



The Pakistan Credit Rating Agency Limited

Rating Report

Saif Power Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
03-May-2018	A+	A1	Stable	Maintain	-
31-Oct-2017	A+	A1	Stable	Maintain	-
10-Mar-2017	A+	A1	Stable	Maintain	-
10-Mar-2016	A+	A1	Stable	Maintain	-
11-Mar-2015	A+	A1	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

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 HSD due to non availability of gas. SPL's receivables continues to remain dependent on power purchaser – CPPA-G – payment behaviour. SPL is paying dividend to its shareholders and intends to continue this pattern in future. The company's association with Saif Group provides comfort to the ratings.

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

Disclosure

Name of Rated Entity	Saif Power Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation between long-term and short-term rating scale(Jun-17),Methodology Criteria Modifiers(Jun-17),Methodology Independent Power Producers (IPP)(May-17)
Related Research	Sector Study Power(Apr-18)
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INDEPENDENT POWER PRODUCER

The Pakistan Credit Rating Agency Limited

SAIF POWER LIMITED PROFILE	
Incorporated	2005
Major business lines	Independent Power Producer
Legal status	Public Listed
COD	2010
Plant Specifications	Combined Gas Cycle
Plant Capacity	225MW
Fuel	Gas – Primary, HSD – Back up
Plant Location	Sahiwal, Punjab
Head Office	Islamabad

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> ▪ Pakistan total power generation is increasing on the back of new power projects under CPEC ▪ Pakistan’s energy mix is shifting towards Gas/RLNG and coal from Furnace Oil and other expensive sources ▪ Circular Debt has swell to PKR 505mln as at end December 2017 ▪ Going forward, cheap renewable electricity will be a challenge to viability of Gas based power plants.

OWNERSHIP

- Saif Holdings Limited (SHL), with 51% stake, is the majority shareholder of the company followed by Orastar Limited (19%), and Habib Bank Limited (7.2%).
- Saif Holdings Limited is holding company of Saif Group.
- Saif Group is one of the leading industrial and services conglomerates in Pakistan. Its primary operations encompass: Oil and Gas Exploration, Power generation, Textiles Manufacturing, Real Estate Development, Health Care Services, Information Technology Services, Software Development and Environmental Management.

GOVERNANCE

- SPL has a seven member BoD, including the CEO. 6 board members are representing Saif family while one director is independent.
- Ms. Hoor Yousafzai replaced Mr. Saleem Saifullah as chairperson during 9MCY17.
- Three directors joined the board recently including an independent director. The board has formed two board committees namely Audit Committee and Human Resource & Remuneration Committee.
- M/s KPMG Taseer Hadi & Co. Chartered Accountants is the external auditor of the company. The auditor has given unqualified opinion on the financial statements.

MANAGEMENT

- The Chief Executive Officer, 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.

OPERATIONAL & PERFORMANCE RISK

- SPL generated 565 GWHs of electricity during 9MCY17 (9MCY16: 883 GWHs) owing to low demand by power purchaser.
- 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 RLNG in the system, the gas has been made available to the company helping SPL to generate more efficient electricity through its primary fuel. However, recently the plant is mainly operating on HSD.
- Company’s net income remained strong despite lower generation 9MCY17: PKR 1,971mln (CY16: PKR 2,312mln; CY15: PKR 2,063mln).

FINANCIAL RISK

- Company mainly meet its working capital requirements – procurement of gas/fuel and funding of overdue receivables – from internal cash flow generation. However, the company has arranged working capital lines of ~PKR 7,063mln out of which PKR 1,904 mln (27%) were utilized at end-Sep17.
- Delay in payments by the power purchaser caused the company’s receivables to increase during 9MCY17 to PKR 5,397mln (end-Dec16: PKR 4,377mln). Resultantly company’s cash cycle increased over the period. (Net cash cycle: end-Sep17: 98 days; end-Dec16: 94 days, Dec15: 44 days).
- The company’s interest coverages improved (9MCY17: 5.6x, CY16: 4.8x, CY15: 3.3x). FCFO of the company remained strong (9MCY17: PKR 2,907mln; CY16: 3,650mln; CY15: 3,765mln).
- Owing to principle repayments SPL’s capital structure is deleveraging gradually. However, due to increased short term borrowing during 9MCY17 Company’s capital structure largely remained same (9MCY17: 44%; CY16: 46%; CY15: 54%).
- The company paid dividends worth PKR 1,411mln and PKR 966mln during 9MCY17 and CY16 respectively.



Saif Power Limited

BALANCE SHEET	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
	9M	Annual	Annual	Annual
Non-Current Assets	13,805	14,218	14,803	15,674
Current Assets	5,999	5,016	5,556	5,213
Inventory	114	128	128	228
Trade Receivables	5,397	4,377	5,075	4,417
Other Current Assets	486	508	348	354
Cash & Bank Balances	2	3	5	214
Total Assets	19,805	19,234	20,359	20,887
Debt	7,535	7,772	9,356	11,550
Short-term	1,904	1,267	866	1,508
Long-term (Incl. Current Maturity of long-term debt)	5,631	6,506	8,490	10,041
Other Short term liabilities (inclusive of trade payables)	1,766	1,487	3,035	2,158
Other Long term Liabilities	727	759	97	211
Shareholder's Equity	9,776	9,216	7,872	6,969
Total Liabilities & Equity	19,805	19,234	20,359	20,887

INCOME STATEMENT

Turnover	10,900	11,946	14,981	18,520
Gross Profit	2,603	3,188	3,290	3,746
Other Income	4	13	4	59
Financial Charges	(515)	(761)	(1,128)	(1,727)
Net Income	1,971	2,312	2,063	1,988

Cashflow Statement

Free Cashflow from Operations (FCFO)	2,907	3,650	3,765	4,279
Net Cash changes in Working Capital	(880)	(842)	1,088	765
Net Cash from Operating Activities	1,520	2,031	3,573	3,316
Net Cash from Investing Activities	127	(140)	346	(293)
Net Cash from Financing Activities	(1,648)	(1,892)	(4,128)	(3,502)
Net Cash generated during the period	(1)	(2)	(209)	(479)

Ratio Analysis

Performance				
Turnover Growth	21.7%	-20.3%	-19.1%	55.7%
Gross Margin	23.9%	26.7%	22.0%	20.2%
Net Margin	18.1%	19.4%	13.8%	10.7%
ROE	20.2%	25.1%	26.2%	28.5%
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.6	1.5	1.2	1.1
Interest Coverage (X) (FCFO/Gross Interest)	5.6	4.8	3.3	2.5
FCFO Pre-WC/Gross interest+CMLTD	1.6	1.5	1.2	1.1
FCFO POST-WC/Gross interest+CMLTD	0.8	1.1	1.5	1.3
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	98	94	44	67
Capital Structure				
Net Debt/Net Debt+Equity	43.5%	45.8%	54.3%	62.4%

May-18



ENTITY CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity; 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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	A1+: The highest capacity for timely repayment. A1: A strong capacity for timely repayment. A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions. A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions. B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. C: An inadequate capacity to ensure timely repayment.	
AA+	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.		
AA	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.		
AA-			
A+	High credit quality. Low expectation of credit risk. 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.		
A			
A-			
BBB+	Good credit quality. Currently a low expectation of credit risk. 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.		
BBB			
BBB-			
BB+	Moderate risk. Possibility of credit risk developing. 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.		
BB			
BB-			
B+	High credit risk. 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.		
B			
B-			
CCC	Very high credit risk. "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.		
CC			
C			
D	Obligations are currently in default.		
Rating Watch	Outlook (Stable, Positive, Negative, Developing)	Suspension	Withdrawn
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.	Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business or 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'.	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.	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.
Disclaimer: PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.			

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA’s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA’s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

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