The Pakistan Credit Rating Agency Limited

Rating Report

Kohinoor Energy Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Mar-2022	AA	A1+	Stable	Maintain	-
26-Mar-2021	AA	A1+	Stable	Maintain	-
26-Mar-2020	AA	A1+	Stable	Maintain	-
27-Sep-2019	AA	A1+	Stable	Maintain	-
28-Mar-2019	AA	A1+	Stable	Maintain	-
27-Dec-2018	AA	A1+	Stable	Maintain	-
30-Jun-2018	AA	A1+	Stable	Maintain	-
22-Dec-2017	AA	A1+	Stable	Maintain	-
23-Jun-2017	AA	A1+	Stable	Maintain	-
31-Oct-2016	AA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect the strong business profile of Kohinoor Energy Limited (Kohinoor Energy), emanating from the demand risk coverage under the Power Purchase Agreement signed between CPPA-G (Central Power Purchasing Agency) and the Company. Meanwhile, the Implementation Agreement provides a sovereign guarantee for cashflows, given adherence to agreed performance benchmarks. Kohinoor Energy continues to meet its availability and efficiency benchmarks - an outcome of technically sound O&M team, robust systems and controls. The company's financial risk profile, that showed improvement in 6MFY22, is largely dependent on repayment behavior of the power purchaser. As the receivables declined due to payments received from Government under master agreement, the Company's working capital cycle improved, eventually subsiding the reliance on funding from banking lines, now there is a considerable cushion available in working capital facilities as it has been less utilized (i.e. 16%) as at Dec’21. Business risk is considered low exhibited by demand risk coverage under the Power Purchase Agreement signed between WAPDA and the company. However going forward the profitability will be restrained due to reduction in tariff as per the agreement. Meanwhile, the coverages of the company have also improved due to decreased usage of short term borrowings. The ratings continue to take comfort from Kohinoor Energy's association with Saigol Group.

Although well-managed, in-house O&M activities expose the company to operational risk; thus upholding strong operational performance in line with agreed performance levels would remain a key driver of the ratings. Meanwhile, sustained profitability and performance levels will also remain critical.

Disclosure

Name of Rated Entity	Kohinoor Energy Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Independent Power Producer Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Power(Jan-22)
Rating Analysts	Bazah Tul Qamar | bazahtul.qamar@pacra.com | +92-42-35869504

Profile

Plant The power plant comprises of eight Residual Fuel Oil fired diesel generators having a capacity of 15.68 MW each along with a combined heat cycle recovery system providing an additional output of 6MW through a steam turbine. While using RFO as the primary fuel, the plant also has the capacity to use light fuel oil (LFO) for startup. Net rated capacity, after accounting for auxiliary consumption, is 124MW.

Tariff Company's key source of earnings is the generation tariff from the power purchaser, WAPDA. The reference generation tariff comprises a capacity charge component and an energy charge component. The former is based upon dependable capacity and constitutes a minimum tariff guaranteed to the company which covers the fixed O&M costs, insurance charges, working capital funding costs and return on equity. The levelized tariff for the period of 30 years is US cents/kWh 5.2492.

Return On Project The components of Capacity Payments are being indexed with the variation in US Dollar Exchange rate and US CPI to ensure the dollar-based return on investment.

Ownership

Ownership Structure The company has a diversified shareholding pattern - majority held by Saigol Family (62%). Meanwhile, National Bank of Pakistan (NBP) holds 6% and Wartsila Pakistan a meager 2%. The remaining shareholding is held by financial institutions, joint stock companies and individuals.

Stability Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. Stability factor is considered strong.

Business Acumen PEL, the flagship company of the Saigol group, is mainly engaged in the manufacturing and sale of electrical equipment and home appliances. However, despite the diversification, the group has a strong financial profile and proven business acumen.

Financial Strength Company’s sponsors have the ability and showed the willingness to support the entity both on a continuing basis, and support in times of crisis. Additionally, the financial strength of the sponsors is considered strong as the sponsors have well diversified profitable businesses

Governance

Board Structure BoD comprises of seven members including the Chief Executive Officer. The board members are professionals with experience in managing the business affairs of companies in different sectors. The board includes one representative of Wartsila Pakistan.

