



The Pakistan Credit Rating Agency Limited

LALPIR POWER LIMITED

	NEW [DEC-17]	PREVIOUS [JUN-17]
Long-Term	AA	AA
Short-Term	A1+	A1+
Outlook	Stable	Stable

REPORT CONTENTS
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Profile & Ownership

- Lalpir Power Limited, an independent power producer (IPP) under the power policy 1994. It operates a thermal power plant with a gross capacity of 362MW.
- Lalpir Power Limited started commercial operations in Nov-97 and it has completed 19 years out of 30 year tenor under the PPA.
- Lalpir majority owned by Nishat Group (45%) and The City Schools (18%).
- Major Sponsor – Nishat Group – is the biggest conglomerate of the country with interests in textile, cement, power, real estate, banking and insurance.
- Listed on Pakistan Stock Exchange.

Governance & Management

- BoD comprises seven members including CEO and one independent director.
- The board has formed two committees Audit Committee and Human Resource & Remuneration Committee.
- Mr. Hassan Mansha - chairman of the board holds position of Group Head-Energy and directorship of six other companies.
- Key management directly reports to chairman which compromises efficacy of the board.
- Mr. Aurangzeb Feroz is CEO for the past seven years, he has over 24 years of experience in business development and strategic management.
- Lalpir has a lean organization structure with an experienced professional management team.
- The company maintains an adequate MIS system which helps management to keep track of all O&Ms.

Business & Operational Risk

- O&M activities are carried in house which ensures control over O&M.
- The Company has entered into a contract for a period of thirty years for purchase of fuel from PSO.
- The plant's availability remained well above required level in 6MCY17 (Required:86%; Actual: 98%).
- Thermal efficiency remained below par despite newly carried efficiency programs (Required:38%; Actual:35%). Reduction in delta losses due to lower electricity generation as compared to previous period have resulted in an increased net profit in 6MCY17 to PKR 627mln as compare to corresponding year (6MCY16: PKR 572mln). Increased interest income from CPPA on delayed payments further boded well with the profitability.
- Company is also considering to enter in to a solar power energy projects. However, tariff determined by NEPRA for solar energy projects remains a main obstacle.
- Progress on plant's conversion from oil fired to coal have been delayed due to government policy to restrict use of imported coal on certain projects.

Performance

- Generation of electricity remained adequate due to capacity factor (6MCY17: 53%; 6MCY16: 62%) .
- Lately completed efficiency enhancement projects have reduced the drag of inefficiency on the bottomline.

Financial Risk

- Debt mainly comprises short-term borrowings to finance working capital requirements and maintenance projects as at 6MCY17 (STB:91%; LTL:9%) and CY16 (STB:87%; LTL:13%).
- During 6MCY17 free cash flows from operations (FCFO) stood at PKR ~1,437mln (6MCY16: PKR ~1,339, CY16: PKR ~2,508mln).The improvement has been seen due to better profitability culminating in improved converges.
- During 6MCY17, company's interest coverage stood at 3.87x, showing improvement on YoY basis (6MCY16: 3.77x, CY16: 3.49x) owing to uptick in FCFO and better profitability.
- Company's leveraging increased mainly due to significant increase in short term borrowing (6MCY17: 48.4%, 6MCY16: 47.0% CY16: 44.1%)
- Overdue receivables backed by the sovereign guarantee caused the cash cycle largely maintained at the same level to 179 days in 6MCY17 (6MCY16: 178 days , CY16: 189 days).

RATING RATIONALE

The ratings reflect the regulated structure of Lalpir's business; Whereby revenues and cash flows are guaranteed by the sovereign government given adherence to agreed operational parameters. On standalone basis, reduced delta between required and actual efficiency levels has helped in better operational performance. However, negative delta, though reducing, remained a drag. Business risk is considered low exhibited by demand risk coverage under Power Purchase Agreement signed between Power purchaser and the company. Receivable days almost doubled in CY16. However, modest reduction can be seen in 6MCY17. The Company has been consistent in paying dividends. Lalpir Power repaid its long term project debt in 2010. However, current borrowings reflects the need to bridge the working capital requirements and maintenance projects.

