

## RATINGS (MAY 2011)

### NISHAT POWER LIMITED (NPL)

	NEW	PREVIOUS
<b>ENTITY</b>		
Long Term	AA	AA-
Short Term	A1+	A1+

### FINANCIAL DATA

	PKR (mln)		
	Mar-10 <sup>^</sup>	June – 10	June - 09
Total	25,757	22,437	15,037
Assets			
Equity	5,443	3,615	2,940
Turnover	15,195	1,018	0
Operating profits/(Loss)	3,999	206	-8
Net Income	1,828.1	47.1	46.9
Total Debt/Equity (%)	0	77.7	83.6
	77.7	83.6	79.8

<sup>^</sup> Based on unaudited accounts for six months ended March 31, 2011

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### RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect the low payment risk arising from guaranteed cash flow stream by the GoP under the Power Purchase Agreement (PPA), subject to adherence to agreed performance parameters. Furthermore, the appointment of Wartsila, a firm of international repute with substantial experience in Pakistan, as the Operations and Maintenance (O&M) contractor, effectively minimizes the operational risks. Although Nishat group has entered into power sector in a big way recently, its diversified experience and business acumen support the ratings. Meanwhile, though the plant runs on furnace oil, its presence near a major consumption area provides comfort for priority payment from power purchaser.
- The ratings are dependent on the management's ability to adhere operations as per PPA. Meanwhile, external factors such as any changes in the regulatory framework of IPPs and inability to adequately manage working capital requirements, currently in focus due to the prevailing circular debt issue, remain critical to the ratings.

### ASSESSMENT

- NPL – an independent power producer (IPP) - commissioned<sup>1</sup> its plant operations under Power Policy 2002 with a total cost of US\$ 243mln and capacity of 200MW (Dependable capacity of 195MW).
- For operations and maintenance (O&M) of the plant, the company has initially entered into five years contract with Wartsilla Pakistan (WPK). WPK has proven track record of providing O&M services with over 20 years of presence in Pakistan. It possesses requisite experience to carry out O&M activities effectively. In addition, the contractual terms of the O&M agreement provide guarantee of performance parameters set under PPA interalia, plant availability, output, and heat rate, thus limiting the impact of non-performance on NPL. The agreement allows NPL to pass on liquidity damages to the O&M operator in case of any non performance to the agreed parameters. Since the CoD, the O&M Operator has successfully maintained the running of the plant while consistently producing electricity as per NTDC demand. To date, the company has produced 1,135,433 MW of electricity (end-March 2011) while maintaining the availability, efficiency, heat rate and lube oil consumption mostly at the required parameters
- The Fuel Supply Agreement (FSA) has been executed with Shell Pakistan Limited, one of the leading local oil marketing company. Shell is responsible for providing NPL with Residual Fuel Oil (RFO), additives and lubricants. The agreement is valid for a period of 10 years from the CoD. In case of Shell's inability to provide the company with the required fuel, the damages imposed by the power purchaser, would be passed on to Shell to an extent. However, Shell has adequate storage capacity and widespread distribution network, which mitigates the risk of fuel supply disruption. Moreover, Shell has allowed NPL to acquire fuel from other sources, in case, it can not meet the desired quantity of fuel.
- NPL's primary source of revenue is the generation tariff from the power purchaser. It comprises a capacity charge component and an energy charge component. With the exception of agreed return to project shareholders with adjustment for performance achievements, all other elements of cost are pass-through having no bearing on the company's core profitability. The stability and sustainability of cash flows is ensured through the minimum guaranteed capacity charge component of the tariff that NPL would receive even if it produces no electricity (in case of zero demand from the power purchaser). Meanwhile, its prime location near a major city and industrial consumption center in Punjab places it in a relatively better position to receive priority payments from the power purchaser.
- NPL's generation tariff (levelized for year 1-25) of US\$12.1253 per Kilowatt hour (Kwh) has been approved by NEPRA consisting of capacity and variable charges at the time of CoD. Meanwhile, NEPRA has also approved the total cost of the project to the tune of US\$ 229mln as compared to NPL's claim of PKR US\$ 243mln.
- Availability of adequate working capital is essential. NPL might be required to inject liquidity in case the payments from NTDC are delayed and payments to Shell fall due. NPL would require working capital lines equivalent to 60 days at least to cover credit period allowed to NTDC according to the terms of the PPA. The receivables mainly arising from NTDC have reached PKR 7,815mln, out of which PKR 5,938mln is overdue (End-March 2011). As per the industry norms, NPL's cashflows are adversely impacted due to delayed payments from NTDC mainly attributable to on-going circular debt and tremendous increase in furnace oil prices. Thus, NPL has arranged working capital lines of around PKR 6,000mln to cover its working capital requirements. The company has already utilized credit lines worth PKR 4,669mln as of End-March 2011. Un-utilized working capital lines provide cover in case the need arises.
- As per total project cost assessed by NEPRA, the capital structure of NPL comprises 80% debt (\$183mln), arranged from a consortium of local banks, and 20% equity (\$46mln). Meanwhile, NPL's total long-term debt is to the tune of PKR 15,555mln and since its CoD, NPL has made regular payments to its lenders.

### PROFILE

- Nishat Power limited (NPL) is a special purpose company established to set up an Independent Power Producer (IPP). The electricity generated is sold to NTDC under the PPA, which in turn distributed and modulated the capacity generated by NPL.
- Nishat Mills Limited (NML), the major sponsor, currently holds around 57% stake in the company, which is listed on the Karachi and Lahore Stock Exchange. Meanwhile, Allied Bank Limited (ABL) and National Bank of Pakistan Limited (NBP) maintain a 16% and 8% stake respectively. The remaining (19%) stake belongs to the general public.
- The eight-member Board of Directors is composed of six representatives from NML and a representative each from ABL and NBP. NML nominees also hold directorships in various Nishat group companies.

<sup>1</sup> NPL achieved its Commercial Operations Date (COD) on June 09, 2010 (Originally Planned COD: End-Dec 09). The plant is located in Jambur Kalan, in District Kasur, near Lahore. It consists of eleven Residual fuel Oil (RFO) fired diesel engines along with a combined cycle heat recovery system through a steam turbine