The Pakistan Credit Rating Agency Limited

Rating Report

Nishat Power Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Dec-2018	A+	A1	Stable	Maintain	-
30-Jun-2018	A+	A1	Stable	Maintain	-
29-Dec-2017	A+	A1	Stable	Maintain	-
23-Jun-2017	A+	A1	Stable	Maintain	-
17-Dec-2016	A+	A1	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Nishat Power Limited (Nishat Power) runs a 200MW power plant. The company operates in the regulated power sector. It enjoys sovereign guarantee against receivables from power purchaser - NTDC - given adherence to agreed performance benchmarks. Nishat Power Limited, with in-house Operations and Maintenance (O&M), has a well-experienced team. While cost-savings are a likely outcome, it is critical to hold any operational benchmarks to avoid any consequences. The company's financial risk profile is largely dependent on repayment behavior of power purchaser. In recent period, receivables including delayed payments interest witnessed an increase. Nevertheless, the company has been managing its working capital requirements via short-term borrowings. Plant has performed up to the mark with greater availability factor than of its set benchmark. The company's conservative dividend payout provides further flexibility in financial management. Thus healthy profile of the company should help ameliorate its financial

Upholding operational performance in line with agreed performance levels would remain a key rating driver. Meanwhile, any significant increase in overdue receivables, as a result of rising circular debt, may negatively impact the ratings.

Disclosure

Name of Rated Entity	Nishat Power Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Criteria | Rating Modifier(Jun-18),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-18),Methodology | IPP (Jun-18)
Related Research	Sector Study | Power(Apr-18)
Rating Analysts	Faizan Arif | faizan.sufi@pacra.com | +92-42-35869504

Profile

Plant Nishat Power operates a 200MW power plant in Jamber Kalan, on a "Build Own Operate (BOO)" basis. The plant is designed to run on Residual Fuel Oil (RFO).
Tariff Nishat Power has a generation tariff (levelized tariff for years 1-25) of US ¢15.4127 (PKR 13.16) per kilowatt hour (kWh) approved from NEPRA.
Return On Project The dollar IRR of Nishat Power, as agreed with NEPRA, is 15%.

Ownership

Ownership Structure Nishat Mills is the major sponsor with 51% shareholding. It is the flagship company of Nishat group. Allied Bank Limited (ABL) holds 8.5%, whereas financial institutions hold 23% of overall shares of the company.
Stability Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. However, sponsors association with Nishat group and Allied Bank Limited will continue to provide comfort.
Business Acumen Nishat Mills, established in 1951, is the single largest textile composite unit in Pakistan. The Company is a leading exporter of textile products having extensive spinning, weaving, bleaching, dyeing, printing, finishing and stitching facilities.
Financial Strength The financial strength of the sponsors is considered strong as the sponsors have well diversified profitable businesses.

Governance

Board Structure The Company's Board of Directors comprises seven members including the CEO and two independent director. Five members are from Nishat Group, while one director is from Allied Bank.
Members' Profile Qualified and experienced board, providing strategic guidance to the management and ensuring quality internal control framework.
Board Effectiveness For effective oversight of the matters the board has formed two board committees. (i) Audit Committee (ii) HR & Remuneration Committee. Participation of all board members during board meetings remained satisfactory.
Financial Transparency A.F. Ferguson & Co. Chartered Accountants is the external auditors of the company. They have expressed an unqualified opinion on the company's financial statements for the period ended June 30, 2018.

Management

Organizational Structure Nishat Power has a well-defined lean organizational structure with a professional management team in place to monitor the operations and assure control mechanisms.
Management Team Mr. Hassan Mansha, the Chief Executive Officer of the company, also serves on the boards of various Nishat Group companies. He is assisted by a team of qualified individuals. The technical team reports to the General Manager Power who reviews the O&M performance on a daily basis and reports to the CEO.
Effectiveness Considering the opportunism through foreseeable economic growth in country in upcoming time periods, NPL has enhanced its functions by introducing Strategic planning division; the division will give the strategic insight to the company and also at the group level to have a competitive edge.
Control Environment Various MIS reports are prepared for the management to keep track of all operating activities and operational efficiencies. Apart from daily reporting, a more detailed MIS on a monthly basis is also generated.

