

Date

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Analyst

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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

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PACRA Maintains the Entity Ratings of Nishat Power Limited

Rating Type	Entity	
	Current (22-Sep-23)	Previous (24-Sep-22)
Action	Maintain	Maintain
Long Term	AA-	AA-
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 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.

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. 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. Two independent directors 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.