



The Pakistan Credit Rating Agency Limited

Rating Report

Nishat Chunian Power Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
16-Sep-2019	A+	A1	Stable	Maintain	-
18-Mar-2019	A+	A1	Stable	Maintain	-
06-Nov-2018	A+	A1	Stable	Maintain	-
22-Mar-2018	A+	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect strong business profile of Nishat Chunian Power Limited (Nishat Chunian Power) emanating from the demand risk coverage under Power Purchase Agreement signed between CPPA-G (Central Power Purchasing Agency) and the company. Meanwhile, the Implementation Agreement provides sovereign guarantee for cashflows, given adherence to agreed performance benchmarks. Nevertheless, delayed payments from the power purchaser remained a challenge. Despite higher receivable days the entity managed to sustain its financial strength. Nishat Chunian Power, with in-house Operations and Maintenance (O&M), has a well-experienced team and has been demonstrating satisfactory performance since 2015. Fuel supply risk is considered adequate as they procure from different suppliers with good credit terms; being managed since 2011. Although there are delays in payments from power purchaser, the company manages the impact by aligning the payments to fuel supplier with its receipts. This keeps working capital needs under check. Short term borrowing lines are available and mainly used to fund any short-fall in working capital requirements. As of March-19, short term lines utilization stood at 53%. Nishat Chunian Power continues to meet its availability (88%) and efficiency (45%) benchmarks. Given the liquidity situation, utilization is imputed to go up. Settlement of overdue receivables is crucial. The company has an outstanding long term debt of PKR 2,710mln as at end-June19, payable till June 2020. Sound financial profile of Nishat Chunian Group; the major sponsor, provides comfort to the ratings.

Sustained good financial discipline and upholding strong operational performance in line with agreed performance levels remain important. Accumulation of circular debt would pose threat to the company's ability to continue with this practice. However, the management ably supported by sponsors' remains committed to sustain improvement in management of commercial obligations and timely debt repayments.

Disclosure

Name of Rated Entity	Nishat Chunian Power Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_IPP_FY19(Jun-19),PACRA_Criteria_LT ST Relationship_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study Power(Jan-19)
Rating Analysts	Taimoor Ahmad taimoor.ahmad@pacra.com +92-42-35869504

Profile

Plant Nishat Chunian Power Limited (Nishat Chunian Power) operates a 200 MW thermal power plant. The power plant comprises eleven Residual Fuel Oil fired diesel engines having a capacity of 16.9 MW each. Net rated capacity, after accounting for auxiliary consumption, is 195.722 MW

Tariff Nishat Chunian Power's key source of earnings is the generation tariff from the power purchaser, Central Power Purchasing Agency (CPPA-G). The reference generation tariff comprises a capacity charge component and an energy charge component. Levelized tariff of the Nishat Chunian Power is 11.16 PKR per KWh.

Return On Project The dollar IRR of Nishat Chunian Power, as agreed with NEPRA, is 15%.

Ownership

Ownership Structure The principal sponsor of the company is Nishat Chunian Limited (51.07%). The rest of the shareholding lies with the Financial Institutions (26.51%), General Public (17.76%) and Others (4.66%) as at end June-19

Stability Stability in the IPPs is drawn from the agreements signed between the company and the power purchaser. Moreover, sponsors affiliation with Nishat Chunian Group will continue to provide comfort.

Business Acumen Nishat Chunian Group has an enviable business history of over two decades. The Group gradually diversified in various industries with operations across textile, energy, and entertainment sector.

Financial Strength The financial strength of the sponsors is considered strong as the sponsors have well diversified profitable businesses.

Governance

Board Structure Nishat Chunian Power's board comprises of nine directors. One board member is a representatives from Nishat Chunian Limited and one board member is a nominee from Allied Bank Limited. All the board members are seasoned professionals having interests in various sectors of the industry.

Members' Profile Board members are qualified and have relevant experience in their portfolio reflecting strong management profile.

Board Effectiveness The experiences of board will help guiding the management in developing effective operational and financial policies. The board has formulated two committees, i) Audit & ii) HR and Remuneration Committee, to ensure smooth and effective monitoring of operations. Participation of all board members during board meetings remained satisfactory.