Operational Risk

Power Purchase Agreement Nishat Power's key source of earnings is the revenue generated through sale of electricity to the power purchaser, NTDC. The Company will receive the capacity payments if it is at the benchmark availability and is ready to provide electricity, even if no purchase order is placed by Power Purchaser.
Operation And Maintenance Nishat Power started managing O&M activities in-house through experienced staff after t expiry of the contract with Wartsila. While this is likely to result in cost savings, implications of any deviation from operational benchmarks are to be borne by the Company.
Resource Risk Nishat Power has various fuel supply arrangements mainly from PARCO, Attock Petroleum, and OTO Pakistan Private Limited. While, Shell and Chevron Pakistan are the supplier of additives and lubricants.
Insurance Cover Nishat Power has adequate insurance coverage. The revised insurance component of capacity charge part of tariff from 1 July 2018 to 30 June 2019 is PKR 0.1217/KWh.

Performance Risk

Industry Dynamics Pakistan total power generation is increasing on the back of new power projects under CPEC. Going forward, cheap renewable electricity will be a challenge to viability of thermal power plants. During FY18, there has been a growth of ~30% in the actual power generation. Moreover, there has been an increase of ~17% in the installed capacity as at end-Jun18 to 32,641MW (FY17: 27,731MW).
Generation Electricity generation decreased by 6% (FY18: 1,171GWH, FY17: 1,240GWH); a facet of lower electricity demand from the power purchaser. During 1QFY19, Company has generated 316GWH of electricity with average capacity factor of 73% (1QSep17: 85%).
Performance Benchmark During FY18, revenue has been increased on account of higher Energy Purchase Price (EPP) owing to surge in fuel prices, which in turn translate into better profitability (FY18: PKR 3,211mln; FY17: PKR 2,886mln). Company's bottom line as of end-Sep18 stood at PKR 983mln (end-Sep17: PKR 860mln) with Gross margin standing at 22%. NPL has been able to maintain thermal efficiency at the required level of 45%.

Financial Risk

Financing Structure Analysis Nishat Power's project capital structure comprises 20% equity (US$ 46mln) and 80% debt (US$ 183mln). Project related debt was PKR 14,164mln, out of which PKR 10,059mln has been paid off till Oct-18. Total Principal outstanding at end-Oct18 is PKR 4,105mln.
Liquidity Profile Nishat Power's total receivables increased to PKR 12,329mln at end-Jun18 (end-Jun17: PKR 8,944mln), out of which PKR 6,017mln (end-Jun17: PKR 3,279mln) were over due by more than 90 days. Receivables as of end-Sep18 stood at PKR. 14,302mln.
Working Capital Financing Cash cycle days have been increased to 293 days in FY18 (FY17: 237 days) on account of increase in receivable days (FY18: 266 days, FY17: 217 days) a facet of delayed payments recovery from NTDC. Cash cycle and receivables days as of end-Sep18 stood at 245 days & 223 days respectively.
Cash Flow Analysis In line with the profitability, free cash flows from operations (FCFO) has also increased on YoY basis (FY18: PKR 4,922; FY17: PKR 4,592mln). Due to the increase in FCFO and lower interest expense, improvement in interest coverage can also be seen on YoY basis (FCFO / Gross interest: FY18: 6.7x; FY17: 6.1x; FY16: 5.4x). Free cash flows as of end-Sep18 stood at PKR 1,456mln with interest coverage (FCFO / Gross interest) standing at 6.6x.
Capitalization Gradual principal repayments and increase in equity leads to reduced leveraging (FY18: 37%; FY17: 38%; FY16: 41%). Leveraging in Company's total capital structure as of end-Sep18 stood at 37%.

