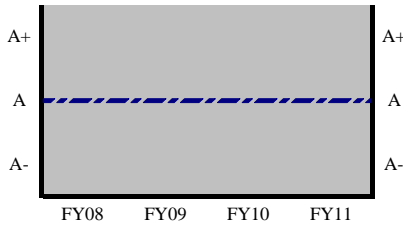


**RATING (JULY 2011)**  
**NATIONAL POWER CONSTRUCTION CORPORATION (PVT.) LIMITED (NPCC)**

	New	Previous
Entity		
Long-term	A	A
Short-term	A1	A1

**LT RATING HISTORY**



**FINANCIAL DATA**

Amounts in PKR mln

	FY10	FY09	FY08
Total Assets	2,879.0	2,616.1	1,717.1
Total Debt	-	-	-
Total Equity	988.4	823.2	658.3
Net Income	129.1	45.8	15.8
ROE (%)	14.3%	6.2%	2.6%
ROA (%)	4.7%	2.1%	0.8%

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**RATING RATIONALE AND KEY DRIVERS**

- The ratings reflect the company’s relatively low business risk arising from its established market position and track record in its niche market – design-construct power transmission segment – in Saudi Arabia. Meanwhile, the ratings recognize the company’s debt free capital structure along with sound liquidity profile. However, relatively lower nominal quantum of available funds restrains the company’s ability to grow due to increasing size of upcoming contracts. The strength of the corporation’s management in terms of their technical expertise, business know-how and resourcefulness are key rating factors.
- The ratings are dependent on the management’s ability to maintain its market standing while acquiring new projects and managing its margins in a highly competitive environment. Meanwhile, any significant debt acquisition to finance volumetric growth in its top-line would have a negative impact on the ratings. The privatization of NPCC, if and when materialized, may also affect the ratings. However, the direction of this rating movement would remain contingent on the profile and strategy of the acquirer.

**ASSESSMENT**

Saudi Arabia, an oil-based economy, is expected to grow by ~6% during 2011. It also possesses about 20% of the world’s proven hydrocarbon reserves and ranks as the largest exporter of petroleum products. As a result of strong economic growth coupled with increasing population, the government has initiated the construction of six economic cities in different regions of the country to promote foreign investment and plans to spend \$373 billion between 2010 and 2014 on social development and infrastructure projects to advance Saudi Arabia’s economic development. Electricity demand in KSA touched 46,110 MW in 2011 (2010: 42,590MW) against installed capacity of 48,326MW (2010: 46,640MW). Moreover, the Saudi Electricity Company (SEC) intends to add additional 30,000MW of capacity by 2020 at a cost of \$80bln.

NPCC, a contracting organization in the design-construct power transmission (CPT) segment, is one of twelve pre-qualified contractors (2009: ten contractors) in the Saudi market. CPT, a specialized sub-segment of the power industry, comprises designing and constructing transmission networks for power utilities. NPCC has been operating in KSA for over three decades and thus, enjoys long-standing relationships with vendors and clients.

NPCC’s turnover depicts a fluctuating pattern, in conjunction with the trend of project acquisition. Consequently, NPCC’s top-line registered significant growth during FY10 on account of the acquisition of a number of new projects and contracting assignments. The corporation’s gross margins, however, declined (FY10: 4.4%, FY09: 5.6%) as a result of increased competition faced in bidding for new projects. Nevertheless, NPCC’s overall profitability (FY10: PKR 129mln, FY09: PKR 46mln) improved significantly on the back of enhanced quantum of business. During FY11, though the company’s turnover is expected to be low, the margins are likely to improve substantially due to increasing proportion of high-margin sub-contracting business. Consequently, NPCC is expected to sustain its robust profitability during the current year.

Going forward, with on hand projects nearing completion, the corporation is preparing to participate in three upcoming projects in KSA, valuing ~\$291mln. This includes a large project (~\$180mln), a medium size project (~\$100mln) and a small project (~\$11mln). Meanwhile, the corporation would focus on acquiring new sub-contracting projects in order to utilize its work force. In this regard, sub-contracting projects offer better margins. Currently, NPCC’s limited financial flexibility hinders its growth prospects. In order to diversify its operations, the management intends to tap other Middle Eastern and African markets (Nigeria, Zambia and Botswana).

The head-office in Lahore oversees and manages all matters of the branch office in Saudi Arabia. Moreover, the CEO and General Manager regularly visit NPCC’s branch office in KSA to actively monitor on-going projects and to negotiate with potential customers offering new projects/ subcontracting assignments. Approval for all operational and financial matters is sought from the CEO. In order to actively monitor and provide guidance on the current projects, NPCC utilizes various softwares including Prima Vera, GPR, and excel based daily, weekly, and monthly progress reports. The process is strictly monitored to ensure the completion of ongoing projects within time and the budgeted cost, without compromising on the quality of work.

The corporation’s cashflow depicts a volatile pattern and remains a function of working capital requirements and project inflows. The company manages its cashflow strictly and aligns its payment obligations with scheduled inflows from projects. Adherence to this pattern is critical, especially in the absence of any financing facilities. Nevertheless, the management has obtained a letter of support from the Ministry of Finance to the tune of \$ 100mln, in order to secure its \$ 100mln existing line with HBL-Dubai. Although NPCC has sizeable cash reserves (PKR 924mln end-FY10), it cannot make any long-term investments as majority of the corporation’s assets are usually under lien against bank guarantees for projects under construction.

NPCC has a debt free capital structure thereby minimizing its financial risk. Moreover, the management intends to remain conservative, avoiding any aggressive growth fueled through borrowed funds. Given strong growth prospects in KSA and NPCC’s conservative dividend distribution policy, the corporation’s risk absorption capacity is expected to remain intact.

**PROFILE**

Established in 1974, NPCC operates in the design-construct power transmission segment in Saudi Arabia. NPCC is majority owned (88%) by the government of Pakistan through the President of Pakistan while the remaining is owned by employees under the Benazir Employee Stock Option Scheme (BESOS). NPCC is on the privatization agenda since long. In this regard the Privatization Commission (PC) has lately revived the process and has engaged a financial advisory consortium. PC is targeting the privatization within 2011. However, given past experiences, the success remains uncertain.

The CEO, an Electrical Engineer by profession, associated with the Corporation since its inception, has worked in different capacities and was elevated to the current position in 1981. He is supported by a team of highly qualified and experienced engineers.