INDEPENDENT POWER PRODUCERS (IPP)

RATINGS (JANUARY 2011)

SAIF POWER LIMITED (SPL)

	INITIAL
ENTITY	
Long Term	AA-
Short Term	A1+

RATING RATIONALE AND KEY RATING DRIVERS

- The ratings of SPL reflect low financial risk owing to stable future cash flows, also guaranteed by the Government of Pakistan (GoP) under the Power Purchase Agreement (PPA), subject to adherence to performance parameters. The ratings incorporate low operational risk emanating from established operating track record of the O&M operator - General Electric. Although weak financial discipline of the sole customer, National Transmission and Despatch Company (NTDC), would remain a key concern, natural-gas-based plant's relatively low-tariff structure is expected to place SPL in a better position to get priority payments from NTDC.
- The ratings are dependent upon the company's ability to adhere to agreed performance parameters as set by the power purchaser. Furthermore, external factors such as any adverse changes in the regulatory framework may impact the ratings.

ASSESSMENT

- SPL is operating a combined cycle thermal power plant with gross capacity of 225 MW. The plant, is located in Qadarabad, District Sahiwal. The company achieved its COD on 30th April 2010.
- General Electric Energy Parts Inc. (GEEPI) is the O&M operator of the plant. The O&M contract for the plant is for 16 years with an option of extending the contract further. General Electric Energy provides third party O&M services at over 60 sites in 17 countries, with a combined generating capacity of more than 16,000 MW. Accordingly, GE affiliated companies have extensive O&M experience. Although General Electric has a significant presence globally, and possesses requisite experience to carry out O&M activities effectively, this is one of their very few instances of working in Pakistan.
- The Facility is fueled by Pipeline Quality Gas supplied by SNGPL, in accordance with the Gas Supply Agreement (GSA). High Speed Diesel (HSD), the backup fuel, is sourced from Shell Pakistan. SPL has entered into a backup fuel supply agreement, for twelve years, under which the company will maintain a seven days HSD inventory during the gas months and fifteen days inventory for the remaining three months.
- SPL's key source of earnings 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, most expenses are pass-through having no bearing on the SPL's core profitability.
- The plant is working on 51% efficiency and has a generation tariff (levelized tariff for years 1-25) of 4.9457 PKR/Kilowatt hour (Kwh) on gas and 15.4530 PKR/ Kilowatt hour (Kwh) on HSD. However, Post COD, tariff is yet to be determined by NEPRA. Meanwhile, the company has been operating at a load factor of 70% since May 2010.
- The stability and sustainability of cash flows is ensured through the minimum guaranteed capacity charge component of the tariff that SPL would receive even if it produces no electricity (in case of zero demand from the power purchaser). However, if SPL is unable to supply electricity as per demand due to its own inefficiencies or fails to notify WAPDA of the available capacity 12 hours prior to the dispatch date, it would be liable to pay liquidated damages as per provisions of the PPA.
- The availability of adequate working capital during the operational stage of the project is an essential. SPL might be required to inject liquidity in case the payments from NTDC are delayed and payments to Shell and SNGPL fall due. In order to avoid default on its fuel payments, SPL would require working capital lines equivalent to 55 days at least to cover credit period allowed to NTDC according to the terms of the PPA. SPL has arranged working capital lines of PKR 2.1bln to cover its working capital requirements. The company has already utilized credit lines worth PKR 1.2bln. Underutilized working capital lines provide SPL sufficient cover in case the need arises.
- The project has a debt:equity structure of 80:20. Till COD, the company has obtained project financing to the tune of PKR 12,907mln. The tenor of the facility is 12 years and 3 months with a grace period of 27 months. Principal is to be repaid in 40 consecutive quarterly installments that have started from June 2010.
- The tariff structure of the plant is relatively lower as it runs on Natural Gas. Meanwhile its prime location near major consumption center places it in a relatively better position to receive priority payments from the power purchaser.

PROFILE

- SPL, a public limited unlisted company, is established in November 2004. The sponsors of the company are Saif Holdings Limited (SHL) formerly known as Saif Telecom Limited (51%), Orastar Limited (39%) and Habib Bank Limited (10%). Saif Group is one of the leading industrial and services conglomerates in Pakistan. Orastar Limited is a Company registered in the British Virgin Islands (BVI), with its main activity being investments in extensive portfolio of marketable securities, cash, and private investments. HBL was the first commercial bank to be established in Pakistan in 1947. The Government of Pakistan privatized HBL in 2004 through which the Agha Khan Fund for Economic Development (AKFED) acquired 51% of the Bank's shareholding and management control.
- Saif Holdings Limited (SHL), through professional representation, maintains significantly robust governance standards in all their entities. SPL has a five member BoD, including the CEO. The presence of Mr. Javed Saifullah Khan, CEO SHL, on SPL's board is an indication of group's commitment towards the project.

ANALYSTS

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