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
22-Sep-2023	AA-	A1	Stable	Maintain	-
24-Sep-2022	AA-	A1	Stable	Maintain	-
24-Sep-2021	AA-	A1	Stable	Maintain	-
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	-

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 Central Power Purchasing Agency (CPPA-G) and the company. Meanwhile, the Implementation Agreement provides sovereign guarantee for cashflows, given adherence to agreed performance benchmarks. Nishat Power continues to meet its availability and other performance benchmarks. 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 low as they procure from different suppliers with good credit terms. During FY23, Nishat Power Limited generated 538GWh of electricity a decline of 32% (YOY), and subsequently recorded the revenue of PKR 23,069mln presenting a decline of 2.6% (YOY). This decrease in generation is mainly attributed to shift of electricity demand towards a less expensive source of generation i.e., Hydro, Solar, Wind and Biogas from the power purchase in wake of cost-effective energy basket. Despite fall in revenue, margins benefitted from less utilization of short-term borrowings and appreciation of USD against PKR. Currently leveraging stood at 4.1% representing short-term borrowing only (FY22:13.9%). There is adequate cushion available to the company to meet its working capital requirement in their approved STB limits. The ratings stemmed from the fact that the long-term debt of the company was fully paid successfully in June-2020. Also, company has a Power Purchase Agreement lasting till 2035. 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. Furthermore, going forward delay in receiving the amounts from Power purchaser remains a cause of concern. 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	
Name of Rated Entity	Nishat Power Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Independent Power Producer Rating(Jul-23)
Related Research	Sector Study | Power(Jan-23)
Rating Analysts	Anam Waqas Ghayour | anam.waqas@pacra.com | +92-42-35869504

Profile

Plant Nishat Power Limited (Nishat Power) operates a 200MW power plant in Jamber Kalan, Kasur, Punjab. 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 by NEPRA. However, after the continuous indexation and escalation in fuel prices, for June quarter, the Company was receiving the tariff for the fuel cost component of PKR: 24.8984/KWh, capacity charge of PKR: 1.7966/KWh and variable O&M charge of PKR: 2.6614/KWh.

Return On Project Pursuant to Master Agreement, the Power Purchaser and the Company, developed and submitted to NEPRA, tariff adjustment application to prospectively reduce ROE and ROEDC components, i.e. 17% per annum in PKR on NEPRA approved equity at Commercial Operations Date for RoE and RoEDC calculated at USD/PKR exchange rate of PKR 148/USD, with no future USD indexation.

Ownership

Ownership Structure Nishat Power is a subsidiary of Nishat Mills Limited (Nishat Mills) which owns 51% share of the Company. The Company's ordinary shares are listed on the Pakistan Stock Exchange Limited.

Stability Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. However, sponsors association with Nishat group will continue to provide comfort.

Business Acumen Nishat Mills, established in 1951, is the amongst 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. Mr. Hassan Mansha is the Chairman of the Board.

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. were the external auditors of the company and they have given unqualified opinion for the financials for the period ended June 30, 2022. Riaz Ahmad & Co. Chartered Accountants are appointed as the external auditor of the Company for FY23.

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/CPPA-G. The Company will receive the capacity payments if it is at the benchmark 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, 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 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. There has been an increase of~10% in the installed generation capacity as at end-Jun22. The total installed generation capacity was recorded at ~43,775MW as in FY22 (~39,772MW FY21). Owing to newly installed plants, Pakistan's energy mix is shifting towards Solar/Gas/and coal from Furnace Oil and other expensive sources. There was an increase of 4,003MW new power projects including CPEC from coal and renewable sources and this will increase further in coming years.

Generation During FY23, Nishat Power Limited generated 538GWh of electricity, 68% of total generation of FY22 (794GWh) and subsequently recorded the revenue of PKR 23,069mln presenting a decline of 2.6% (YOY). This decrease in generation is mainly attributed to shift of electricity demand towards a less expensive source of generation i.e., Hydro, Solar, Wind and Biogas from the power purchase in wake of cost-effective energy basket.

Performance Benchmark The plant is operated with a capacity factor of 31% during the said period (FY22: 46.42%). Average plant availability has been maintained according to the agreed parameters.

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, and it has been completely paid off in Jun-2020.

Liquidity Profile The company has managed its working capital in an efficient manner. Nishat Power's total receivables for 9MFY23 stood at PKR 15,624mln (FY22: PKR 11,533mln, FY21: PKR 18,964mln). FCFO during 9MFY23 stood at PKR: 3,580mln (FY22: PKR 4,332mln, FY21: PKR 3,566mln).

Working Capital Financing The company has managed its working capital in an efficient manner. Company managed its cash flows needs partially in-house. As at end FY23, Nishat Power has available working capital lines of PKR 10,552mln (FY22: PKR 10,602mln), company utilized 11.7% of the available lines as at end March'23.

