RATING REPORT

Nishat Chunian Power Limited

REPORT DATE:
November 25, 2024

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A+	A2	A+	A2
Rating Date	*November 25, 2024*		*September 27, 2023*	
Rating Outlook/Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION	
Incorporated in 2007	**External Auditors:** Riaz Ahmed & Company & Co., Chartered Accountants
Public Limited Company	**Chairman:** Mr. Ghazanfar Hussain Mirza
Key Shareholders (with stake 10% or more):	**Chief Executive Officer:** Mr. Farrukh Ifzal
Mr. Shahzad Saleem – 17.64%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Industrial Corporates
https://docs.vis.com.pk/docs/CorporateMethodology.pdf
VIS Rating scale
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Nishat Chunian Power (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

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

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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.

RATING RATIONALE

Corporate Profile

Nishat Chunian Power Limited ('NCPL' or 'the Company') was incorporated in 2007 as a public limited company with primary activity of operating a 200 MW residual fuel oil (RFO) based power plant in District Kasur, Punjab. The Company has 25-year and 75 days Power Purchase Agreement (PPA) entailing 'take or pay' provision with Central Power Purchasing Agency-Guarantee (CPPA-G) with net production levels of 195.72 MWh (megawatt per hour). The project started commercial operations in 2010. The facility has 11 generators allowing it to be used as a peaking power plant.

Composition of Board

As of June 30, 2024, the Board of Directors (BoD) had seven members including CEO, Chairman and one independent directors. The BoD has developed a vision/mission statement, overall corporate strategy and significant policies of the company. All the powers of the BoD have been duly exercised and decisions on relevant matters have been taken by the Board/shareholders as empowered by the relevant provisions of the Companies Act, 2017 (the Act) and the Regulations. The BoD held six meetings during FY24 to oversee effective corporate governance of NCPL. Overall attendance during Board meetings remained satisfactory.

Operational Performance.

During FY-24 electricity dispatched was 240,447 Mwh with load factor of 14% as compared to 386,127 Mwh with load factor of 22.52% previous year. The fall in electricity generation was due to lower demand from CPPA-G as a result of broader economic slowdown and lower rank in NTDC merit order. As of 16th September 2024, the Company lies at 40th spot in NTDC merit order at specific cost of Rs. 35.23/Kwh. Operational Performance of the company is tabulated below:

Capacity and Availability Factors	FY-23	FY-24
Capacity (Mwh)*	1,714,525	1,719,222
Energy Dispatched	386,127	240,447
Capacity Factor	22.52%	14.00%
Availability Factor	91.40%	99.13%**

**Output produced by the plant is dependent on the load demanded by CPPA-G and plant availability.*
*** O&M is now in-house thus these are not third-party estimates.*

Key Rating Drivers

PPA's 'Take or Pay' nature has largely mitigated demand side risk.

The assigned ratings to NCPL consider the Company's low business risk profile, which is supported by the signing of a 25-year Power Purchase Agreement (PPA) signed in 2007 and their license which is valid till 2035. Furthermore, the Implementation Agreement (IA) was signed between the Government of Pakistan (GoP) through Private Power and Infrastructure Board (PPIB). The presence of a long-term PPA with capacity payments (Which covers fixed cost (local & Foreign) and ROE guaranteed by the Government of Pakistan (GOP) insulates company from volatility in offtake and mitigates financial risk. Following the Negotiation of the Government with the Company the ROE was fixed at 17%. (With No USD indexation) in 2021. Moreover, Credit Risk with amount due from CPPA-G is almost negligible since the power purchaser's obligations are backed by guarantee of GOP and as a result company is exempted from application of Expected Credit Loss (ECL) under IFRS 9. Additionally, the IA ensures repayment of the Company's receivables in case of default by the power purchaser CPPA-G and the Opportunity cost because of delayed payments is compensated by CPPA-G through markup on outstanding receivables.

Macro risks are greatly reduced by indexing tariffs.

According to NEPRA's tariff determination, NCPL benefits from indexation of its Tariff components. Locally incurred operating expenses, both fixed and variable, approved by NEPRA, are indexed to the Pakistan Consumer Price Index (CPI). Operating expenses incurred in foreign currency and approved by NEPRA are indexed to the USA-CPI and the PKR/USD exchange rate. Additionally, the cost of working capital and long-term Debt is indexed with KIBOR. This indexation occurs quarterly, which mitigates risk emanating from adverse variation in any of aforementioned variables. Fuel costs incurred based on approved Heat rate and insurance costs are treated as pass-through items and are adjusted based on actual costs. Moreover, as per Income Tax Ordinance company's operating income is exempted from Taxes. Which provides necessary support to profit margins. Following the negotiation in 2021, the ROE of the Company has been fixed at 17% with no indexation with USD/PKR.

Operations & Maintenance (O&M)

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. 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. Comfort is drawn from the experience of senior management members of the in-house O&M team and track record of compliance with both availability efficiency since the expiration of the O&M agreement with Wartsila Pakistan (Pvt.) Limited in January, 2015.

Satisfactory Financial Performance in FY-24.

Revenue for FY24 declined to Rs. 15.2b (FY23: Rs. 18.2b), primarily driven by reduced dispatches. Revenue composition was dominated by Energy Purchase Price (58%) and Capacity Payments (26%), with the remainder attributable to markup on delayed payments. Capacity payments registered an 11.22% increase on account of tariff adjustments for fixed expenses. Higher capacity charges, alongside lower offtake from CCPA-G, led to an improvement in gross margins to 32.13% (FY23: 27.76%). Finance costs decreased by 73.78% due to lower utilization of short-term borrowings, resulting from reduced working capital requirements. Consequently, net profit increased by 24.16% to Rs. 4.91b9b (FY23: Rs. 3.96b). The Company remains exempt from corporate tax, contributing to net margin improvement to 32.29% (FY23: 21.71%). Future profitability may be impacted by potential shifts in government policies and regulatory changes.

