The Pakistan Credit Rating Agency Limited

Rating Report

Saif Power Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
02-Oct-2019	A+	A1	Stable	Maintain	-
03-Apr-2019	A+	A1	Stable	Maintain	-
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	-
11-Mar-2015	A+	A1	Stable	Maintain	-
09-Jan-2014	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 the strong business profile of Saif Power emanating from the demand risk covered under PPA signed between NTDC and the company. Meanwhile, the Implementation Agreement provides sovereign guarantee for cashflows, given adherence to agreed performance benchmarks. Nevertheless, delayed payments from the power purchaser remained a challenge. Despite higher receivable days the entity managed to sustain its financial strength. The ratings incorporate low operational risk, a result of established performance credentials of GE - the O&M operator. The company produced ~100% of the electricity through gas during 6MCY19. Fuel supply risk is considered adequate as they procure Pipeline Quality Gas from SNGPL with good credit terms. Moreover, the company has arrangement in place to procure High-Speed Diesel (HSD), the backup fuel, from Shell Pakistan. Short term borrowing lines are available and mainly used to fund any short-fall in working capital requirements. There is ample cushion available in short-term lines. Given the liquidity situation, utilization is imputed to go up. Settlement of overdue receivables is crucial. The company has an outstanding long term debt of PKR 2,337mln as at end-June19, payable till March 2020 in four quarterly installments. Sound financial profile of Saif Group, the major sponsor, provides comfort to the ratings.

Sustained good financial discipline and upholding strong operational performance in line with agreed performance levels remain important. Accumulation of circular debt would pose threat to the company's ability to continue with this practice. However, the management ably supported by sponsors' remains committed to sustain improvement in management of commercial obligations and timely debt repayments.

Disclosure	
Name of Rated Entity	Saif Power Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_IPP_FY19(Jun-19),PACRA_Crtieria_LT ST Relationship_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study | Power(Jan-19)
Rating Analysts	Taimoor Ahmad | taimoor.ahmad@pacra.com | +92-42-35869504

Profile

Plant Saif Power Limited (SPL) is operating a Combined Cycle thermal power plant with a 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 consists of two components i.e. Energy Purchase Price (EPP) and Capacity Purchase Price (CPP). The company has a levelized tariff of PKR 5.61 per Kilowatt hour (KWh) when plant operates on gas, while levelized tariff for HSD is PKR 15.52 per Kilowatt hour (KWh).

Return On Project The project is earning adequate returns.

Ownership

Ownership Structure The principal sponsor of the company is Saif Holding Limited (51%). Other shareholders include Orastar Limited (17%), Habib Bank Limited (4%), Financial Institutions (12%) and Others (16%) as at end June-19.

Stability Stability in the IPPs is drawn from the agreements 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. Saif Holding Limited defines and reviews the business and investment activities of the Saif Group on regular basis and provides consultancy and other related services to associated companies.

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. Six board members are representing Saif family while one director is independent. Ms. Hoor Yousafzai is the chairperson of the BoD while Mr. Naved Abid Khan acts as an Independent Director

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 the Audit Committee and Human Resource & Remuneration Committee. Participation of all board members during board meetings remained satisfactory. Mr. Mr. Naved Abid Khan is the chairman of both these committees

Financial Transparency M/s KPMG Taseer Hadi & Co. Chartered Accountants has given an unqualified opinion on the financial statements as at end-Dec 2018.

Management

Organizational Structure Company's management is involved in dealing with lenders, NEPRA, Power Purchaser, O&M operator, legal matters, and other technical and commercial areas. Most of SPL's staff is engaged in finance-related activities as the operations and maintenance of the plant have been outsourced to GE by way of the O&M contract.

Management Team Mr. Sohail Hydari is the CEO of the company. He has a diversified work experience of over 35 years in different industries. He has worked for an international bank in Europe for about nine years. For the last 16 years, he has been associated with the IPP industry. Prior to this, he was associated with the textile industry for 8 years. Mr. Sohail H Hydari is assisted by a small but efficient management team.

Effectiveness SPL management effectiveness plays a significant role in empowering the organization through positive results, which has made the 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. To ensure financial transparency the company has formed an internal audit department who reports to the board.

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 SNGPL 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. During July - March FY2019, installed capacity of electricity reached 34,282 MW, which was 33,433 MW in corresponding period last year, thus, posting a growth of 2.5 percent. Although electricity generation varies due to availability of inputs and other constraints, the generation increased from 82,011 GWh to 84,680 GWh, posting a growth of 2.1 percent during the period under discussion

Generation SPL generated 405GWh of electricity during 6MCY19 as compared to 681GWh during 6MCY18 (CY18: 1,105GWh, CY17: 577GWh), the decline of around 41%.