Financial Transparency M/s. AF Ferguson & Company, Chartered Accountants, is the external auditor of the company. The auditor gave an unqualified opinion on the company's financial statements for the year ended June 30, 2018.

Management

Organizational Structure Nishat Chunian Power has a lean management structure. Company has separate teams at head office and at plant site. The CEO is supported by a team of qualified and experienced professionals. At plant site, team is headed by Mr. Haris Murtaza – Plant Manager at Plant site.

Management Team The management control of the company vests with Nishat Chunian Limited being largest shareholder. Mr. Farrukh Ifzal, who was previously serving as the Managing Director, appointed as the CEO during the 4QFY19, replacing Mr. Shahzad Saleem, who was spearheading the company since incorporation. Mr. Muhammad Bilal, who was previously serving as the Company Secretary, is appointed as the CFO during 4QFY19.

Effectiveness The management's role in an IPP is confined largely to financial matters and regulatory interaction. The management tier ensures effective delegation of functional responsibility across various departments, facilitating a smooth flow of operations.

Control Environment Nishat Chunian Power takes advantage of advanced I.T. solutions deliver comparatively better on many fronts. Moreover, Nishat Chunian Power's quality of the I.T. infrastructure and the breadth and depth of activities performed remains well satisfactory.

Operational Risk

Power Purchase Agreement Nishat Chunian Power's key source of earnings is the revenue generated through sale of electricity to the power purchaser, CPPA-G. The Company will receive the capacity payments if it is at the benchmark availability and is ready to provide electricity, even if no energy demand is placed by CPPA-G. Company has a power purchase agreement of 25 years with CPPA-G.

Operation And Maintenance O&M activities are handled in house by an experienced team and performance risk borne by the company itself. The CEO maintains regular monitoring of the O&M operations, via Company's Director of Finance and Operations, Sonia Karim, who oversees the operations on the plant.

Resource Risk Nishat Chunian Power plant is fuelled by Residual Fuel Oil (RFO).The Company is procuring fuel through various OMCs including My Energy, Attock Petroleum, Byco Petroleum, Hascol Petroleum, Gas & Oil Pakistan without any formal contract. Though Company has been managing the fuel supply timely, yet this arrangement exposes Nishat Chunian Power's to the risks related to inventory management and non-availability of fuel that is to be borne by the Nishat Chunian Power.

Insurance Cover Nishat Chunian Power has significant insurance coverage for property damage and business interruption. The insured values for damages include a property damage cover (upto PKR 29.87bln) & business interruption cover (up to PKR 6.87bln). Insurance is covered by Adamjee Insurance Co.

Performance Risk

Industry Dynamics Pakistan total power generation is increasing on the back of new power projects under CPEC. During July - March FY2019, installed capacity of electricity reached 34,282 MW, which was 33,433 MW in corresponding period last year, thus, posting a growth of 2.5 percent. Although electricity generation varies due to availability of inputs and other constraints, the generation increased from 82,011 GWh to 84,680 GWh, posting a growth of 2.1 percent during the period under discussion

Generation Nishat Chunian Power generated 455GWh of electricity during 9MFY19 (9MFY18: 641GWH, FY18: 879GWh). The decline of 29% in relation to the corresponding period was owing to the lower power demand by the power purchaser on the back of improving energy mix of the country.

Performance Benchmark The required availability for Nishat Chunian Power under the PPA is 88%. During 9MFY19, average plant availability has been maintained according to agreed parameter. Company's top line declined to PKR 11,318mln during 9MFY19 (9MFY18: PKR 12,249mln; FY18: PKR 16,594mln). The decrease in topline is attributable to lower generation during the period as a result of lower power demand by NTDC/CPPA-G. Net income stood at PKR 2,606mln during 9MFY19 (9MFY18: PKR 2,575mln).

Financial Risk

Financing Structure Analysis Nishat Chunian Power's project capital structure comprises 20% equity and 80% debt. The project cost (80%) was financed through a syndicated term finance loan. The loan size, PKR 15,114mln, is priced at 3-month KIBOR + 3% p.a. The repayment tenor is ten (10) years with quarterly re-payment frequency. As at end-June19, the total principal outstanding amounts to PKR 2,710mln, which will be repaid in four upcoming quarters till June-20.