KEY RATING DRIVERS

Upholding operational performance in line with agreed performance levels would remain a key rating driver. Accumulation of debt to finance CAPEX of the coal conversion project and/or fresh investment in new power project – may impact financial risk profile of the company. Concurrently, any significant increase in overdue receivables, as a result of rising circular debt, may negatively impact the ratings.



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Financial Summary

Lalpir Power Limited

BALANCE SHEET

	30-Jun-17	31-Dec-16	30-Dec-15	31-Dec-14
	6M	CY16	CY15	CY14
Non-Current Assets	9,529	9,933	10,312	11,098
Investments (Others)	-	1	1	3
Current Assets	16,473	13,884	11,173	12,523
Inventory	1,325	1,326	1,340	1,219
Trade Receivables	10,750	8,597	6,677	8,480
Other Current Assets	4,198	3,460	2,474	2,191
Cash & Bank Balances	200	502	681	632
Total Assets	26,002	23,818	21,487	23,623
Debt				
Short-term	10,999	8,632	6,610	7,919
Long-term (Incl. Current Maturity of long-term debt)	1,060	1,336	1,889	1,991
Other Short term liabilities (inclusive of trade payables)	1,054	1,212	580	1,398
Other Long term Liabilities	23	19	22	18
Shareholder's Equity	12,866	12,619	12,386	12,298
Total Liabilities & Equity	26,002	23,818	21,487	23,623

INCOME STATEMENT

Turnover	10,470	15,366	22,079	30,917
Gross Profit	1,062	1,856	2,039	1,879
Other Income	2	25	4	5
Financial Charges	(371)	(718)	(809)	(976)
Net Income	627	995	850	793

Cashflow Statement

Free Cashflow from Operations (FCFO)	1,437	2,508	2,647	2,111
Net Cash changes in Working Capital	(3,081)	(2,203)	652	2,883
Net Cash from Operating Activities	(1,978)	(434)	2,434	3,886
Net Cash from Investing Activities	(37)	(455)	(216)	(3,054)
Net Cash from Financing Activities	1,713	710	(2,169)	(204)
Net Cash generated during the period	(302)	(179)	49	627

Ratio Analysis

Performance

Turnover Growth	34.2%	-30.4%	-28.6%	-15.5%
Gross Margin	10.1%	12.1%	9.2%	6.1%
Net Margin	6.0%	6.5%	3.8%	2.6%
ROE	10.3%	8.2%	6.6%	6.4%

Coverages

Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	2.2	2.0	1.9	1.8
Interest Coverage (X) (FCFO/Gross Interest)	3.9	3.5	3.3	2.2
FCFO Pre-WC/Gross interest+CMLTD	2.1	1.7	1.9	1.5

Liquidity

Short Term Borrowings Coverage (Adjusted Quick Assets/Short Term Borrowings)	1.0	1.0	1.0	1.0
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	179.1	189.5	113.3	91.5

Capital Structure (Total Debt/Total Debt+Equity)

	48.4%	44.1%	40.7%	44.6%
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Lalpir Power Limited

Dec-17

CREDIT RATING SCALE & DEFINITIONS

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 RATINGS		SHORT TERM RATINGS
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+	Very high credit quality. Very low expectation of credit risk.	
AA	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	
AA-		
A+	High credit quality. Low expectation of credit risk.	
A	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+	Good credit quality. Currently a low expectation of credit risk.	
BBB	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+	Moderate risk. Possibility of credit risk developing.	
BB	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+	High credit risk.	
B	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	Very high credit risk. Substantial credit risk	
CC	“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.	

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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.



Name of Rated Entity Sector
Type of Relationship

Lalpir Power Limited
 IPP
 Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
22-Dec-17	AA	A1+	Stable	Maintain
08-Jun-17	AA	A1+	Stable	Maintain
31-Oct-16	AA	A1+	Stable	Maintain
20-Nov-15	AA	A1+	Stable	Maintain
20-Nov-14	AA	A1+	Stable	Maintain
31-Oct-13	AA	A1+	Stable	Maintain
28-Nov-12	AA	A1+	Stable	Maintain
13-Jan-12	AA	A1+	Stable	Maintain

Related Criteria and Research

Rating Methodology
 Sector Research

IPP's Rating Methodology
 Power Sector - Viewpoint | Mar-17

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[Rating Team Statement](#)

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

[Disclaimer](#)

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PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

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PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

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PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties

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[Probability of Default \(PD\)](#)

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