Nishat Power Limited

BALANCE SHEET	30-Sep-18	30-Jun-18	30-Jun-17	30-Jun-16
	3M	FY18	FY17	FY16
Non-Current Assets	**10,539**	**10,658**	**11,390**	**11,658**
Investments (Others)	**1**	**1**	**1**	**1**
Current Assets	**17,700**	**16,248**	**11,872**	**9,415**
Inventory	2,331	2,494	1,638	1,233
Trade Receivables	14,302	12,329	8,944	6,384
Other Current Assets	1,026	1,285	1,127	1,124
Cash & Bank Balances	42	140	162	674
Total Assets	**28,240**	**26,908**	**23,263**	**21,075**
Debt	**10,221**	**9,671**	**8,656**	**8,376**
Short-term	5,613	4,579	1,799	-
Long-term (Inlc. Current Maturity of long-term debt)	**4,608**	**5,092**	**6,858**	**8,376**
Other Short term liabilities (inclusive of trade payables)	634	835	709	448
Other Long term Liabilities	-	-	-	-
Shareholder's Equity	**17,385**	**16,401**	**13,898**	**12,251**
Total Liabilities & Equity	**28,240**	**26,908**	**23,263**	**21,075**
INCOME STATEMENT				
Turnover	**5,846**	**16,929**	**15,042**	**13,896**
Gross Profit	1,277	4,226	3,866	3,887
Other Income	1	(1)	16	32
Financial Charges	(222)	(737)	(749)	(867)
Net Income	**983**	**3,211**	**2,886**	**2,852**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	1,456	4,922	4,592	4,716
Net Cash changes in Working Capital	(1,778)	(4,265)	(2,697)	1,589
Net Cash from Operating Activities	(517)	(83)	1,135	5,365
Net Cash from InvestingActivities	(130)	(246)	(688)	(343)
Net Cash from Financing Activities	550	307	(959)	(4,451)
Net Cash generated during the period	(97)	(22)	(512)	571
Ratio Analysis				
Performance				
Turnover Growth	28.1%	12.5%	8.2%	-37.7%
Gross Margin	21.8%	25.0%	25.7%	28.0%
Net Margin	16.8%	19.0%	19.2%	20.5%
ROE	23.2%	21.0%	21.8%	23.3%
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.9	1.8	1.8	2.0
Interest Coverage (X) (FCFO/Gross Interest)	6.6	6.7	6.1	5.4
FCFO Pre-WC/Gross interest+CMLTD	1.9	1.8	1.8	2.0
FCFO POST-WC/Gross interest+CMLTD	-0.4	0.2	0.8	2.6
FCFO+change in WC+Change in STB/Gross Interest+CMLTI	0.9	1.2	1.5	2.3
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable	245.1	292.6	237.4	190.0
Capital Structure (Total Debt/Total Debt+Equity)	37.0%	37.1%	38.4%	40.6%

Rating Scale

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.

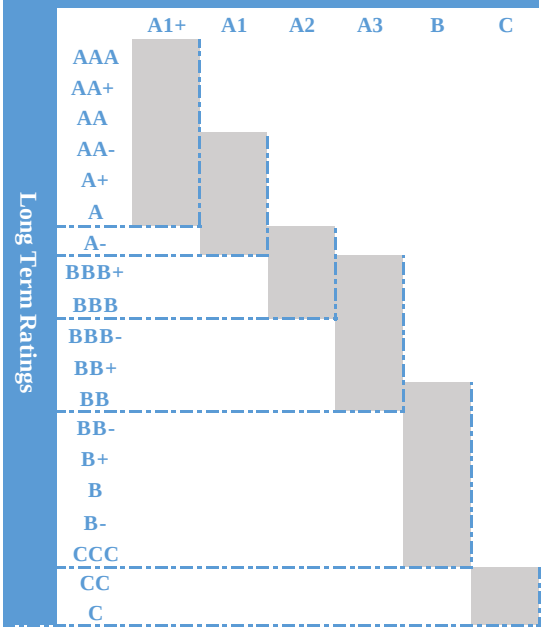
Long Term Ratings

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
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.
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.
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+ 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.
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.

Short Term Ratings

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

Short Term Ratings



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 surveill the opinion due to lack of requisite information.

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

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)

Independence & Conflict of interest
(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)
Proprietary Information