Liquidity Profile As at end March-19, total receivables of the company stood at PKR 12,469mln (FY18: PKR 12,221ml), an increase of around ~2%. As circular debt continues to be an issue for companies operating in power sector, consequently IPPs have to manage their liquidity requirements from short-term borrowings. However, the government efforts in cutting distribution losses and the issue of Pakistan Energy Sukuk-II worth Rs200bln reiterates the government commitment to overcome the crisis.

Working Capital Financing Cash cycle days stood at 322days for 9MFY19 (FY18: 279days, FY17: 222days). During 9MFY19, Nishat Chunian Power has available working capital lines of PKR 12,950mln (FY18: PKR 12,950mln) of which ~55% (FY18: 57%) has been utilized.

Cash Flow Analysis Nishat Chunian Power shown a marginal decline in debt coverage ratio [FCFO pre WC / Gross Interest +CMLTD], which dropped to 1.5x during 9MFY19 (FY18:1.7x, FY17: 1.7x). This is attributable to the increase in the interest expense and the increase in CMLTD as the debt is approaching maturity.

Capitalization Nishat Chunian Power leveraging for 9MFY19 remained moderate at ~43% (FY18: 52%, FY17: 60%). STD comprised 87% and LTD stood 13% of total debt. financing.



Nishat Chunian Power Limited

PKR in mln

BALANCE SHEET	31-Mar-19	30-Jun-18	30-Jun-17	30-Jun-16
	9M	Annual	Annual	Annual
Non-Current Assets	11,435	11,391	12,005	12,824
Investments (Others)	-	-	9	9
Current Assets	14,636	15,015	11,800	8,848
Inventory	820	1,337	1,478	1,213
Trade Receivables	12,469	11,706	9,053	6,424
Other Current Assets	1,318	1,873	1,153	1,209
Cash & Bank Balances	30	98	116	2
Total Assets	26,072	26,406	23,814	21,681
Debt	10,780	13,230	13,551	13,274
Short-term	6,859	7,656	6,043	4,101
Long-term (Incl. Current Maturity of long-term debt)	3,920	5,574	7,507	9,173
Other Short term liabilities (inclusive of trade payables)	1,375	947	1,073	1,114
Other Long term Liabilities	-	-	-	-
Shareholder's Equity	13,917	12,229	9,190	7,293
Total Liabilities & Equity	26,072	26,406	23,814	21,681

INCOME STATEMENT

Turnover	11,318	16,594	16,148	13,854
Gross Profit	3,807	4,640	4,320	4,194
Other Income	-	1	1	0
Financial Charges	(965)	(1,046)	(1,093)	(1,219)
Net Income	2,606	3,406	3,000	2,756

Cashflow Statement

Free Cashflow from Operations (FCFO)	4,278	5,516	5,243	5,152
Net Cash changes in Working Capital	(47)	(3,035)	(2,577)	1,617
Net Cash from Operating Activities	3,286	1,474	1,560	5,475
Net Cash from Investing Activities	(549)	(453)	(335)	(597)
Net Cash from Financing Activities	(1,627)	(2,651)	(3,053)	(3,637)
Net Cash generated during the period	(1,443)	(1,630)	(1,829)	1,241

Ratio Analysis

Performance				
Turnover Growth	-7.6%	2.8%	16.6%	-38.6%
Gross Margin	33.6%	28.0%	26.8%	30.3%
Net Margin	23.0%	20.5%	18.6%	19.9%
ROE	25.0%	27.9%	32.6%	37.8%
Coverages				
FCFO Pre-WC/Gross interest+CMLTD	1.5	1.7	1.7	1.8
FCFO Post-WC/Gross interest+CMLTD	1.5	0.8	0.9	2.3
Liquidity				
Net Cash Cycle	322.2	278.9	222.4	188.2
Capital Structure				
Net Debt/Net Debt+Equity	43.6%	52.0%	59.6%	64.5%

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	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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.

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)

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- (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)

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