



The Pakistan Credit Rating Agency Limited

Rating Report

Nishat Power Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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	-
23-Jun-2017	A+	A1	Stable	Maintain	-
17-Dec-2016	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. Pursuant to the Master Agreement, NPL received both of the tranches as agreed with CPPA-G. Enabling the company to manage the working capital with lower utilization of short-term borrowings. Consequently, liquidity situation improved manifold. During 9MFY22, generated 518GWh of electricity i.e. 99% of total generation of FY21 (523GWh). The Company recorded revenue of PKR 14,304mln as compared to revenue of PKR 7,879mln in 9MFY21. The increase in generation is mainly attributed to the higher electricity demand from the power purchaser in wake of shortfall during the peak season. The ratings stemmed from the fact that the long-term debt of the company was fully paid successfully in June-2020. 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

Name of Rated Entity	Nishat Power Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22),Methodology Independent Power Producer Rating(Jun-22)
Related Research	Sector Study Power(Jan-22)
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, 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. However, after the continuous indexation and revised tariff structure after the partial materialization of MOU and escalation in fuel prices. Currently, company is receiving the tariff of 37.7/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 51% owned subsidiary of Nishat Mills Limited (Nishat Mills), 34% are on free float, whereas Financial Institutions 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 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. 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. are the external auditors of the company and they have given an unqualified opinion for the financials for the period ended June 30, 2022.

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, Cherygico. While Shell and Chevron Pakistan are the supplier of additives and lubricants.

Insurance Cover Nishat Power has adequate insurance coverage.

Performance Risk

Industry Dynamics Owing to newly installed plants, Pakistan’s energy mix is shifting towards Solar/Gas/and coal from Furnace Oil and other expensive sources. The total installed generation capacity was recorded at ~39,772MW as in FY21 (~38,719MW FY20) up ~3% YoY basis, while actual power generation was recorded at 143,091GWh in FY21 (134,746GWh in FY20), up ~7% YoY basis. The annual Capacity Factor of the Sector was recorded at ~41% in FY21 (~40% FY20).

Generation During 9MFY22, Nishat power generated 518GWh of electricity, 99% of total generation of FY21 (523GWh). This increase in generation is mainly attributed to the higher electricity demand from the power purchaser in wake of shortfall during the peak season. The average capacity factor stood at 40.31% during the said period as compared to 30.59% during FY21. Furthermore, average plant availability has been maintained according to the agreed parameters.

Performance Benchmark During 9MFY22 the topline of the company increased to PKR 14,304mln as compared to PKR 7,879mln during 9MFY21. The increase in topline is because of higher demand raised by the power purchaser in wake of increased demand during the peak season.

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 stood at PKR 15,412mln at end-Mar 2022 (FY21: PKR 18,964mln).

Working Capital Financing Company managed its cash flows needs partially in-house. As at end Mar-22, Nishat Power has available working capital lines of PKR 10,552mln (FY21: PKR 10,552mln) however, company didn’t utilize any of the available lines as at end March, 22.

Cash Flow Analysis During 9MFY22, NPL managed to meet its working capital requirements via internal cash generation, on back of payment of first tranche received in January 2022 from CPPA-G as decided in Master Agreement. Consequently, Cash cycle days reduced to 347 days as at end-Mar 22 (FY21: 594 days, FY20: 542 days). Similarly, interest coverages have increased substantially owing to the non-utilization of short-term borrowings Limits (9MFY22: 23.2x FY21: 10.5x, FY20: 5.9x).

Capitalization After the repayment of the project debt, company’s only obligations were short term borrowings. As of June 2022, the Company has received both tranches of pending receivables as decided in the Master agreement with CPPA-G.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Nishat Power Limited	Mar-22	Jun-21	Jun-20	Jun-19
Power	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	8,389	8,828	9,395	10,006
2 Investments	-	-	18	-
3 Related Party Exposure	-	-	-	1
4 Current Assets	20,054	21,958	19,911	19,080
a Inventories	1,760	649	170	1,719
b Trade Receivables	15,412	18,964	18,233	15,644
5 Total Assets	28,443	30,786	29,324	29,086
6 Current Liabilities	817	1,023	802	517
a Trade Payables	288	197	612	262
7 Borrowings	55	3,753	4,825	9,460
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	27,571	26,010	23,697	19,109
11 Shareholders' Equity	27,571	26,010	23,697	19,109
B INCOME STATEMENT				
1 Sales	14,304	11,433	11,738	15,582
a Cost of Good Sold	(11,135)	(7,989)	(5,319)	(10,584)
2 Gross Profit	3,169	3,443	6,420	4,998
a Operating Expenses	(274)	(465)	(337)	(274)
3 Operating Profit	2,895	2,978	6,083	4,724
a Non Operating Income or (Expense)	57	42	2	(9)
4 Profit or (Loss) before Interest and Tax	2,952	3,020	6,085	4,715
a Total Finance Cost	(152)	(339)	(1,143)	(946)
b Taxation	-	-	-	-
6 Net Income Or (Loss)	2,800	2,681	4,943	3,770
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	3,511	3,566	6,779	5,547
b Net Cash from Operating Activities before Working Capital Changes	3,295	3,130	5,571	4,653
c Changes in Working Capital	2,087	(1,202)	(497)	(3,322)
1 Net Cash provided by Operating Activities	5,382	1,929	5,074	1,331
2 Net Cash (Used in) or Available From Investing Activities	(106)	(106)	(96)	(182)
3 Net Cash (Used in) or Available From Financing Activities	(1,292)	(317)	(4,993)	(1,268)
4 Net Cash generated or (Used) during the period	3,984	1,506	(16)	(120)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	66.8%	-2.6%	-24.7%	-8.0%
b Gross Profit Margin	22.2%	30.1%	54.7%	32.1%
c Net Profit Margin	19.6%	23.5%	42.1%	24.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	39.1%	20.7%	53.5%	14.3%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	13.0%	10.6%	20.9%	20.5%
2 Working Capital Management				
a Gross Working Capital (Average Days)	352	607	556	366
b Net Working Capital (Average Days)	347	594	542	356
c Current Ratio (Current Assets / Current Liabilities)	24.6	21.5	24.8	36.9
3 Coverages				
a EBITDA / Finance Cost	23.2	10.6	6.0	5.9
b FCFO / Finance Cost+CMLTB+Excess STB	18.2	8.7	5.8	1.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.0	0.7
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	0.2%	12.6%	16.9%	33.1%
b Interest or Markup Payable (Days)	16.1	78.1	0.0	0.0
c Entity Average Borrowing Rate	6.5%	7.8%	15.4%	11.0%

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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	
CC	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.
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>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

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

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent