



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
05-Nov-2018	A+	A1	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

Saif Power Limited (Saif Power) runs 225MW Combined Cycle Thermal Power Plant at Sahiwal. The ratings reflect strong business profile of Saif Power 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 operated on gas during the six month period ended June 2018. Saif Power's receivables continues to remain dependent on power purchaser – CPPA-G – payment behaviour. Saif Power 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 Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18),Methodology IPP (Jun-18)
Related Research	Sector Study Power(Apr-18)
Rating Analysts	Faizan Arif faizan.sufi@pacra.com +92-42-35869504

Profile

Plant Saif Power is operating a Combined Cycle thermal power plant with gross capacity of 225 MW. The plant, located in Qadarabad, District Sahiwal, is primarily fueled by natural gas supplied by Sui Northern Gas Pipelines Limited (SNGPL), while the secondary fuel (HSD) is supplied by Shell Pakistan Limited.

Tariff Saif Power's key source of earnings is the generation tariff from the power purchaser, NTDC. Tariff consist of two components i.e. Energy Purchase Price (EPP) and Capacity Purchase Price (CPP).

Return On Project The project is earning adequate returns.

Ownership

Ownership Structure Saif Holdings Limited is holding company of Saif Group. Saif Holdings Limited (SHL), with ~51% stake, is the majority shareholder of the company followed by Orastar Limited (~17%), and Habib Bank Limited (~5%).

Stability Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. However, sponsors affiliation with Saif group will continue to provide comfort.

Business Acumen 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.

Financial Strength The financial strength of the sponsors is considered strong as the sponsors have well diversified profitable businesses.

Governance

Board Structure Saif Power has a seven member BoD, excluding the CEO. Five board members are representing Saif family while one director is independent. Ms. Hoor Yousafzai is chairperson of the BoD.

Members' Profile Board members are qualified and have relevant experience in their portfolio reflecting strong member profile.

Board Effectiveness The board has formed two board committees namely Audit Committee and Human Resource & Remuneration Committee. Participation of all board members during board meetings remained satisfactory.

Financial Transparency 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 as at end-Dec 2017.

Management

Organizational Structure IPPs are generally featured by a flat organizational structure, mainly comprising finance and technical staff.

Management Team The Chief Executive Officer, Mr. Sohail H Hydari recently replaced Mr. Omar Saifullah who had been associated with the company since inception. Mr. Sohail H Hydari is assisted by a small but efficient management team.

Effectiveness Saif Power's management effectiveness plays a significant role in empowering the organization through positive results, which has made decision making process systematic.

Control Environment The company maintains an adequate MIS which helps management to keep track of all operations and liaison with O&M operator.

Operational Risk

Power Purchase Agreement Saif Power's key source of earnings is the revenue generated through sale of electricity to the power purchaser, NTDC. The obligations of the power purchaser are guaranteed by the Government of Pakistan. Furthermore, a stable revenue stream is also ensured through the minimum guaranteed capacity charge (component of the tariff received irrespective of electricity production). The term of the PPA is 30 years.

Operation And Maintenance General Electric International, the O&M operator, ensures adherence of the plant to meet minimum performance benchmarks.

Resource Risk 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.

Insurance Cover Saif Power has adequate insurance coverage.

Performance Risk

Industry Dynamics Pakistan total power generation is increasing on the back of new power projects under CPEC. Going forward, cheap renewable electricity will be a challenge to viability of thermal power plants.

Generation Saif Power generated 681 GWh of electricity during 6MCY18 (6MCY17: 416 GWh) on account of high demand by power purchaser with a dispatch level of 77.01% (6MCY17: 47.05%).

Performance Benchmark General Electric International, the O&M operator, ensures adherence of the plant to meet minimum performance benchmarks. Net income has increased to PKR 1,508 mln during 6MCY18 (6MCY17: PKR 1,323 mln) on account of high generation.

Financial Risk

Financing Structure Analysis The debt financing – arranged as a syndicate term finance facility of PKR 12,907mln - constitutes 80% of the project cost.

