RATING REPORT

Nishat Chunian Power Limited

REPORT DATE:
May 16, 2022

RATING ANALYST:
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RATING DETAILS		
Rating Category	**Initial Ratings**	
	Long-term	**Short-term**
Entity	A+	A-2
Rating Outlook	Stable	
Rating Date	*May 16, 2022*	

COMPANY INFORMATION	
Incorporated in 2007	**External Auditors:** Riaz Ahmed & Company & Co., Chartered Accountants
Public Listed Company	**Chairman:** Mr. Muhammad Ashraf
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Farrukh Ifzal
Nishat Chunian Limited – 51.07%	
Allied Bank Limited – 7.99%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Industrial Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Nishat Chunian Power Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Nishat Chunian Power Limited (NCPL), established as an IPP under the Power Policy 2002, was incorporated as a public limited company in February, 2007.

Profile of CEO

Mr. Farrukh Ifzal has been associated with Nishat Chunian Group since 1988 and has been serving in various capacities. Mr. Ifzal is also present on the board of Nishat Chunian Limited and Pakgen Power Limited. He is a Fellow Member of the Institute of Chartered Accountants of Pakistan.

Corporate Profile

Nishat Chunian Power Limited (NCPL), a subsidiary of Nishat Chunian Limited, has been operating a 200 Megawatt (MW) RFO-based power plant for more than a decade. The plant is situated in District Kasur, Punjab.

Key Rating Drivers

Strong sponsor group strength and experienced management team.

Ratings assigned draw comfort from the company's association with Nishat Chunian Group; one of the leading groups in Pakistan with sizable financial strength and presence in textile and power generation.

Ratings derive support from 25-year PPA with CPPA-G, which will expire in 2035 while 'take or pay' arrangement alleviates off-take risk.

The company currently enjoys 'take or pay' (guaranteed payment on long-term basis if capacity is made available) tariff arrangement with CPPA-G. In addition, 'Implementation Agreement' provides sovereign guarantee for cash flows, contingent upon adherence to stipulated performance benchmarks. As per NTDC's revised merit order issued in Mar'22, NCPL's standing in the merit order has fallen to 101/122 (Jun'21: 53/124). Revenue from CPPA-G is invoiced on a monthly basis as per tariff structure. In case of delayed payments, mark-up is charged on the overdue amount.

Power Purchase Agreement (PPA) and Recent Amendments.

In Feb'2021, NCPL and the Committee for Negotiation with IPPs formed by Government of Pakistan (GoP) executed a Memorandum of Understanding (MoU). Salient features are as follow:

- NCPL shall move to a 'take and pay' contract, subject to mutual agreement of the parties when Competitive Trading Arrangement (CTA) is implemented and becomes fully operational.
- Sharing of future savings in fuel and O&M and reduction in delayed payment rate.
- Tariff discounts on ROE and ROEDC components of the capacity tariff post Jan'22.
- In accordance with MoU, NCPL received its first installment of 40%, amounting to Rs. 5.8b in Jan'22 while the second installment of remaining 60% is committed to be paid by Sep'22. The payment was received in cash, PIB and Ijara Sukuk of one-third each.
- Dispute relating to withheld capacity payment of Rs. 966.2m was settled by extending the PPA term by 75 days. Out of total recognized receivable, Rs. 174.5m were written-off in FY21 as considered non-recoverable while power purchaser duly verified the remaining amount.

Operations and maintenance (O&M) of the plant is being managed by an experienced in-house team. Maintenance of performance levels in line with benchmarks would remain a key rating driver.
NCPL has an experienced in-house O&M team, which has demonstrated track record of compliance with both availability and operational efficiency since the expiration of agreement with O&M contractor in 2015. However, given that an in-house team is undertaking O&M, there is no recourse to liquidated damages in case plant's performance falls below parameters stipulated in PPA.

Supply side risk is limited.
The company procures fuel from different local vendors while the price risk is mitigated since the cost is a pass-through item as per the tariff subject to achieving the PPA stipulated parameters.