Members’ Profile The chairman, Mr. Naseem Saigol, is nominated by the Saigol Group. He is a renowned businessman and also chairs the Board of Saigol Group. The board has been actively involved in providing strategic guidance to the company and implementing strong internal control framework.

Board Effectiveness The board has made two committees, namely the Audit Committee and Human Resource & Remuneration Committee which ensures effective governance of the company. The directors of the company have attended directors training programs as per the mandatory requirement of SECP to ensure that they are aware of their duties and responsibilities and can effectively manage the affairs of listed companies on behalf of the shareholders.

Financial Transparency A.F. Ferguson & Co. Chartered Accountants are the external auditors of the company. They expressed an unqualified opinion on the company’s accounts as at 30 June 2021.

Management

Organizational Structure The management's role in an IPP is confined largely to financial matters and regulatory interaction. In light of this, KEL has a lean organizational structure. The organizational structure of the company is divided into two major functional areas (i) Technical and (ii) Support functions.

Management Team Mr. Zeid Yousaf Saigol is the CEO of the company. He has been associated as Executive Director with Pak Elektron Limited since 2011 and is leading the Company's Power Division Operations.

Effectiveness Over the years Company’s effective management played a significant role in empowering the organization through its progressive results. Additionally, management’s effective decision-making cause processes more systematic while robustness of control systems is considered a reflection of strong management.

Control Environment The company takes advantage of advanced I.T. solutions to deliver comparatively better on many fronts. Moreover, KEL's quality of the I.T. infrastructure and the breadth and depth of activities performed has remained well satisfactory

Operational Risk

Power Purchase Agreement According to the agreement, the obligations of the power purchaser are guaranteed by the Government of Pakistan. Furthermore, a stable revenue stream is also ensured through the minimum guaranteed capacity charge (the component of the tariff received irrespective of electricity production).

Operation And Maintenance Previously O&M activities were handled in-house while major maintenance work was managed by Wartsila Pakistan. Since 2016, the company started to undertake major O&M in-house that has produced a meaningful outcome.

Resource Risk Fuel supply risk terminates at the fuel supplier - PSO who will be responsible for payment of damages to the company resulting from its failure to deliver fuel as per the Fuel Supply Agreement.

Insurance Cover The company has adequate insurance coverage for property damage and business interruption.

Performance Risk

Industry Dynamics In terms of energy-mix, Pakistan’s reliance on thermal which includes imported coal, local coal, RLNG and natural gas has been decreasing over last few years. Pakistan’s dependence on natural gas in the overall energy mix is on decline. The share of renewable has steadily increased over the years. The shares of Hydro and nuclear in energy-mix have also increased in FY2020 as compared to FY 2019. Such historical variability for each energy source in the energy mix of the country has been used to formulate the Integrated Energy Plan. Currently, thermal has the largest share in RLNG are other cheaper sources. Significant growth of RLNG usage in energy mix has helped in improved supply to various power plants

Generation During 6MFY22 electricity of 182.87 GWh was produced (6MFY20: 155.93 GWh) at an average thermal efficiency of 45.07%. This increase is seen owing to higher demand for electricity by power purchaser because of changing energy mix.

Performance Benchmark Company’s availability remained satisfactory (Required: 86.07%, Actual: ~95.96%).

Financial Risk

Financing Structure Analysis The company has repaid its long-term project debt in 2008.

Liquidity Profile As at Dec 2021, total receivables of the company stood at ~PKR 894mln (FY21:~PKR 3.9bln, FY20: 8.03bln), posting a decrease of ~78% in 6 months that has improved the liquidity profile, eventually reducing the reliance on STB.

Working Capital Financing At 31 Dec 2021, total available working capital lines are ~PKR 8.4bln of which ~16% has been utilized. The company has been increasing the limit of its working capital line

Cash Flow Analysis During 6MFY22, free cash flows from operations (FCFO) stood at PKR 968mln (FY21: PKR 1,972mln). Coverages have been improved owing to lower interest cost due to decreased borrowing during the period under review [Interest coverage: 6MFY22: 14.2x, FY21: 7x, FY20: 2.8x].

Capitalization The Company has a moderately leveraged capital structure that has decreased on the back of decrease in short-term borrowings (6MFY22: 23.6%, FY21: 39%, FY20: 45.2%). Debt comprises of short-term borrowings to finance working capital requirements Kohinoor Energy

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Kohinoor Energy Limited Power	Dec-21 6M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	2,747	2,846	3,219	3,550
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	3,494	7,367	9,157	7,974
a Inventories	*933*	*756*	*49*	*190*
b Trade Receivables	*894*	*3,981*	*8,036*	*7,155*
5 Total Assets	6,241	10,213	12,376	11,524
6 Current Liabilities	274	264	444	299
a Trade Payables	*37*	*38*	*14*	*5*
7 Borrowings	1,407	3,876	5,390	5,354
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	4,559	6,073	6,543	5,871
11 Shareholders' Equity	4,559	6,073	6,543	5,871
B INCOME STATEMENT				
1 Sales	5,414	6,752	7,549	7,505
a Cost of Good Sold	*(4,541)*	*(4,983)*	*(5,392)*	*(5,946)*
2 Gross Profit	873	1,769	2,157	1,558
a Operating Expenses	(106)	(296)	(290)	(708)
3 Operating Profit	767	1,474	1,867	850
a Non Operating Income or (Expense)	*(8)*	*12*	*0*	*207*
4 Profit or (Loss) before Interest and Tax	759	1,486	1,867	1,057
a Total Finance Cost	*(68)*	*(283)*	*(831)*	*(506)*
b Taxation	*(2)*	*(4)*	*(0)*	*(0)*
6 Net Income Or (Loss)	689	1,199	1,037	551
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*965*	*1,446*	*2,314*	*1,448*
b Net Cash from Operating Activities before Working Capital Changes	*882*	*1,446*	*1,523*	*997*
c Changes in Working Capital	*3,085*	*3,294*	*(859)*	*(61)*
1 Net Cash provided by Operating Activities	3,967	4,740	663	936
2 Net Cash (Used in) or Available From Investing Activities	(97)	(40)	(93)	(446)
3 Net Cash (Used in) or Available From Financing Activities	(4,643)	(3,210)	(343)	(569)
4 Net Cash generated or (Used) during the period	(773)	1,490	227	(79)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	60.4%	-10.6%	0.6%	-9.4%
b Gross Profit Margin	16.1%	26.2%	28.6%	20.8%
c Net Profit Margin	12.7%	17.8%	13.7%	7.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	74.8%	70.2%	19.3%	18.5%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	22.9%	17.9%	16.4%	9.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	111	347	373	349
b Net Working Capital (Average Days)	109	345	373	349
c Current Ratio (Current Assets / Current Liabilities)	12.7	27.9	20.6	26.7
3 Coverages				
a EBITDA / Finance Cost	14.2	7.0	2.8	3.0
b FCFO / Finance Cost+CMLTB+Excess STB	10.0	4.3	2.8	2.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.1	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	23.6%	39.0%	45.2%	47.7%
b Interest or Markup Payable (Days)	40.7	38.5	63.1	75.1
c Entity Average Borrowing Rate	4.6%	6.6%	14.1%	9.9%

Credit Rating

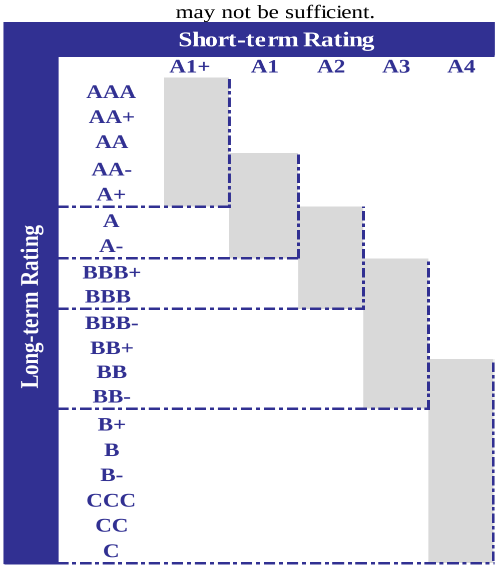
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ 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.
A+ 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.
BBB+ 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.
BB+ 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.
B+ 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.
CCC CC C	**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.
D	Obligations are currently in default.

Short-term Rating

Scale	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
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 surveill 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):

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

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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.
(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 | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(f-VII)

Proprietary Information