



The Pakistan Credit Rating Agency Limited

## Rating Report

### Nishat Power Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Sep-2020	AA-	A1	Stable	Upgrade	-
27-Sep-2019	A+	A1	Stable	Maintain	-
28-Mar-2019	A+	A1	Stable	Maintain	-
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	-
18-Dec-2015	A+	A1	Stable	Maintain	-
19-Dec-2014	A+	A1	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect strong business profile of Nishat Power Limited (Nishat Power) emanating from the demand risk coverage under Power Purchase Agreement signed between National Transmission & Despatch Company (NTDC) 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 Power, with in-house Operations and Maintenance (O&M), has a well-experienced team and has been demonstrating satisfactory performance. Fuel supply risk is considered adequate as they procure from different suppliers with good credit terms. Although, there are delays in payments from power purchaser, the company manages the impact by aligning the payments to fuel supplier with its receipts. Nishat Power continues to meet its availability (88%) and efficiency (45%) benchmarks. Settlement of overdue receivables is crucial. The ratings stemmed from the fact that the long-term debt of the company was fully paid successfully in June-2020 and now the only debt on the financial statements of Nishat Power is short-term debt. The company is effectively managing its working capital requirements, short-term borrowing lines are mainly used to fund any shortfall in working capital requirements. The Government has signed a MoU with the IPPs operating under the Power Policy of 2002 to review their tariff structure. The terms of the MoU are subject to approval of the Board of Directors of the company in addition to any other corporate approvals that may be required, as well as approvals by NEPRA and the Federal Cabinet to be followed by legal documentation. Sound financial profile of Nishat Mills Limited; 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 reflected by the timely and fully repayment of long-debt.

#### Disclosure

<b>Name of Rated Entity</b>	Nishat Power Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   IPP(Jun-20),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria   Rating Modifier(Jun-20)
<b>Related Research</b>	Sector Study   Power(Jan-20)
<b>Rating Analysts</b>	Shahmeer Dar   shahmeer.dar@pacra.com   +92-42-35869504

## Profile

**Plant** Nishat Power Limited (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% based on 25 years.

## Ownership

**Ownership Structure** Nishat Power is a 51% owned subsidiary of Nishat Mills Limited (Nishat Mills). Allied Bank Limited (Allied Bank) holds 8.5%, whereas Financial Institutions including Allied Bank hold 13.9% 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 directors. Five members are from Nishat Group the other two directors are independent.

**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 to ensure smooth and effective monitoring of operations.

**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, 2020.

## 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. Ghazanfar Husain Mirza, 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** Nishat Power 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 ensures availability and is ready to provide electricity.

**Operation And Maintenance** Nishat Power started managing O&M activities in-house through experienced staff after the 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 and Attock Petroleum. While, Shell and Chevron Pakistan are the supplier of additives and lubricants.

**Insurance Cover** Nishat Power has adequate insurance coverage.

## Performance Risk

**Industry Dynamics** Pakistan’s energy mix is shifting towards Solar/Gas/RLNG and coal from Furnace Oil and other expensive sources. Pakistan total power generation is increasing on the back of new power projects under CPEC. As on Sep-19, installed capacity of electricity reached 34,523 MW, which was 32,574 MW at end June-19, thus, posting a growth of 5.98%. Although electricity generation varies due to availability of inputs and other constraints, the generation decreased from 148,042 GWh to 146,231 GWh, posting a decline of 1.2% in FY19 as compared to FY18.

**Generation** During FY20, Nishat Power generated 278GWh of electricity as compared to 675GWh during FY19. (FY18: 1,171GWh, FY17:1,240GWh). This decrease (~58%) is mainly attributable to lower electricity demand from the power purchaser. During FY20, the average capacity factor stood at 16.18% as compared to 39.46% during FY19. During FY20, average plant availability has been maintained according to agreed parameter.

**Performance Benchmark** During FY20 the topline of the company declined to PKR 11,738mln as compared to PKR 15,582mln during FY19 (FY18: 16,929mln). The decrease in topline is owing to the lower power generation on account of lower power demand by the power purchaser. The effect of decrease in power generation trickled down to operating costs, and thus boosting the profit margins of the company.

## Financial Risk

**Financing Structure Analysis** Nishat Power’s project capital structure comprised 20% equity (US\$ 46mln) and 80% debt (US\$ 183mln). Project related debt was PKR 14,164mln, and it has been completely paid off in Jun-2020.

**Liquidity Profile** Nishat Power’s total receivables stood at PKR 18,233mln end-Jun20 (FY19: PKR15,644mln, FY18: PKR 12,329mln). 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.

**Working Capital Financing** Cash cycle days have been increased to 536 days as at end-Jun19 (FY19: 417 days, FY18: 293 days) on account of increase in receivable days (end – FY20: 567 days, FY19: 366 days, FY18: 266 days) a facet of delay in payments recovery from NTDC. As at end Jun-20, Nishat Power has available working capital lines of PKR 10,802mln (FY19: PKR 10,002mln) of which PKR 4,751mln (~44%) has been utilized (FY18: 6,420mln: 64% utilization).

**Cash Flow Analysis** Coverages have increased substantially owing to the fact that the long term debt of the company has been paid off completely and no current maturity is appearing in the financial statements during the period under review [FY20: 5.8x, FY19: 1.7, FY18: 1.8x].

**Capitalization** The Company currently has a low leveraged capital structure, comprises 16.9% debt as at FY20 (FY19: 33.1%, FY18: 37%). As at end June-20, STD comprises 99% (FY19: 68%, FY18: 47%, FY17:21%) of total debt.



## Nishat Power Limited

BALANCE SHEET	30-Jun-20	30-Jun-19	30-Jun-18	30-Jun-17
	FY20	FY19	FY18	FY17
<b>Non-Current Assets</b>	<b>9,395</b>	<b>10,006</b>	<b>10,658</b>	<b>11,390</b>
Investments (Others)	18	1	-	1
<b>Current Assets</b>	<b>19,911</b>	<b>19,080</b>	<b>16,248</b>	<b>11,872</b>
Inventory	843	2,477	2,494	1,638
Trade Receivables	18,233	15,644	12,329	8,944
Other Current Assets	831	939	1,285	1,127
Cash & Bank Balances	5	21	140	162
<b>Total Assets</b>	<b>29,324</b>	<b>29,086</b>	<b>26,907</b>	<b>23,263</b>
<b>Debt</b>	<b>4,825</b>	<b>9,460</b>	<b>9,671</b>	<b>8,656</b>
Short-term	4,751	6,420	4,579	1,799
Long-term (Incl. Current Maturity of long-term debt)	74	3,040	5,092	6,858
Other Short term liabilities (inclusive of trade payables)	802	517	835	709
Other Long term Liabilities	-	-	-	-
<b>Shareholder's Equity</b>	<b>23,697</b>	<b>19,109</b>	<b>16,401</b>	<b>13,898</b>
<b>Total Liabilities &amp; Equity</b>	<b>29,324</b>	<b>29,086</b>	<b>26,908</b>	<b>23,263</b>

## INCOME STATEMENT

<b>Turnover</b>	<b>11,738</b>	<b>15,582</b>	<b>16,929</b>	<b>15,042</b>
Gross Profit	6,420	4,998	4,226	3,866
Other Income	7	7	51	23
Financial Charges	(1,143)	(946)	(737)	(749)
<b>Net Income</b>	<b>4,943</b>	<b>3,770</b>	<b>3,211</b>	<b>2,886</b>

## Cashflow Statement

Free Cashflow from Operations (FCFO)	6,779	5,547	4,922	4,592
Net Cash changes in Working Capital	(497)	(3,322)	(4,265)	(2,697)
Net Cash from Operating Activities	5,074	1,331	(83)	1,135
Net Cash from Investing Activities	(96)	(182)	(246)	(688)
Net Cash from Financing Activities	(4,993)	(1,268)	307	(959)
Net Cash generated during the period	(16)	(120)	(22)	(512)

## Ratio Analysis

<b>Performance</b>				
Turnover Growth	-24.7%	-8.0%	12.5%	8.2%
Gross Margin	54.7%	32.1%	25.0%	25.7%
Net Margin	42.1%	24.2%	19.0%	19.2%
ROE	41.7%	20.9%	21.0%	21.8%
<b>Coverages</b>				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	5.8	1.7	1.8	1.8
Interest Coverage (X) (FCFO/Gross Interest)	5.9	5.9	6.7	6.1
FCFO Pre-WC/Gross interest+CMLTD	5.8	1.7	1.8	1.8
FCFO POST-WC/Gross interest+CMLTD	5.4	0.7	0.2	0.8
FCFO+change in WC+Change in STB/Gross Interest+CMLTD	4.0	1.2	1.2	1.5
<b>Liquidity</b>				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	536.6	416.7	292.6	237.4
<b>Capital Structure</b>				
Total Debt/Total Debt+Equity	16.9%	33.1%	37.1%	38.4%

## Nishat Power Limited

**Credit Rating**

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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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.
AA-	
A+	
A	<b>High credit quality.</b> 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.
A-	
BBB+	
BBB	<b>Good credit quality.</b> 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.
BBB-	
BB+	<b>Moderate risk.</b> 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.
BB	
BB-	
B+	
B	<b>High credit risk.</b> 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.
B-	
CCC	<b>Very high credit risk.</b> 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.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
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.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



\*The correlation shown is indicative and, in certain cases, may not hold.

**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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) 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.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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(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

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- (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.
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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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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
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- (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)

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- (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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