The Pakistan Credit Rating Agency Limited

RATING REPORT

NISHAT POWER LIMITED

	NEW [DEC-17]	PREVIOUS [JUN-17]
Long-Term	A+	A+
Short-Term	A1	A1
Outlook	Stable	Stable

REPORT CONTENTS

DECEMBER 2017

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 and independent director.
- 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 startegic guidance to the managment 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

- 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 well above from its benchmark during the year (required: 88%).
- Fuel procurement from various suppliers.
- During FY17, revenue has been increased on account of higher Energy Purchase Price (EPP) owing to surge in fuel prices (FY17: PKR 15.04bln; FY16: PKR 13.8bln). Net profit of the company largely maintained at same level (FY17: PKR 2.88bln; FY16: PKR 2.85bln)

Financial Risk

- NPL's total receivables were reported at PKR 8,944mln at FY17 (FY16: PKR 6,384mln; FY15: PKR 8,050mln).
- Cash cycle days surged to 237 days at FY17 owing to rising recievables (FY16: 190 days; FY15: 151 days), resulting from delayed payments by the power purchaser.
- Cashflows from operations declined at FY17: PKR 4,592mln (FY16: PKR 4,684mln; FY15: PKR 5,558mln).
- Debt comprises short-term borrowings to finance working capital requirements and long-term borrowings as at FY17 (STB:21%; LTL:79%) and FY16 (STB:0%; LTL:100%).
- During FY17, the Company’s interest coverages stood at 6.1x, showing improvement on a YoY basis (FY16: 5.4x; FY15: 3.9x).
- Debt to equity ratio stood at 38.4%. The reduction has been seen due of increased shareholder’s equty during FY17 (FY16: 41%, FY15: 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 (including delayed payments interest), leading to increased working capital requirements. Nevertheless, the company has been managing its sizable amount of working capital requirements from internal arrangements. Plant has performed up to the mark with greater availability and efficiency 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 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

PKR mln

BALANCE SHEET	30-Jun-17	30-Jun-16	30-Jun-15
	FY17	FY16	FY15
Non-Current Assets	**11,390**	**11,658**	**12,320**
Investments (Others)	**1**	**1**	**1**
Equity	1	1	1
Debt	-	-	-
Current Assets	**11,872**	**9,415**	**10,709**
Inventory	1,638	1,233	1,875
Trade Receivables	8,944	6,384	8,050
Other Current Assets	1,127	1,124	681
Cash & Bank Balances	162	674	103
Total Assets	**23,263**	**21,075**	**23,030**
Debt	**8,656**	**8,376**	**10,615**
Short-term	1,799	-	932
Long-term (Inlc. Current Maturity of long-term debt)	**6,858**	**8,376**	**9,683**
Other Short term liabilities (inclusive of trade payables)	709	448	802
Other Long term Liabilities	-	-	-
Shareholder's Equity	**13,898**	**12,251**	**11,613**
Total Liabilities & Equity	**23,263**	**21,075**	**23,030**
INCOME STATEMENT			
Turnover	**15,042**	**13,896**	**22,314**
Gross Profit	3,866	3,887	4,692
Other Income	16	32	20
Financial Charges	(749)	(867)	(1,430)
Net Income	**2,886**	**2,852**	**3,117**
Cashflow Statement			
Free Cashflow from Operations (FCFO)	4,592	4,684	5,558
Net Cash changes in Working Capital	(2,697)	1,589	512
Net Cash from Operating Activities	1,135	5,365	4,522
Net Cash from InvestingActivities	(688)	(311)	(76)
Net Cash from Financing Activities	(959)	(4,451)	(5,382)
Net Cash generated during the period	(512)	603	(936)
Ratio Analysis			
Performance			
Turnover Growth	8.2%	-37.7%	-18.8%
Gross Margin	25.7%	28.0%	21.0%
Net Margin	19.2%	20.5%	14.0%
ROE	21.8%	22.3%	24.9%
Coverages			
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.8	2.0	2.0
Interest Coverage (X) (FCFO/Gross Interest)	6.1	5.4	3.9
FCFO Pre-WC/Gross interest+CMLTD	1.8	2.0	2.0
FCFO POST-WC/Gross interest+CMLTD	0.8	2.6	2.2
FCFO+change in WC+Change in STB/Gross Interest+CMLTD	1.5	2.2	1.4
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	237.4	190.0	150.5
Capital Structure (Total Debt/Total Debt+Equity)	38.4%	40.6%	47.8%

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.

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

Regulatory and Supplementary Disclosure

Rated Entity

Name of Rated Entity	Nishat Power Limited
Sector	IPPs
Type of Relationship	Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
29-Dec-17	A+	A1	Stable	Maintain
23-Jun-17	A+	A1	Stable	Maintain
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 | Mar-17

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Rating Team Statement

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so.

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating.

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