



The Pakistan Credit Rating Agency Limited

SAIF POWER LIMITED

	CURRENT [MAR-17]	PREVIOUS [MAR-16]
Long-Term	A+	A+
Short-Term	A1	A1
Outlook	Stable	Stable

REPORT CONTENTS
1. RATING ANALYSES
2. FINANCIAL INFORMATION
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

Profile & Ownership

- Saif Power Limited (SPL), established in 2004, is an Independent Power Producer (IPP) operating under the Power Policy 2002
- SPL is operating a Combined Cycle thermal power plant with gross capacity of 225MW. It commenced operations on April 30, 2010
- Primary fuel of the plant is Gas whereas High speed diesel is the backup fuel.
- SPL has signed 30 years Power Purchase Agreement with the power purchaser.
- SPL was listed on Pakistan Stock Exchange in December 2014.
- Saif Holdings Limited (SHL), with 51% stake, is the majority shareholder of the company followed by Orastar Limited (20.5%), and Habib Bank Limited (7.2%).
- Saif Group is one of the leading industrial and services conglomerates in Pakistan.

Governance

- SPL has a seven member BoD, including the CEO; all belong to Saif family
- Mr. Saleem Saifullah is the chairman of the board. Mr. Saleem – former minister and senator – have over 4 decades of experience.
- All the directors have long term association with Saif group.
- The board has formed two board committees namely Audit Committee and Human Resource & Remuneration Committee.

Management

- The CEO, Mr. Omar Saifullah, has been associated with the company since inception.
- Mr. Omar Saifullah is assisted by a small but efficient management team.
- Sohail H. Hydari is the Deputy CEO with overall diversified experience of 35 years with various industries. Mr. Hammad Mehmood is the Chief Financial Officer. He has work experience of over 13 years and he has been associated with the company for one decade.

Performance Risk

- SPL generated 800 GWHs of electricity during 9MCY16 (9MCY15: 663 GWHs).
- General Electric International, the O&M operator, ensures adherence of the plant to meet minimum performance benchmarks
- Sui Northern Gas Pipelines Limited supplies the Pipeline Quality Gas to the Facility. High Speed Diesel (HSD), the backup fuel, is sourced from Shell Pakistan
- Since introduction of the LNG in the system, the gas has been made available to the company helping SPL to generate more efficient electricity through its primary fuel.
- Net profit remained strong during the period (9MCY16: PKR 1,673mln; 9MCY15: PKR 1,513mln).

Financial Risk

- Company depends on power purchaser's payment behavior in order to meet with working capital requirements. However, the company has arranged working capital lines of ~PKR 5,793mln out of which PKR 566mln (8%) were utilized at end-Sep16 (end-Sep15: available lines: PKR 7,160mln; utilization: 12%).
- Owing to better payment behavior of the power purchaser the company's receivables decreased during 9MCY16 to PKR 4,246mln (end-Dec15: PKR 5,075mln). Company's cash cycle increased over the period. (Net cash cycle: end-Sep16: 50days; end-Dec15: 38 days).
- The Company's interest coverages improved due to decreasing interest rates (9MCY16: 4.5x, CY15: 3.3x, CY14: 2.5). FCFO of the company remained strong though declined (9MCY16: PKR 2,713mln; CY15: 3,765mln; CY14: 4,279mln).
- SPL has a leveraged capital structure (9MCY16: 49%; CY15: 54%; CY14: 62%) though declining on YoY basis.
- The company paid dividends worth PKR 966mln and PKR 1,776mln during 9MCY16 and CY15 respectively.
- SPL has paid 26 out of 40 installments of its long term debt.

RATING RATIONALE

Saif Power Limited (SPL) runs 225MW Combined Cycle Thermal Power Plant at Sahiwal. The ratings reflect strong business profile of SPL emanating from the demand risk covered under PPA signed between NTDC and the company. The implementation agreement further provides sovereign guarantee for cashflows, given adherence to agreed performance benchmarks. The ratings incorporate low operational risk, a result of established performance credentials of GE - the O&M operator. The company mainly operates on gas after introduction of LNG in the system. The coverages of the company improved amidst declining interest rates (end Sep16 4.5x; end Dec15 3.3x). SPL's receivables continues to remain dependent on power purchaser – NTDC/CPPA-G – payment behavior. SPL continues to pay dividend to its shareholders and intends to continue this pattern in future. The company's association with Saif Group provides comfort to the ratings.

KEY RATING DRIVERS

Management of receivables amidst rising circular debt will remain critical. Meanwhile, upholding operational performance in line with agreed performance levels would be important.



