



The Pakistan Credit Rating Agency Limited

## RATING REPORT

### NISHAT POWER LIMITED

	<b>NEW [DEC-16]</b>	<b>PREVIOUS [DEC-15]</b>
Long-Term	A+	A+
Short-Term	A1	A1
Outlook	Stable	Stable

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DECEMBER 2016

## **Profile & Ownership**

- Nishat Power Limited (NPL), a public limited listed IPP, was established in 2007 under 2002 Power policy.
- Commercial operations started in Jun-10.
- A Residual Furnace Oil based thermal plant of ~200MW nameplate capacity with eleven engines and a steam turbine.
- Project cost - US\$243mln - comprising 20% equity and 80% debt.
- Nishat Mills is the major sponsor with 51% shareholding. It is the flagship company of Nishat group – one of the biggest conglomerates of the country with interests in textile, cement, power, real estate, banking and insurance.
- Allied Bank Limited (ABL) holds 8.5%, whereas financial institutions hold 23% of overall shares of the company.

## **Governance**

- BoD comprises seven members including the CEO.
- Five members are from Nishat Group, while one director is from ABL, and one is independent.
- The board has formed two committees Audit Committee and Human Resource & Remuneration Committee.
- Qualified and experienced board, providing strategic guidance to the management and ensuring quality internal control framework.

## **Management**

- Mr. Hassan Mansha - CEO has over 14 years of professional experience within the group.
- Nishat has a lean organizational structure with a professional management team.

## **Performance**

- During FY16, 1,272GWH of electricity were produced (FY15:1,410GWH) at 45% thermal efficiency and average load factor of 74% (FY15:82%).
- The Company started managing O&M activities in-house after 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. In-house O&M activities through experienced staff.
- NPL ensured plant availability at 100% during the year (required: 88%).
- Fuel procurement from various suppliers.
- Declining trend is witnessed in revenue, owing to suppressed oil prices and lower demand from power purchaser, but improved operational and financial management supported NPL's profitability (1QFY17: PKR 733mln; FY16: PKR 2,851mln; 1QFY16: PKR 930; FY15: PKR 3,117 ).

## **Financial Risk**

- NPL's total receivables were reported at PKR 7,111mln at end-Sep16 (end-Jun16: PKR 6,384mln; end-Jun15: PKR 8,050mln).
- Cash cycle days surged to 202 days in 1QFY17 (FY16: 190 days; FY15: 151 days) due to increased receivables days (end -Sep16: 180 days, FY16: 168 days; FY15: 132 days), resulting from delayed payments by the power purchaser.
- The Company managed its working capital requirements through internal generation (available working capital lines of PKR 7,766mln at end Jun-16).
- Cashflows from operations declined (end-Jun16: PKR 4,684mln; end-Jun15: PKR 5,558mln); however, efficient working capital management led to slightly improved coverages on YoY basis (Post-Working Capital FCFO / Interest + Current Maturity + Uncovered STB: end-Sep16: 1.1; FY16: 2.6x; FY15: 2.2x).
- Company paid a dividend of PKR2,213mln during FY16.
- Debt comprises only long-term borrowings (1QFY17: PKR 6,441; end-Jun16: PKR 6,858; end-Jun15: PKR 8,376).
- Debt to equity ratio was at 38% at end-Sep16 (end-Jun16: 41%, end-Jun15: 48%).

## **RATING RATIONALE**

Nishat Power Limited 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. The company, after expiry of operations and maintenance (O&M) contract with Wartsila Pakistan, has beefed-up its in-house team to enable it to manage O&M function effectively. While cost-savings are a likely outcome, any deviation from operational benchmarks may have its adverse implications on the company. The company's financial risk profile is largely dependent on repayment behavior of power purchaser. In recent period, receivables witnessed an increase. Nevertheless, the company has been managing its working capital requirements from internal generation. The company's conservative dividend payout provides further flexibility in financial management. Thus healthy profile of the company should help ameliorate its financial behavior.

## **KEY RATING DRIVERS**

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.



## Nishat Power Limited

<b>BALANCE SHEET</b>	<b>30-Sep-16</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>	<b>30-Jun-14</b>
	<b>3MFY17</b>	<b>Annual</b>	<b>Annual</b>	<b>Annual</b>
<b>Non-Current Assets</b>	<b>11,574</b>	<b>11,658</b>	<b>12,320</b>	<b>13,259</b>
<b>Investments (Others)</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>-</b>
Equity	1	1	1	-
Debt	-	-	-	-
<b>Current Assets</b>	<b>9,907</b>	<b>9,415</b>	<b>10,709</b>	<b>13,263</b>
Inventory	1,306	1,233	1,875	1,498
Trade Receivables	7,111	6,384	8,050	10,348
Other Current Assets	848	1,124	681	378
Cash & Bank Balances	641	674	103	1,039
<b>Total Assets</b>	<b>21,480</b>	<b>21,073</b>	<b>23,028</b>	<b>26,523</b>
<b>Debt</b>	<b>8,018</b>	<b>8,376</b>	<b>10,615</b>	<b>13,849</b>
Short-term	-	-	932	3,042
Long-term (Incl. Current Maturity of long-term debt)	<b>8,018</b>	<b>8,376</b>	<b>9,683</b>	<b>10,807</b>
Other Short term liabilities (inclusive of trade payables)	480	448	802	2,319
Other Long term Liabilities	-	-	-	-
<b>Shareholder's Equity</b>	<b>12,984</b>	<b>12,251</b>	<b>11,613</b>	<b>10,355</b>
<b>Total Liabilities &amp; Equity</b>	<b>21,482</b>	<b>21,075</b>	<b>23,030</b>	<b>26,523</b>