Satisfactory operating track record.
Performance of the plant has remained satisfactory since commercial operations. Plant availability has remained in excess of the 88% as stipulated in PPA. Capacity factor and availability of the plant is presented in the table below:

Table: Performance metrics

	FY20	FY21	9M'FY22
Capacity Factor	20.43%	31.35%	47.54%
Availability	92.61%	97.84%	91.38%
Energy Dispatched (MWh)	351,228	537,568	611,871

Profitability margins have witnessed a declining trend.
Despite a sizeable jump in energy dispatched in FY21, net sales revenue has declined as long-term loan repayment component of the capacity tariff ceased (with effect from July'20) which also significantly impacted the profitability margins. Administrative overheads were curtailed and have remained stagnant while financial charges declined considerably owing to long-term debt retirement; albeit, bottom-line declined by almost one-half in the outgoing fiscal year.

During 9M'FY22, sales revenues grew by ~86% (vis-à-vis SPLY); nonetheless, margins continue to witness a declining trend due to upsurge in fuel prices and settlement arrangement of the dispute case of withheld capacity payment.

Retirement of entire project related LT debt liability has eased pressure on liquidity; however, build-up of receivables if not arrested may impact cash flows from operations going forward.
Funds from operations (FFO) depicts weakening due to continued decline in profitability margins. Nonetheless, retirement of entire project related long-term debt liability eased pressure on liquidity while debt coverage metrics have remained strong. On the flipside, build-up of receivables if not arrested may impact cash flows from operations going forward. As at end-Mar'22, receivables from NTDC soared to Rs. 17.6b; of which Rs. 13.7b were overdue. As per aging profile, around one-fourth of trade debts are overdue for more than 180 days.

Capitalization indicators have depicted considerable improvement.
Net equity increased to Rs. 23.4b (FY21: Rs. 21.5b; FY20: Rs. 18.9b) on account of profit retention. The company has not paid any dividend since last two years in view of easing liquidity position by funding cash cycle delays with internally generated capital. Leverage

	indictors have depicted considerable improvement with last installment of long-term project related debt financing paid in Nov'20.

Nishat Chunian Power Limited — Appendix I

FINANCIAL SUMMARY					*(amounts in PKR millions)*
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**	**HFY22**
Fixed Assets	11,374	11,486	10,568	9,856	9,518
Stores and Spares	649	562	469	393	433
Stock in Trade	1,337	1,077	153	869	2,688
Trade Debts	11,706	15,431	19,006	20,442	20,541
Cash & Bank Balances	98	146	2	298	15
Total Assets	**26,406**	**29,571**	**30,951**	**33,095**	**35,002**
Trade and Other Payables	636	382	593	1,284	856
Long Term Debt *(including current maturity)*	5,574	3,327	1,289	52	35
Short Term Debt	7,656	10,768	9,705	10,023	11,245
Total Liabilities	**14,177**	**15,211**	**11,985**	**11,620**	**12,364**
Paid-up Capital	3,674	3,674	3,674	3,674	3,674
Total Equity	**12,229**	**14,360**	**18,966**	**21,475**	**22,638**
INCOME STATEMENT					
Revenue	16,594	15,012	13,023	11,643	9,774
Gross Profit	4,640	5,067	6,756	3,770	1,700
Operating Profit	4,432	4,865	6,612	3,629	1,622
Profit Before Tax	3,406	3,408	4,606	2,509	1,166
Profit After Tax	3,406	3,408	4,606	2,509	1,163
FFO	4,518	4,610	5,293	3,333	1,540
RATIO ANALYSIS					
Gross Margin (%)	28.0	33.8	51.9	32.4	17.4
FFO to Total Debt (x)	0.34	0.33	0.48	0.33	0.27
FFO to Long Term Debt (x)	0.81	1.39	4.10	64.5	n/a
Debt Servicing Coverage Ratio (x)	1.88	1.68	1.78	1.85	7.01
ROAA (%)	n/a	12.2	15.2	7.8	6.8
ROAE (%)	n/a	25.6	27.6	12.4	10.5
Gearing (x)	1.08	0.98	0.58	0.47	0.50
Debt Leverage (x)	1.16	1.06	0.63	0.54	0.55
Current Ratio (x)	1.38	1.25	1.81	2.00	2.06

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES	Appendix III
Name of Rated Entity	Nishat Chunian Power Limited
Sector	Power Generation
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
16/05/2022	A+	A-2	Stable	Initial

Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Khurram Ahmed	Senior Manager Finance	May 09, 2022