



The Pakistan Credit Rating Agency Limited

Rating Report

Chanar Energy Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Nov-2023	BBB-	A3	Stable	Maintain	Yes
22-Nov-2022	BBB-	A3	Stable	Maintain	Yes
27-Jun-2022	BBB-	A3	Negative	Maintain	Yes
28-Jun-2021	BBB-	A3	Negative	Maintain	Yes
29-Jun-2020	BBB-	A3	Negative	Maintain	Yes
28-Jan-2020	BBB-	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Chanar Energy Limited has a 22MW bagasse-based power plant which is adding renewable energy to the national grid. The IPP model is designed to create synergy and higher efficiency gains between IPP and sugar mill. Sustainable business profile of Chanar Energy emanates from the demand risk coverage under Energy Purchase Agreement signed with CPPA-G and 'Bagasse supply and Steam Purchase Agreement' with Chanar Sugar Mills Limited, a related entity. However, procurement of raw material, solely from the associated concern, Chanar Sugar Mills, poses constraints on generation capability. The main risk factor affecting the stability of return is the availability of bagasse at a price higher than the assigned fuel component, by NEPRA. However, NEPRA heard the petition for revision of tariff in October 2023 on behalf of all Cogen plants including Chanar Energy Limited and the company remains hopeful for the revision in the coming weeks. The revision has been proposed based on three options: support price of sugarcane, international coal price and CPI and after the revision of tariff, the company expects to remain available all year round subject to purchase of bagasse from the market. The ratings reflect company's credit quality and liquidity profile. Plant's availability during last crushing season was reported at 30% (108 days). During FY23, the turnover was recorded at PKR 912mln (FY22: PKR 994 million) and 41,050 MW (FY22: 57,816 MW) of electricity was produced out of which 84% was provided to CPPA-G while 16% was provided to CSML. Confidence is drawn from availability of enough liquid funds due to timely recoveries from power purchaser to service upcoming debt installments. The company does not rely on any short-term credit lines. Company had a project debt of PKR 2,200mln repayable till Feb 2029 in 40 quarterly installments. The company has been making timely repayments of its due debt obligations through energy receivables and has repaid 19 installments thus far. The leverage is high in comparison to the equity base.

Rating Watch signifies the prevailing uncertainty pertinent to company's financial muscles, and timely debt servicing. The ratings are dependent on Chanar Energy's ability to sustain its business and financial profile; any deterioration in margins, leading to weak coverages and pressure on liquidity, will have a negative impact on ratings. Financial support from sponsors remains imperative in the long term.

Disclosure

Name of Rated Entity	Chanar Energy Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Independent Power Producer Rating(Jul-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Power(Jan-23)
Rating Analysts	Uswa Sikandar uswa.sikandar@pacra.com +92-42-35869504

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Profile

Plant Chanar Energy Limited (CEL) has a co-generation bagasse based power plant with a gross generation capacity of 22MW (Net capacity: 20MW). The plant is capable of supplying both electricity and steam to the associated company, Chanar Sugar Mills Limited (CSML).

Tariff Chanar Energy's key source of earnings is the revenue generated through sale of electricity to the power purchaser, CPPA-G and associated company, CSML. The levelized upfront tariff decided by NEPRA is UScents/KWh 10.5601.

Return On Project The dollar ROE of Chanar Energy is 17%.

Ownership

Ownership Structure CEL's majority shareholding is with Mr. Javed Ahmad Kayani (60%). Other shares of the company are held by Ms. Atiya Kayani (10%), Mr. Murtaza Feroze Kayani (10%), Mr. Hamza Feroze Kayani (10%), Ms. Tayyaba Kayani (5%) and Chanar Sugar Mills Limited (5%).

Stability Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. However, sponsors association with Chanar Sugar Mills Limited will continue to provide comfort.

Business Acumen Chanar Group is engaged in the business of sugar mill and power sector. Mr Javed is a seasoned businessman. His numerous articles on sugar industry have appeared in leading newspapers like Business Recorder and daily DAWN.

Financial Strength The foundation of the group was laid with the establishment of Chanar Sugar Mill in 1990. There are 2 companies in the group and are owned by individuals of the chairman's family. Chanar Sugar Mills Limited continues to provide comfort and support in meeting company's cash requirements in the form of loans.

Governance

Board Structure CEL's four member board comprises of four family members of the Kayani family, Mr. Javed Ahmad Kayani, Ms. Atiya Kayani (wife of Mr. Javed Ahmad Kayani), Mr. Murtaza Feroz Kayani and Mr. Hamza Feroz Kayani. Mr. Javed Ahmad Kayani, CEO of the company is also the Chairman of the Board.

Members' Profile Mr. Javed Ahmad Kayani is CEO of the group. He has been elected as Chairman of Pakistan Sugar Mills Association 'Punjab Zone' for the sessions 2002-2004, 2008-2010 and 2014-2016 and served as Chairman of Pakistan Sugar Mills Association 'Central Office' for the sessions 2010-2012 and 2016-2018.

Board Effectiveness For effective oversight of the matters of the company, board discussions are held regularly where important matters related to the company are discussed. There are no independent directors nor any representation of CSML on the board.

Financial Transparency BDO Ebrahim & Co. are the external auditors of the company who expressed an unqualified opinion on the company's financial statements as at 30 June, 2023.

Management

Organizational Structure IPPs are generally featured by a flat organizational structure, mainly comprising finance and technical staff. However CEL has inhouse professional team of engineers and staff which are hired in consultation with EPC contractor and trained by EPC contractor.

Management Team Mr. Javed Kayani is the CEO of the company carrying more than 30 years of experience in Sugar & Textile and Power Sectors. He is assisted by a team of experienced professionals.

Effectiveness Chanar Energy's management effectiveness plays a significant role in empowering the organization through positive results, which has made decision making process systematic.

Control Environment Chanar Energy has an in-house MIS reporting system for monitoring operations and management reporting.

Operational Risk

Power Purchase Agreement Chanar Energy's key source of earnings is the revenue generated through sale of electricity to the power purchaser, CPPA-G, and a related company. The Company, during the season, will receive energy and capacity payments if it is at the benchmark availability and is ready to provide electricity, even if no purchase order is placed by CPPA-G. As per EPA the Company is entitled to claim payments even during off season if the plant is available and the CPPA-G is not ready to off take the available capacity.

Operation And Maintenance Chanar Energy is handing the O&M function in-house. In this regard, it has built a well experienced O&M team as the Plant is adjacent to the Chanar Sugar Mills Limited (CSML), a related company.

Resource Risk Bagasse is the primary fuel of the co-generative plant. CSML and Chanar Energy has entered in to an agreement of supply of bagasse to the plant. CSML has improved its cane crushing capacity to 7,400 MT per day. Bagasse is to be procured from CSML, for which payment is contingent on meeting all cash commitments as per agreed waterfall. Bagasse is currently not indexed against any indicator and is procured from CSML at PKR 2,805 per tonne which is much lower than the prevailing market rate.

Insurance Cover CEL has significant insurance coverage for property damage and business interruption.

Performance Risk

Industry Dynamics Power generation in Pakistan stood at ~153,874GWh in FY22, up ~7% YoY. Generation capacity, on the other hand, stood at ~43,775MW up ~10% YoY. With ~61% share in FY22, Pakistan's power generation capacity mix is highly concentrated in thermal technology. The government is aiming to progress from the current share of renewable energy in the total energy mix of the country to 20pc by 2025 and 30pc by 2030.

Generation CEL has an installed capacity of 80,810 MWh (based on 4,236 hours). During FY23, 41,050 MW (FY22: 57,816 MW) of electricity was produced out of which 84% was provided to CPPA-G while 16% was provided to CSML. The turnover for CEL for FY23 is PKR 912mln (FY22: PKR 994 million; FY21: PKR 746 million).

Performance Benchmark The company's profitability is dependent on maintaining operational performance as per agreed parameters. Efficiency required by the NEPRA is 24.50% whereas CEL's efficiency remained between 22-22.6% in FY23 (FY22: 21 - 23%). The availability of the plant should be more than 45%, i.e., 165 days, however, in FY 23 the plant remained operational for ~108 days bringing its availability to 30%.

Financial Risk

Financing Structure Analysis Chanar Energy's project-related debt was ~ 2,200mln repayable in quarterly installments in twelve years. Project debt is to be redeemed in 40 consecutive quarterly installments starting from May 2019. The capital structure of the project is 25% equity and 75% debt. Cost overruns have been funded by the sponsors. The company allowed debt by CPPA-G was PKR 1,752mln whereas actual debt was PKR 2,200mln. The difference of PKR 448mln is excess debt, which has been taken in form of loan against additional guarantee of CSML against its own assets amounting to PKR 597 million. As of date, the project related debt stands at PKR 1,630mln. The company has successfully repaid 18 quarterly installments due till August 2023.

