

Press Release

JCR-VIS Assigns Preliminary Rating to the proposed Sukuk issue of Neelum Jhelum Hydropower Company (Private) Limited

Karachi, April 12, 2016: JCR-VIS Credit Rating Company Ltd. (JCR-VIS) has assigned preliminary rating of 'AAA' (Triple A) to the proposed Sukuk issue of Rs. 100 billion of Neelum Jhelum Hydropower Company (Private) Limited (NJHPC). Outlook on the assigned rating is 'Stable'. Ratings will be finalized upon review of signed legal documents and issuance of GoP guarantee.

NJHPC was setup to design, construct, own, operate and maintain Neelum Jhelum Hydropower Project (NJHPP); a 969MW run-of-the-river project in Azad Jammu & Kashmir. NJHPP will add around 5% to the country's total installed power generation capacity and will be the 4th largest hydropower project in the country representing 12% of total installed hydel capacity. Annual electricity generation from the project is expected at 5.15billion units at average 59.4% capacity utilization. As per the revised PC-1 2015, the total project cost is estimated at Rs. 404billion with the project having achieved 80% physical completion. Around three fourth of the total cost is being funded through debt while the remaining portion will be funded through equity. The first generating unit of the project is expected to start production by mid-2017 and the rest of the three units are planned to come online in a phased manner by December 2017.

Sukuk will be unlisted, privately placed having a tenor of 10 years (inclusive of a grace period of 2 years) and will be used to fund the NJHPP. Sukuk will have semi-annual principal and rental payments and draw down is planned in three tranches. Apart from Government of Pakistan (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.

The assigned rating to the proposed Sukuk issue incorporates the following factors:

- Unconditional and irrevocable first demand guarantee issued by the President Islamic Republic of Pakistan (on behalf of the GoP) covering issue amount of the Sukuk alongwith profit payments. GoP would pay the entire called amount immediately upon receiving a demand notice from the trustee. Ratings also reflect financial strength and demonstrated support from the parent entity, Water and Power Development Authority, in the form of equity injection and funding support.
- Financial viability is supported by the tariff mechanism for hydropower projects which is based on cost plus return on investment.
- The project is based on a perennial river system and the supply of water has been determined to be adequate, given the water treaty arrangements. Moreover, hydrological risk is to be borne by the power purchaser as per power policy.
- Hydropower generation is the cheapest source of electricity (over the long term) and will resultantly be placed highest in the economic merit order.
- Technical viability has been assessed by reputable international consultants and multilateral agencies

For further information on this rating announcement, please contact the undersigned (Ext: 501) or Mr. Muhammad Khalid Ali (Ext: 508) at (021)35311861-70 or fax to (021) 35311872-3.

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Applicable Rating Criteria: Industrial Corporates (October 2003)

Rating The Issue (September 2014)

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