Healthy liquidity profile despite exposure to circular debt.

Liquidity metrics indicate a strengthened position, as reflected by a current ratio of 8.13x (FY23: 5.19x). The improvement is attributed to sufficient internal cash flow generation, which has not only supported working capital requirements but also enabled maintenance of cash reserves for short-term investments. The cash conversion cycle ('CCC') remained extended at 362 days (FY23: 316 days) due to the ongoing circular debt issue affecting the energy sector. Receivables from CPPA-G are backed by a sovereign guarantee, and delayed payments accrue interest at a rate of three-month KIBOR plus 2.00% per annum for the first sixty days and three-month KIBOR plus 4.50% per annum thereafter.

Conservative capitalization and coverage profiles.

The Company's capitalization profile reflects the absence of long-term debt following the complete repayment of loans obtained for plant construction. The existing short-term debt, which has been significantly reduced using proceeds from the sale of short-term investments in GOP securities, is primarily utilized to finance working capital requirements. The associated financing cost is incorporated in the tariff. Consequently, the capitalization profile is low with a gearing ratio of approximately nil (FY23: 0.04x, FY22: 0.45x), and a leverage ratio of 0.10x (FY23: 0.15x, FY22: 0.50x). Lower short-term debt drawdown also supports the coverage profile, with FFO to total debt rising to 40.66x (FY23: 4.88x) and DSCR increasing to 13.52x (FY23: 6.20x, FY22: 4.46x) by end-FY24.

Environmental, Social, and Corporate Governance (ESG)

NCPL has ESG measures put in place to manage financial and non-financial risks. EHS (environment, health and safety) policy is made to ensure safety of employees and physical assets, and minimize environmental impact. The company conducts quarterly monitoring of its air, noise and water quality since starting operations in 2010. NCPL has an Environment Management Plan (EMP) to enable safety of oil transportation and control of emissions. Tree plantation is also done, in line with CSR initiatives. NCPL disposes of carbon waste in accordance with local rules and regulations. Therefore, ESG practices at NCPL are considered feasible.

Nishat Chunian Power Limited Appendix I

Financial Summary

Balance Sheet (PKR Millions)	FY21A	FY22A	FY23A	FY24A
Property, plant and equipment	9,627.46	9,201.97	8,836.64	9,120.12
Stock-in-trade	868.73	2,254.69	808.92	2,298.21
Trade debts	20,441.94	13,718.14	13,747.74	13,170.21
Short-term Investments	311.93	8,609.55	361.77	2,883.98
Cash & Bank Balances	297.83	21.03	1,406.36	1,716.25
Other Assets	1,547.58	2,277.22	2,625.79	2,797.91
Total Assets	33,095.47	36,082.60	27,787.22	31,986.68
Creditors	589.49	86.25	1,075.19	1,322.20
Long-term Debt (incl. current portion)	51.73	17.29	0.00	0.00
Short-Term Borrowings	10,022.75	10,851.73	975.10	123.28
Total Debt	10,074.48	10,869.02	975.10	123.28
Other Liabilities	956.28	1,148.36	1,474.87	1,366.84
Total Liabilities	11,620.25	12,103.63	3,525.16	2,812.32
Paid up Capital	3,673.47	3,673.46	3,673.47	3,673.47
Equity (excl. Revaluation Surplus)	21,475.23	23,978.95	24,262.06	29,174.37

Income Statement (PKR Millions)	FY21A	FY22A	FY23A	FY24A
Net Sales	11,643.35	25,415.97	18,220.81	15,215.09
Gross Profit	3,770.16	3,557.67	5,057.96	4,888.04
Operating Profit	3,493.71	3,388.88	4,825.48	5,147.92
Finance Costs	984.42	884.20	868.31	227.66
Profit Before Tax	2,509.29	2,504.68	3,957.17	4,920.26
Profit After Tax	2,509.29	2,503.74	3,956.57	4,912.31

Ratio Analysis	FY21A	FY22A	FY23A	FY24A
Gross Margin (%)	32.38%	14.00%	27.76%	32.13%
Operating Margin (%)	30.01%	13.33%	26.48%	33.83%
Net Margin (%)	21.55%	9.85%	21.71%	32.29%
Funds from Operation (FFO) (PKR Millions)	3,342.98	3,342.88	4,765.81	5,013.38
FFO to Total Debt* (%)	33.18%	30.76%	488.75%	4066.66%
FFO to Long Term Debt* (%)	6462.36%	19334.18%		
Gearing (x)	0.47	0.45	0.04	0.00
Leverage (x)	0.54	0.50	0.15	0.10
Debt Servicing Coverage Ratio* (x)	2.66	4.46	6.20	13.52
Current Ratio (x)	2.00	2.20	5.19	8.13
(Stock in trade + trade debts) / STD (x)	2.17	1.51	15.57	132.36
Return on Average Assets* (%)	7.84%	7.24%	12.39%	16.44%
Return on Average Equity* (%)	12.41%	11.02%	16.40%	18.39%
Cash Conversion Cycle (days)	646.92	272.73	316.37	361.52

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES					Appendix II
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/Watch**	**Rating Action**
	RATING TYPE: ENTITY				
	25/11/2024	**A+**	**A2**	**Stable**	**Reaffirmed**
	27/09/2023	A+	A2	Stable	Reaffirmed
	16/05/2022	A+	A2	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.				
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Due Diligence Meeting Conducted	**Name**	**Designation**			**Date**
	Mr. Salman Asim	Deputy General Manager Accounts & Finance			30/09/24
	Muhammad Hassan	Assistant Manager Finance			