Liquidity Profile During FY23, net cash cycle of the company clocked in at -57 days (FY22: -39 days). There is not much pressure on company's liquidity profile since bagasse is purchased from related party and its payable is usually settled against receivable from CSML. CPPA-G's repayment to CEL is averaging around 42 days.

Working Capital Financing The Company has been meeting its cash requirements comfortably from internal cash generation and support from parent company. The company does not have any short-term loan facilities.

Cash Flow Analysis CEL's recorded free cash flows from operations (FCFO) in FY23 at PKR 433 million (FY22: PKR 469mln; FY21: PKR 377mln). and interest cost at PKR 433 million (FY22: PKR 292mln; FY21: PKR 252mln). The interest cost has gone up despite timely repayments of installments due to increase in KIBOR resulting in downward trend in coverages [Interest coverage: FY23: 1.0x; FY22: 1.6x; FY21: 1.5x].

Capitalization CEL's leveraging for FY23 was at ~77.8% (FY22: 76.5%; FY21: 79%). Increase in leveraging despite principal and interest repayments being done on time can be explained through net loss incurred during the period amounting to PKR (110) million, thus eroding the equity base of the company.



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Chanar Energy Limited Power	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET			
1 Non-Current Assets	2,774	2,846	2,916
2 Investments	5	5	2
3 Related Party Exposure	-	-	-
4 Current Assets	577	734	638
a Inventories	-	-	-
b Trade Receivables	48	160	203
5 Total Assets	3,356	3,586	3,556
6 Current Liabilities	683	586	590
a Trade Payables	156	338	237
7 Borrowings	1,668	1,899	2,022
8 Related Party Exposure	411	396	320
9 Non-Current Liabilities	-	-	-
10 Net Assets	594	704	623
11 Shareholders' Equity	594	704	623
B INCOME STATEMENT			
1 Sales	912	994	746
a Cost of Good Sold	(549)	(598)	(451)
2 Gross Profit	363	396	295
a Operating Expenses	(26)	(13)	(17)
3 Operating Profit	337	383	278
a Non Operating Income or (Expense)	(8)	(18)	42
4 Profit or (Loss) before Interest and Tax	328	364	320
a Total Finance Cost	(440)	(292)	(252)
b Taxation	2	8	(4)
6 Net Income Or (Loss)	(110)	81	64
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	433	469	377
b Net Cash from Operating Activities before Working Capital Changes	2	243	113
c Changes in Working Capital	120	(45)	(74)
1 Net Cash provided by Operating Activities	122	198	39
2 Net Cash (Used in) or Available From Investing Activities	34	13	10
3 Net Cash (Used in) or Available From Financing Activities	(177)	(91)	56
4 Net Cash generated or (Used) during the period	(21)	119	105
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	-8.3%	33.4%	47.0%
b Gross Profit Margin	39.8%	39.8%	39.5%
c Net Profit Margin	-12.0%	8.1%	8.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	60.7%	42.6%	40.5%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh	-17.9%	11.5%	10.4%
2 Working Capital Management			
a Gross Working Capital (Average Days)	42	67	74
b Net Working Capital (Average Days)	-57	-39	-39
c Current Ratio (Current Assets / Current Liabilities)	0.8	1.3	1.1
3 Coverages			
a EBITDA / Finance Cost	1.0	1.6	1.5
b FCFO / Finance Cost+CMLTB+Excess STB	0.6	0.9	0.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	3353.3	12.5	18.8
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	77.8%	76.5%	79.0%
b Interest or Markup Payable (Days)	177.8	0.0	0.0
c Entity Average Borrowing Rate	19.9%	12.4%	11.8%

Credit Rating

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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 and in economic conditions are more likely to impair this capacity.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	Very high credit risk. Substantial 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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
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.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*The correlation shown is indicative and, in certain cases, may not hold.

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'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

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, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

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Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)

(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)

(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).

(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)

(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)

(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity

(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)

(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)

(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)

(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)

(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)

(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)

(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)

(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 17-(d)

Probability of Default

(22) 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; | Chapter III | 14-3(f)(vii)

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