

RATING REPORT

Nova Powergen Limited

REPORT DATE:

July 10, 2020

RATING ANALYSTS:

Narendar Shankar Lal

narendar.shankar@vis.com.pk**RATING DETAILS**

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	AA	A-1+
Rating Date	July 10, 2020	
Rating Outlook	Stable	

COMPANY INFORMATION

Incorporated in 2016	External auditors: Kreston Hyder Bhimji & Co., Chartered Accountants
Public Unlisted Company	Chief Executive Officer: Mr. Muhammad Iqbal Bilwani

APPLICABLE METHODOLOGY(IES)*Applicable Rating Criteria: Industrial Corporates (May, 2019)*<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Corporate-Methodology-201904.pdf>

Nova Powergen Limited

OVERVIEW OF
THE
INSTITUTION

RATING RATIONALE

Nova Powergen Limited (NPL) was initially incorporated as a Private Limited Company in March 2016. It was later converted to a Public Limited Company (Un-listed) in June 2016. Registered office of the company is based in Quetta.

Nova Powergen Limited (NPL) was setup by Novatex Limited (Novatex) as a wholly-owned subsidiary for the purpose of routing its investment in ThalNova Power Thar (Private) Limited (ThalNova). ThalNova is a joint venture between Nova Powergen Ltd, Thal Power (Private) Limited (wholly owned subsidiary of Thal Limited), Hub Power Holdings Limited (HUBCO), Descon Engineering Limited and CMEC to set up a 330 MW mine mouth coal-fired power generation plant located at Thar, Sindh. This power plant will be run on indigenous coal extracted from the mine operated by Sindh Engro Coal Mining Company Limited. The financial close of ThalNova is expected in Q3 of 2020 and the Commercial Operations in Q1 of 2022.

Novatex has undertaken to invest an amount of the PKR equivalent of US Dollar 32.55 million in ThalNova through NPL in order to fulfill ThalNova's equity investment obligation.

Key rating drivers:**Strong sponsor profile**

Incorporated in 1991, Novatex is principally engaged in manufacturing and sale of PET Resin and other types of Resin, PET Preform and BOPET films. The company is one of the leading exporters in Pakistan and also has dominant market share in the local market in all three segments in which it operates. Novatex has been assigned AA/A-1+ ratings by VIS Credit Rating Company.

Unlevered capital structure and sponsor support agreement with Novatex

As at June 30, 2019, NPL's outstanding liabilities amounted to Rs. 478m, which were solely due to the sponsor. This amount primarily represents an interest free loan received from Novatex for purchase of shares of ThalNova. The loan is likely to be converted into share capital based on the progress achieved by ThalNova for its underlying project.

Ratings also draw comfort from the unlevered capital structure of NPL, commitment from NPL that it will not undertake any debt in future, and the undertaking from Novatex that it will be liable for all existing and future liabilities of NPL.

RATING SCALE & DEFINITION

Appendix I

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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.

REGULATORY DISCLOSURES		Appendix II			
Name of Rated Entity	Nova Powergen Limited				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	10/06/2020	AA	A-1+	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	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.				
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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Due Diligence Meetings Conducted	S.No	Name	Designation	Date	
	1	Mr. Rizwan Diwan	Director	Dec 03, 2019	
	2	Mr. Mustufa Bilwani	Company Secretary	Dec 03, 2019	