Liquidity Profile Delay in payments by the power purchaser caused the company's receivables to increase during 6MCY18 to PKR 7,125mln (end-Dec17: PKR 5,384mln). Resultantly company's cash cycle increased to 119 days during 6MCY18 (end-Dec17: 110 days). The availability of cashflows to repay the debt depends on timely flow of receivables from NTDC. During 6MCY18, Saif Power managed to pay off its debt obligations via internal cash generation, a facet of regular, though delayed payments by NTDC.

Working Capital Financing Company mainly meet its working capital requirements – procurement of gas/fuel and funding of overdue receivables – through mix of internal cash flows and short-term borrowings. However, the company has arranged working capital lines of ~PKR 7,947mln out of which PKR 3,994 mln (50%) were utilized at end-Jun18.

Cash Flow Analysis The company's interest coverages improved (6MCY18: 5.6x; CY17: 5.5x; CY16: 4.8x). FCFO of the company remained strong (6MCY18: PKR 2,191mln; CY17: PKR 3,858mln; CY16: PKR 3,650mln).

Capitalization Owing to principle repayments Saif Power's capital structure is deleveraging gradually. However, due to increased short term borrowing during 6MCY18 Company's capital structure slightly increased (6MCY18: 42%; CY17: 39%; CY16: 46%).



Saif Power Limited

BALANCE SHEET	30-Jun-18 6M	31-Dec-17 Annual	31-Dec-16 Annual	31-Dec-15 Annual
Non-Current Assets	13,486	13,691	14,218	14,803
Current Assets	8,028	5,984	5,016	5,556
Inventory	128	128	128	128
Trade Receivables	7,125	5,384	4,377	5,075
Other Current Assets	621	468	508	348
Cash & Bank Balances	155	4	3	5
Total Assets	21,514	19,676	19,234	20,359
Debt	7,923	6,706	7,772	9,356
Short-term	3,994	1,928	1,267	866
Long-term (Incl. Current Maturity of long-term debt)	3,929	4,779	6,506	8,490
Other Short term liabilities (inclusive of trade payables)	1,651	1,811	1,523	3,066
Other Long term Liabilities	769	762	723	66
Shareholder's Equity	11,171	10,396	9,216	7,872
Total Liabilities & Equity	21,514	19,676	19,234	20,359

INCOME STATEMENT

Turnover	9,050	12,257	11,946	14,981
Gross Profit	1,974	3,478	3,188	3,290
Other Income	1	4	13	4
Financial Charges	(394)	(707)	(761)	(1,128)
Net Income	1,509	2,592	2,312	2,063

Cashflow Statement

Free Cashflow from Operations (FCFO)	2,191	3,858	3,650	3,765
Net Cash changes in Working Capital	(2,147)	(853)	(842)	1,088
Net Cash from Operating Activities	(260)	2,351	2,031	3,573
Net Cash from Investing Activities	(14)	(5)	(140)	346
Net Cash from Financing Activities	424	(2,494)	(1,892)	(4,128)
Net Cash generated during the period	150	(148)	(2)	(209)

Ratio Analysis

Performance

Turnover Growth	18.7%	2.6%	-20.3%	-19.1%
Gross Margin	21.8%	28.4%	26.7%	22.0%
Net Margin	16.7%	21.1%	19.4%	13.8%
ROE	27.0%	24.9%	25.1%	26.2%

Coverages

Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.5	1.5	1.5	1.2
Interest Coverage (X) (FCFO/Gross Interest)	5.6	5.5	4.8	3.3
FCFO Pre-WC/Gross interest+CMLTD	1.5	1.5	1.5	1.2
FCFO POST-WC/Gross interest+CMLTD	0.0	1.1	1.1	1.5

Liquidity

Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	119	110	94	44
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Capital Structure

Net Debt/Net Debt+Equity	41.5%	39.2%	45.8%	54.3%
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Oct-18

Credit Rating Scale & 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	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.
AA+ AA 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.	A1	A strong capacity for timely repayment.
A+ A 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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ BBB 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 and in economic conditions are more likely to impair this capacity.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB 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.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ B 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.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	Very high credit risk. Substantial 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.		
D	Obligations are currently in default.		



Outlook (Stable, Positive, Negative, Developing) 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'.

Rating Watch 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. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension 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, the rating should be considered withdrawn.

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, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/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

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- (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.
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- (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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