Cash Flow Analysis During 9MFY23, NPL managed to meet its working capital requirements via internal cash generation, on back of payment of second tranche received in June 2022 from the Government of Pakistan as decided in Master Agreement. Consequently, Cash cycle days reduced to 266 days as at end-Mar 23 (FY22: 270 days, FY21: 594 days). Similarly, Coverages have increased substantially owing to the non-utilization of STB Limits (9MFY23: 43.9x FY22: 18.5x, FY21: 10.6x).

Capitalization After the repayment of the project debt, the Company's only obligations were short-term borrowings. However, during 9MFY23 company's utilization remains minimal, stood at PKR 1,236mln (FY22: PKR 4,488mln). Currently leveraging stood at 4.1% representing short-term borrowing only (FY22:13.9%)

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Financial Summary
PKR mln

Nishat Power Limited	Mar-23	Jun-22	Jun-21	Jun-20
Power	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	8,395	8,505	8,828	9,395
2 Investments	43	5,734	-	18
3 Related Party Exposure	-	-	-	-
4 Current Assets	22,232	19,132	21,958	19,911
a Inventories	*2,236*	*4,172*	*649*	*170*
b Trade Receivables	*15,624*	*11,533*	*18,964*	*18,233*
5 Total Assets	30,670	33,370	30,786	29,324
6 Current Liabilities	767	752	1,023	802
a Trade Payables	*116*	*118*	*197*	*612*
7 Borrowings	1,236	4,525	3,753	4,825
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	28,667	28,094	26,010	23,697
11 Shareholders' Equity	28,667	28,094	26,010	23,697
B INCOME STATEMENT				
1 Sales	17,159	23,684	11,433	11,738
a Cost of Good Sold	*(13,892)*	*(19,809)*	*(7,989)*	*(5,319)*
2 Gross Profit	3,267	3,875	3,443	6,420
a Operating Expenses	(406)	(334)	(465)	(337)
3 Operating Profit	2,861	3,541	2,978	6,083
a Non Operating Income or (Expense)	*98*	*18*	*42*	*2*
4 Profit or (Loss) before Interest and Tax	2,959	3,559	3,020	6,085
a Total Finance Cost	*(83)*	*(236)*	*(339)*	*(1,143)*
b Taxation	*(0)*	*0*	-	-
6 Net Income Or (Loss)	2,875	3,323	2,681	4,943
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*3,580*	*4,332*	*3,566*	*6,779*
b Net Cash from Operating Activities before Working Capital Changes	*3,436*	*4,106*	*3,130*	*5,571*
c Changes in Working Capital	*(1,663)*	*2,618*	*(1,202)*	*(497)*
1 Net Cash provided by Operating Activities	1,773	6,724	1,929	5,074
2 Net Cash (Used in) or Available From Investing Activities	5,220	(6,153)	(106)	(96)
3 Net Cash (Used in) or Available From Financing Activities	(2,335)	(1,312)	(317)	(3,324)
4 Net Cash generated or (Used) during the period	4,658	(742)	1,506	1,654
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-3.4%	107.2%	-2.6%	-24.7%
b Gross Profit Margin	19.0%	16.4%	30.1%	54.7%
c Net Profit Margin	16.8%	14.0%	23.5%	42.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	11.2%	29.3%	20.7%	53.5%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	12.8%	12.3%	10.6%	20.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	268	272	607	556
b Net Working Capital (Average Days)	266	270	594	542
c Current Ratio (Current Assets / Current Liabilities)	29.0	25.4	21.5	24.8
3 Coverages				
a EBITDA / Finance Cost	43.9	18.5	10.6	6.0
b FCFO / Finance Cost+CMLTB+Excess STB	43.5	15.9	8.7	5.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	4.1%	13.9%	12.6%	16.9%
b Interest or Markup Payable (Days)	279.8	149.0	78.1	0.0
c Entity Average Borrowing Rate	7.7%	7.1%	7.8%	15.4%

Credit Rating

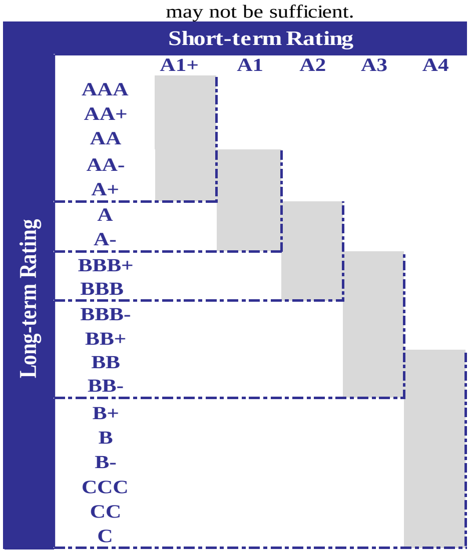
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
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 Rating

Scale	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
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 surveill 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):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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 | Clause 11-(A)(p).
(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