



## Rating Action

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## PACRA Maintains Entity Ratings of Sapphire Electric Company Limited

The Pakistan Credit Rating Agency Limited (PACRA) has maintained the long-term and short term entity ratings of Sapphire Electric Company Limited (SECL) at "AA-" (Double A minus) and "A1+" (A one plus), respectively. The ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

The ratings of SECL reflect its low risk profile, emanating from a cashflow stream guaranteed by the GoP under the Power Purchase Agreement (PPA), subject to adherence to agreed performance parameters. The appointment of General Electric (GE), as the Operations and Maintenance (O&M) contractor makes it liable for any entity related liability. However, given relatively new exposure to Pakistani environments, it would be challenging for GE. Nevertheless, upholding a strong governance structure along with effective monitoring of the plant operations by the management would ensure sustainability of operations on agreed parameters as per PPA. Meanwhile, the weak financial discipline of the sole customer, National Transmission and Despatch Company (NTDC), is the key challenge faced by the company. However, association of the company with Sapphire Group and expected support in case the need arises, provides comfort to the ratings.

The ratings are dependent upon the company's ability to adhere to agreed upon performance parameters, as set by the power purchaser. Moreover, the availability of gas would remain important for efficient utilization of the gas based power plant. Meanwhile, managing liquidity requirements in the midst of the circular debt crisis and external factors such as any changes in the regulatory framework of IPPs remain critical to the ratings.

### The Company:

SECL, established in 2005, is an Independent Power Producer (IPP) operating under the Power Policy 2002. The power plant commenced commercial electricity generation on 4th October 2010. The sponsors of the company are Sapphire Group with a 61% stake, via its group company Sapphire Fibres Limited (SFL: rated A by PACRA), DEG Germany (19%) and Xenel, Saudi Arabia (20%). SECL's core project loan - arranged as a syndicate term finance facility - has outstanding balance of PKR 12,181mln (June, 2011) and is priced at 3-month KIBOR +3% p.a. with no floor or cap. The facility has a ten-year repayment period ending ending May, 2019. The principal repayment, to be made in 40 equal quarterly installments, has begun since August, 2010.

SECL's board comprises seven members, including the CEO. Five board members represent the Sapphire Group, while Xenel and DEG are represented by one member each. Mr. Shahid Abdullah, the CEO, also heads SECL's parent company, SFL.

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