INDEPENDENT POWER PRODUCERS (IPP)

RATINGS (MAY 2011)

NISHAT CHUNIAN POWER LIMITED (NCPL)

	NEW	PREVIOUS
ENTITY		
Long Term	**AA**	AA-
Short Term	**A1+**	A1+

FINANCIAL DATA

PKR (mln)

	Dec-10^	June –10	June - 09
Total Assets	25,210	22,703	9,231
Equity	4,564	3,649	1,795
Turnover	8,449	0	0
Operating profits/ (Loss)	2,217	-5.8	-2.2
Net Income	914.2	-7.8	-1.5
Total Debt/ Equity (%)	79.0*	80.9*	80

^ Based on unaudited accounts for six months ended December 31, 2010
**treating sub-ordinated loan as equity*

ANALYSTS

Awais Z. Khan
+92 42 35869504
awais@pacra.com

Rana M. Nadeem
+92 42 35869504
nadeem@pacra.com

RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect low payment risk, emanating from a cashflow stream as guaranteed by the GoP under the Power Purchase Agreement (PPA), subject to adherence to agreed performance parameters. Furthermore, the appointment of Wartsila, a firm of international repute with substantial experience in Pakistan, as the Operations and Maintenance (O&M) contractor effectively minimizes the operational risks. Meanwhile, though the plants runs on furnace oil, its presence near a major consumption area provides comfort for priority payment from power purchaser. Moreover, association of NCPL with Nishat family is also taken into consideration.
- The ratings are dependent on the management's ability to maintain operations as per PPA agreement. Meanwhile, external factors such as any changes in the regulatory framework of IPPs and inability to adequately manage liquidity requirements, currently in focus due to the prevailing circular debt issue, remain critical to the ratings.

ASSESSMENT

- NCPL – an independent power producer (IPP) commissioned[1] its plant operations under Power Policy 2002 with a total cost of US$ 243mln and capacity of 200MW (Dependable capacity of 195MW).
- For operations and maintenance (O&M) of the plant, the company has initially entered into five years contract with Wartsilla Pakistan (WPK). WPK has proven track record of providing O&M services with over 20 years of presence in Pakistan. Hence, it possesses requisite experience to carry out O&M activities effectively. In addition, the contractual terms of the O&M agreement provide guarantee of performance parameters set under PPA interalia, plant availability, output, and heat rate, thus limiting performance risk. The agreement allows NCPL to pass on liquidity damages to the O&M operator in case of any non performance to the agreed parameters. Since the CoD, The O&M Operator has successfully maintained the running of the plants while consistently producing electricity, as per NTDC demand. To date, the company has produced 1,081,666MW of electricity while maintaining the availability, efficiency, heat rate and lube oil consumption largely at the required parameters.
- The Fuel Supply Agreement (FSA) has been executed with Shell Pakistan Limited, one of the leading local oil marketing company. Shell is responsible for providing NCPL with Residual Fuel Oil (RFO), additives and lubricants. The agreement is valid for a period of 10 years from the COD. In case of Shell's inability to provide the company with the required fuel, the damages imposed by the power purchaser, would be passed on to Shell to an extent. However, Shell has adequate storage capacity and widespread distribution network, which mitigates the risk of fuel supply disruption. Moreover, Shell has allowed NCPL to acquire fuel from other sources, in case, it can not meet the desired quantity of fuel.
- NCPL's primary source of revenue is the generation tariff from the power purchaser. It comprises a capacity charge component and an energy charge component. With the exception of agreed return to project shareholders with adjustment for performance achievements, all other elements of cost are pass-through having no bearing on the company's core profitability. The stability and sustainability of cash flows is ensured through the minimum guaranteed capacity charge component of the tariff that NCPL would receive even if it produces no electricity (in case of zero demand from the power purchaser). Meanwhile its prime location near a major city and industrial consumption center in Punjab places it in a relatively better position to receive priority payments from the power purchaser.
- NCPL's generation tariff (levelized for year 1-25) of US¢11.1627 per Kilowatt hour (Kwh) has been approved by NEPRA consisting of capacity and variable charges at the time of CoD based total cost of the project to the tune of US$ 237mln as compared to NCPL's claim of PKR US$243mln.
- Availability of adequate working capital is essential. NCPL might be required to inject liquidity in case the payments from NTDC are delayed and payments to Shell f all due. NCPL would require working capital lines equivalent to 60 days at least to cover credit period allowed to NTDC according to the terms of the PPA. The receivables mainly arising from NTDC have reached PKR 6,209mln, out of which PKR 2,312mln is overdue. As per the industry norms, NCPL's cashflows are adversely impacted due to delayed payments from NTDC mainly attributable to on-going circular debt and tremendous increase in furnace oil prices. Therefore, NCPL has arranged working capital lines of PKR 6.4bln to cover its working capital requirements. The company has already utilized credit lines worth PKR 3,659mln as of End-Dec 2011. Un-utilized working capital lines provide cover in case the need arises.
- As per total project cost assessed by NEPRA, the capital structure of NCPL comprises 80% debt ($190mln), arranged from a consortium of local banks, and 20% equity ($47mln). Meanwhile, NCPL's total long-term liabilities are to the tune of PKR 15,259mln and since its CoD, NCPL has made regular payments to its lenders (three quarterly payments) despite facing delay of payments from NTDC.

PROFILE

- Nishat Chunian Power limited (NCPL) is a special purpose company established to set up an Independent Power Producer (IPP). The electricity generated will be sold to NTDC under the PPA, which in turn will distribute and modulate the capacity generated by NCPL.
- The principal share holder is Nishat Chunian Limited – holding 55% of the equity. Meanwhile, Allied Bank Limited and National Bank of Pakistan hold 10% and 5%, respectively. The remaining (30%) of the shareholding belongs to the general public. The principal shareholder, Nishat Chunian Limited, incorporated in 1990 as a public limited company, and is listed on the local stock exchanges. The Company is currently operating with 147,926 spindles, 293 looms, and a modern dyeing and finishing plant having capacity of 71,000 meters per day and has a captive power plant with a total capacity of 33MW. Sales have progressively increased from PKR 2,095mln in 1999 to over PKR 13,344mln in 2010. The company has long-term entity rating of 'A' by JCR-VIS.
- The eight-member Board of Directors is composed of six representatives from NCL and a representative each from ABL and NBP. NCL nominees also hold various directorships in various Nishat group companies.

[1] NCPL achieved its Commercial Operations Date (COD) on July 21, 2011 (After a delay on 21 days). The plant is located in Jambar Kalan, in District Kasur, near Lahore on Build-Own-Operate (BOO) basis and consists of eleven Residual fuel Oil (RFO) fired diesel engines along with a combined cycle heat recovery system through a steam turbine