water in the winter season. The generation capacity of the power plant is directly linked to the availability of water; therefore the energy has a sizeable seasonal variation. The other three main components include a dam, water-way system with 52 km long tunnels, and an underground power house. The transmission lines, powerhouse and switch yard have also achieved completion. Physical progress stands at 99.25%, as per the latest progress report of the project. In aggregate, the Neelum-Jhelum project will provide about 5 billion units of low-cost hydel electricity to the national grid every year. Annual benefits of the project have been estimated at Rs. 55 billion per annum. The commercial operations of unit III were delayed on account of a technical glitch; however, the issue was resolved through replacement of the damaged equipment. Moreover, the delay in COD and related cost overruns are likely to be compensated by inclusion of the same in the proposed tariff structure.

**The tariff structure has not yet been finalized:** As per the 4<sup>th</sup> revision in PC-1 2017, the approved contract cost was approved at Rs. 506.8 billion; however, as per the management the project is expected to be completed within Rs. 450.0 billion with cost amounting to Rs. 404.0 billion at end-Nov'18. The project cost is being funded through a debt: equity: grant ratio of 79:10:11 with grant component covered by the Neelum-Jhelum surcharge. The government imposed a 10 paisa / unit surcharge in FY07 which has since been extended in line with the cost escalation. Tariff structure has not yet been finalized; the provisional tariff given by NEPRA is not acceptable to the company therefore a revision application has been filed with the regulator. Further, given the tariff structure is not finalized, the invoicing has not been initiated. Final tariff approval by NEPRA will be crucial to the debt servicing capacity of the company.

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; second drawdown of Rs. 35b at end-Oct'16 and

the third drawdown of Rs. 35b was completed by end-June'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. The first payment is due December 29, 2018. As per the waterfall mechanism, an amount equivalent to one-sixth of the installment amount is being 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 by NJHPC, WAPDA will inject the required funds. In the absence of any income stream, DPA is being recharged with the borrowed amount. As per the management, DPA has been filled with the required amount to be paid on the due date.

Equity base of the company increased to Rs. 100.4b (FY17: Rs. 96.1b; FY16: Rs. 90.9b) by end-FY18 mainly on the account of contribution from Neelum Jhelum Surcharge (NJ-Surcharge). Government Grant (NJ-Surcharge) increased to Rs. 58.6b (FY17: Rs. 51.2b) at end-FY18. The remaining equity has been contributed by WAPDA. The long-term funding also increased by end-FY18 on account of additional loan procured from WAPDA and Exim Bank China for capital expenditure and to retire Sukuk payment due in Dec'18.

## JCR-VIS Credit Rating Company Limited

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

### Neelum-Jhelum Hydropower Company (NJHPC)

### Appendix I

FINANCIAL SUMMARY <span style="float: right;"><i>(amounts in PKR millions)</i></span>			
<b>BALANCE SHEET</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>
Operating Fixed Assets	444.9	1,043.5	1,128.1
Capital Work in Progress	275,760.2	338,274.4	402,023.9
Other Non-Current Assets	2.3	1,877.1	1,797.4
Other Current Assets	53.7	442.0	299.7
Bank Balances	14,491.1	34,826.1	58,261.5
<b>TOTAL ASSETS</b>	<b>290,752.2</b>	<b>376,463.1</b>	<b>463,510.6</b>
<b>EQUITY</b>			
Issued, subscribed and paid up capital	41,656.5	41,663.5	41,663.5
Accumulated Profit/(Loss)	(288.4)	(2,092.3)	(5,202.6)
Share Deposit Money	49,478.9	5,300.0	5,300.0
Government Grant (NJS)	-	51,213.6	58,593.4
<b>LIABILITIES</b>			
Long-term Financing	100,447.9	133,688.7	146,865.1
NBP Sukuk	30,000.0	65,000.0	100,000.0
Retention Money Payable	10,355.4	12,002.9	9,958.7
Current Liabilities	59,094.9	69,686.7	106,332.5
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>290,752.2</b>	<b>376,463.1</b>	<b>463,510.6</b>

**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](http://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](http://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](http://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 III
<b>Name of Rated Entity</b>	Neelum Jhelum Hydropower Company (Private) Limited				
<b>Sector</b>	Power				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Sukuk rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>to Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	2/01/2019	AAA	N/a	Stable	Reaffirmed
	13/09/2017	AAA	N/a	Stable	Reaffirmed
	12/04/2016	AAA	N/a	Stable	Preliminary
<b>Instrument Structure</b>	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.				
<b>Statement by the Rating Team</b>	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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