**INCOME STATEMENT**

<b>Turnover</b>	<b>3,593</b>	<b>13,896</b>	<b>22,314</b>	<b>27,479</b>
Gross Profit	966	3,887	4,692	4,657
Other Income	12	32	20	27
Financial Charges	(184)	(867)	(1,430)	(1,612)
<b>Net Income</b>	<b>733</b>	<b>2,852</b>	<b>3,117</b>	<b>2,917</b>

**Cashflow Statement**

Free Cashflow from Operations (FCFO)	1,147	4,684	5,558	5,580
Net Cash changes in Working Capital	(480)	1,589	512	(4,640)
Net Cash from Operating Activities	489	5,365	4,522	(725)
Net Cash from Investing Activities	(158)	(343)	(76)	(329)
Net Cash from Financing Activities	(360)	(4,451)	(5,382)	(1,854)
Net Cash generated during the period	(28)	571	(936)	(2,908)

**Ratio Analysis**

<b>Performance</b>				
Turnover Growth	-20.7%	-37.7%	-18.8%	9.7%
Gross Margin	26.9%	28.0%	21.0%	16.9%
Net Margin	26.9%	28.0%	21.0%	16.9%
ROE	22.8%	22.3%	24.9%	28.7%
<b>Coverages</b>				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	2.0	2.0	2.0	2.0
Interest Coverage (X) (FCFO/Gross Interest)	6.2	5.4	3.9	3.5
FCFO Pre-WC/Gross interest+CMLTD	2.0	2.0	2.0	2.0
FCFO POST-WC/Gross interest+CMLTD	1.2	2.6	2.2	0.3
FCFO+change in WC+Change in STB/Gross Interest+CMLTD	1.2	2.2	1.4	0.6
<b>Liquidity</b>				
Short Term Borrowings Coverage (Adjusted Quick Assets/Short Term Borrowings)	n.a.	n.a.	9.3	3.1
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	202.1	190.0	150.5	130.0
<b>Capital Structure (Total Debt/Total Debt+Equity)</b>	<b>38.2%</b>	<b>40.6%</b>	<b>47.8%</b>	<b>57.2%</b>

## Nishat Power Limited

Sep-16

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## STANDARD RATING SCALES & 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.

<b>LONG TERM RATINGS</b>		<b>SHORT TERM RATINGS</b>
<b>AAA</b>	<p><b>Highest credit quality.</b> Lowest expectation of credit risk.</p> <p>Indicate exceptionally strong capacity for timely payment of financial commitments.</p>	<p><b>A1+:</b> The highest capacity for timely repayment.</p> <p><b>A1:</b> A strong capacity for timely repayment.</p> <p><b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>C:</b> An inadequate capacity to ensure timely repayment.</p>
<b>AA+</b> <b>AA</b> <b>AA-</b>	<p><b>Very high credit quality.</b> Very low expectation of credit risk.</p> <p>Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p>	
<b>A+</b> <b>A</b> <b>A-</b>	<p><b>High credit quality.</b> Low expectation of credit risk.</p> <p>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.</p>	
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<p><b>Good credit quality.</b> Currently a low expectation of credit risk.</p> <p>The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.</p>	
<b>BB+</b> <b>BB</b> <b>BB-</b>	<p><b>Moderate risk.</b> Possibility of credit risk developing.</p> <p>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.</p>	
<b>B+</b> <b>B</b> <b>B-</b>	<p><b>High credit risk.</b></p> <p>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.</p>	
<b>CCC</b> <b>CC</b> <b>C</b>	<p><b>Very high credit risk.</b></p> <p>“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.</p>	
<b>D</b>	<p>Obligations are currently in default.</p>	

**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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

**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’.

**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, a suspended 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, or e) the entity/issuer defaults.

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## Regulatory and Supplementary Disclosure

### [Rated Entity](#)

**Name of Rated Entity**  
**Sector**  
**Type of Relationship**

Nishat Power Limited  
IPPs  
Solicited

### [Purpose of the Rating](#)

Independent Risk Assessment

### [Rating History](#)

Dissemination Date	Long Term	Short Term	Outlook	Action
18-Dec-15	A+	A1	Stable	Maintain
19-Dec-14	A+	A1	Stable	Maintain
19-Nov-13	A+	A1	Stable	Maintain
27-Nov-12	A+	A1	Stable	Downgrade
05-Jul-12	AA	A1+	RW	Maintain

### [Related Criteria and Research](#)

**Methodology:**

IPP's Rating Methodology- Jun16

**Research:**

Independent Power Producer- Viewpoint | Feb -16

**Rating Analysts**

Sanna Khan sanna.khan@pacra.com (92-42-35869504)	Aisha Khalid aisha@pacra.com (92-42-35869504)
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### [Rating Team Statement](#)

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