Nishat Power Limited

OVERVIEW (November 29, 2012) : Nishat Power Limited is the third Independent Power Producer (IPP) which was incorporated as a public limited company in 2007 under the Power Policy 2002, after Attock and Atlas. The IPP is a subsidiary of Nishat Mills Limited of Nishat Groups. The group has presence in many sectors like cement, textile, insurance, banking and aviation. Thought Nishat Mills Limited, the group currently holds 56.84 percent of the thermal based IPP, Nishat Power Limited. Nishat Power Limited is principally involved in building, owning, operating and maintaining a fuel fired power station in District Kasur of Punjab with a gross capacity of 200MW. Its main customer is National Transmission and Dispatch Company Limited (NTDC), and it has signed an FSA (fuel supply agreement) with Shell Pakistan. Operational Highlights FY12 With curtains drawing in the fiscal year 2012, Nishat Power Limited completed two years of its operations. During FY12, the plant operated at an average capacity factor of 61.82 percent compared to 86.05 percent in FY11. A comparatively lower average capacity load factor was due to lower percentage load during the five months from October till February 2012. **Financial Performance FY12** The turnover during the second year of operations remained flattish at Rs 21 billion primarily due to lower generation and the restricted supply of fuel to the IPP. However, higher fuel prices and growing indexation factors compensated for the lower load factor and helped the company maintain its top line around previous levels. However, the inclusion in the sales figures an amount totalling Rs 599 million is a bone of contention. This exaggerates the company's sales which would otherwise have been lower by 2.4 percent YoY. The company's turnover consists of two components: Energy Purchase Price (EPP) and Capacity Purchase Price (CPP). Top line for FY12 includes the said amount which has been deducted by the NTDC, the power purchaser from the CPP receipts due to under utilisation of the plant. While the IPP blames non availability of fuel on account of non-payment by NTDC, the power purchaser refuses to acknowledge this amount Nishat Power Limited has included in its trade debts. However, the company is sanguine about the recovery of these deductions and has approached the Supreme Court for the same. The bottom line of the company witnessed a growth of 8.4 percent year-on-year during FY12 primarily on account of operation and maintenance savings, fuel efficiency, lower administrative charges. Moreover, finance cost which is around 15 percent of net revenues, remained around the same level as in FY11. Growth in the earnings was also spurred by other operating income which basically includes profits earned bank deposits. Over a period of three years, the company has been able to maintain its gross and operating margin close to 23 percent both and has been able to lift the net margins from five percent in FY10 to 10 percent in FY12.

Liquidity

Circular debt is a horror for IPPs. The receivables of Nishat Power Limited like others have been serving as a lifeline to the circular debt crisis. The total receivables from NTDC as of June 30, 2012 were at Rs 10.7 billion, out of which overdue receivables stood at Rs 8.6 billion. This led to production halt in by the company during FY12 and therefore has compelled the company to keep moving towards short term borrowings for working capital requirements. As at June 30, 2012, the short term borrowings of the company had escalated to Rs 6.6 billion.

1QFY13 Profitability

The performance of the company during 1QFY13 vis-à-vis similar period last year resulted in an expansion of the bottom line by 18 percent. The growth mainly emanated from reduction in the finance cost by 10 percent YoY. Once again, lower load factors of around 70 percent were compensated by higher fuel prices, indexation events, and exchange losses.

Outlook

The danger point for the company remains the circular debt and the receivables case with NTDC and the subsequent decision of the Supreme Court. However, it also serves as a silver lining for the company as the Supreme Court has directed for the release of funds to IPPs including NPL. This clears some clouds of FY13. At the same time, depreciation rupee and higher fuel prices cannot be ruled out as positives for the company.

== NISHAT POWER LIMITED == FY10 FY11 FY12 == PROFITABILITY -- Gross margin 22% 23% 23% Operating margin 25% 23% 23% Net margin 5% 9% 10% -- LIQUIDITY -- Current ratio 1.17 1.63 1.47 Debt to equity 3.71 2.29 1.64 -- EFFICIENCY & MARKET -- Fixed asset turnover 0.06 1.32 1.41 EPS (Rs) 0.14 5.31 5.75 -- Source: Company accounts. ==