



Date

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Applicable Criteria

- Methodology | IPP | Jun-20
- Methodology | Correlation Between Long-Term And Short-Term Rating Scale | Jun-20
- Criteria | Rating Modifier | Jun-20

Related Research

- Sector Study | Power | Jan-20

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PACRA Upgrades the Entity Rating of Nishat Power Limited

Rating Type	Entity	
	Current (25-Sep-20)	Previous (27-Sep-19)
Action	Upgrade	Maintain
Long Term	AA-	A+
Short Term	A1	A1
Outlook	Stable	Stable
Rating Watch	-	-

The ratings reflect strong business profile of Nishat Power Limited (Nishat Power) emanating from the demand risk coverage under Power Purchase Agreement signed between National Transmission & Despatch Company (NTDC) and the company. Meanwhile, the Implementation Agreement provides sovereign guarantee for cashflows, given adherence to agreed performance benchmarks. Nevertheless, delayed payments from the power purchaser remained a challenge. Despite higher receivable days the entity managed to sustain its financial strength. 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 adequate as they procure from different suppliers with good credit terms. Although, there are delays in payments from power purchaser, the company manages the impact by aligning the payments to fuel supplier with its receipts. Nishat Power continues to meet its availability (88%) and efficiency (45%) benchmarks. Settlement of overdue receivables is crucial. The ratings stemmed from the fact that the long-term debt of the company was fully paid successfully in June-2020 and now the only debt on the financial statements of Nishat Power is short-term debt. The company is effectively managing its working capital requirements, short-term borrowing lines are mainly used to fund any shortfall in working capital requirements. The Government has signed a MoU with the IPPs operating under the Power Policy of 2002 to review their tariff structure. The terms of the MoU are subject to approval of the Board of Directors of the company in addition to any other corporate approvals that may be required, as well as approvals by NEPRA and the Federal Cabinet to be followed by legal documentation. 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.

About the Entity

Nishat Power was established in 2007 as an independent power producer (IPP) for the purpose of electricity generation. It began commercial operations in June 2010. Nishat Power is a subsidiary of Nishat Mills Limited (Nishat Mills) and is listed on Pakistan Stock Exchange. Nishat Mills holds 51% stake in the company followed by Allied Bank Limited (Allied Bank) (8.5%). Nishat group is a leading conglomerate with interests in textile, cement, energy, and financial sectors.

The Board of Directors (BoD) comprises seven members. Nishat group dominates with five members including CEO and there are two independent directors which should benefit governance structure. All the board members are seasoned professionals having interests in various sectors of the industry. The management team comprises qualified professionals possessing sufficient experience in power sector.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.