Saif Power Limited

BALANCE SHEET	30-Sep-16	31-Dec-15	31-Dec-14	31-Dec-13
	9M	Annual	Annual	Annual
Non-Current Assets	14,361	14,803	15,674	15,967
Current Assets	5,313	5,556	5,213	6,308
Inventory	118	128	228	242
Trade Receivables	4,246	5,075	4,417	4,413
Other Current Assets	893	348	354	961
Cash & Bank Balances	57	5	214	693
Total Assets	19,675	20,359	20,887	22,275
Debt	8,158	9,356	11,550	14,214
Short-term	566	866	1,508	3,256
Long-term (Incl. Current Maturity of long-term debt)	7,592	8,490	10,041	10,958
Other Short term liabilities (inclusive of trade payables)	2,905	3,035	2,158	1,388
Other Long term Liabilities	32	97	211	339
Shareholder's Equity	8,579	7,872	6,969	6,334
Total Liabilities & Equity	19,675	20,359	20,887	22,275

INCOME STATEMENT

Turnover	9,057	14,981	18,520	11,891
Gross Profit	2,372	3,290	3,746	3,145
Other Income	12	4	59	(68)
Financial Charges	(608)	(1,128)	(1,727)	(1,782)
Net Income	1,673	2,063	1,988	1,223

Cashflow Statement

Free Cashflow from Operations (FCFO)	2,713	3,765	4,279	3,653
Net Cash changes in Working Capital	(23)	1,088	765	1,866
Net Cash from Operating Activities	2,050	3,573	3,316	3,730
Net Cash from Investing Activities	(445)	346	(293)	(370)
Net Cash from Financing Activities	(1,553)	(4,128)	(3,502)	(2,964)
Net Cash generated during the period	52	(209)	(479)	397

Ratio Analysis

Performance				
Turnover Growth	-25.8%	-19.1%	55.7%	-30.2%
Gross Margin	26.2%	22.0%	20.2%	26.4%
Net Margin	18.5%	13.8%	10.7%	10.3%
ROE	19.5%	26.2%	28.5%	19.3%
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	0.9	1.2	1.1	1.0
Interest Coverage (X) (FCFO/Gross Interest)	4.5	3.3	2.5	2.0
FCFO Pre-WC/Gross interest+CMLTD+Uncovered STB	1.1	1.4	1.1	1.0
FCFO POST-WC/Gross interest+CMLTD+Uncovered STB	1.1	1.8	1.3	1.6
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	49.8	38.3	62.2	101.6
Capital Structure				
Net Debt/Net Debt+Equity	48.7%	54.3%	62.4%	69.2%

Mar-17



STANDARD RATING SCALES & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

LONG TERM RATINGS		SHORT TERM RATINGS
AAA	<p>Highest credit quality. Lowest expectation of credit risk.</p> <p>Indicate exceptionally strong capacity for timely payment of financial commitments.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+ AA AA-	<p>Very high credit quality. Very low expectation of credit risk.</p> <p>Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p>	
A+ A A-	<p>High credit quality. Low expectation of credit risk.</p> <p>The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.</p>	
BBB+ BBB BBB-	<p>Good credit quality. Currently a low expectation of credit risk.</p> <p>The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.</p>	
BB+ BB BB-	<p>Moderate risk. Possibility of credit risk developing.</p> <p>There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.</p>	
B+ B B-	<p>High credit risk.</p> <p>A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business, and economic environment.</p>	
CCC CC C	<p>Very high credit risk.</p> <p>“CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.</p>	
D	<p>Obligations are currently in default.</p>	

<p>Rating Watch</p> <p>Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.</p>	<p>Outlook (Stable, Positive, Negative, Developing)</p> <p>Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.</p>	<p>Suspension</p> <p>It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, a suspended rating should be considered withdrawn.</p>	<p>Withdrawn</p> <p>A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.</p>
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Rated Entity

Name of Rated Entity

Saif Power Limited

Sector

Independent Power Producer

Type of Relationship

Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
09-Mar-16	A+	A1	Stable	Maintain
11-Mar-15	A+	A1	Stable	Maintain
09-Jan-14	A+	A1	Stable	Maintain
30-Nov-12	A+	A1	Stable	Downgrade
09-Apr-12	AA-	A1+	Stable	Maintain
06-Apr-12	AA-	A1+	Stable	Maintain

Related Criteria and Research

Methodology:

IPP's Rating Methodology

Sector Research

Power Generation - Viewpoint | Mar17

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Rating Team Statement

Rating Procedure

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transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from

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