Performance Benchmark The required availability for SPL under the PPA is 88%. During 6MCY19, average plant availability has been maintained according to agreed parameter. Company's top line declined to PKR 7,682mln during 6MCY19 as compared to PKR 9,050mln during 6MCY18 (CY18: PKR 16,690mln, CY17: PKR12,257mln). The decrease in top-line is attributable to lower generation during the period. Net income stood at PKR 1,656mln during 6MFCY19 as compared to PKR 1,509mln during 6MCY18 (CY18: PKR 3,033mln, CY17: PKR 2,592mln)

Financial Risk

Financing Structure Analysis SPL's project capital structure comprises 24% equity and 76% debt. The project cost (76%) was financed through a syndicated term finance loan. The loan size, PKR 12,907mln, is priced at 3-month KIBOR + 3% p.a. The repayment tenor is ten (10) years with Forty (40) consecutive quarterly payments, starting from Jun-2010. As at end-June19, the total principal outstanding amounts to PKR 2,337mln, which will be repaid in four quarterly installments till March-20.

Liquidity Profile As at end June-19, total receivables of the company stood at PKR 10,920mln (CY18: PKR 8,416mln), an increase of around ~30%. As circular debt continues to be an issue for the power sector, consequently IPPs have to manage their liquidity requirements from short-term borrowings. However, the government efforts in cutting distribution losses and the issue of Pakistan Energy Sukuk-II worth Rs200bln reiterates the government commitment to overcome the crisis.

Working Capital Financing Debtors days increased (6MCY19: 248 days, CY18: 174days) owing to deteriorated payment behavior from the power purchaser resulting in escalation of net cash cycle days (6MCY19: ~213days, CY18: 154 days). During 6MCY19, total working capital lines that are arranged amount to PKR 11,380mln (CY18: PKR9,900mln) of which ~56% has been utilized. The cushion to borrow, in case the company needs it, is ~44%.

Cash Flow Analysis SPL shown a decline in debt coverage ratio [FCFO pre WC / Gross Interest +CMLTD], which dropped to 0.7x during 6MCY19 (CY18:1.4x, CY17: 1.5x). This is attributable to the increase in the interest expense and the increase in CMLTD as the debt is approaching maturity.

Capitalization SPL leveraging for 6MCY19 remained moderate at ~42.8% (CY18: 43.8%, CY17: 41.8%). STD comprised 65% and LTD stood 35% of total debt financing.

Saif Power Limited *PKR mln*

BALANCE SHEET	30-Jun-19	31-Dec-18	31-Dec-17	31-Dec-16
	6M	CY18	CY17	CY16
Non-Current Assets	**13,181**	**13,298**	**13,691**	**14,218**
Investments (Others)				
Equity	702	631	-	-
Debt	-	-	-	-
Current Assets	**11,503**	**9,115**	**5,984**	**5,016**
Inventory	134	134	128	128
Trade Receivables	10,920	8,416	5,384	4,377
Other Current Assets	448	565	468	358
Cash & Bank Balances	0	0	4	153
Total Assets	**25,386**	**23,043**	**19,676**	**19,234**
Debt	**9,878**	**9,396**	**7,468**	**8,495**
Short-term	6,390	5,449	1,928	1,267
Long-term (Inlc. Current Maturity of long-term debt)	3,488	3,947	5,541	7,228
Other Short term liabilities (inclusive of trade payables)	2,306	1,600	1,811	1,523
Other Long term Liabilities	-	-	-	-
Shareholder's Equity	**13,201**	**12,047**	**10,396**	**9,216**
Total Liabilities & Equity	**25,386**	**23,043**	**19,676**	**19,234**
INCOME STATEMENT				
Turnover	**7,682**	**16,690**	**12,257**	**11,946**
Gross Profit	2,414	4,065	3,478	3,188
Other Income	(143)	(125)	(48)	(11)
Financial Charges	(539)	(767)	(655)	(737)
Net Income	**1,656**	**3,033**	**2,592**	**2,312**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	2,625	4,516	3,858	3,650
Net Cash changes in Working Capital	(1,816)	(3,525)	(853)	(842)
Net Cash from Operating Activities	271	267	2,351	2,031
Net Cash from InvestingActivities	(77)	(633)	(5)	10
Net Cash from Financing Activities	(194)	362	(2,494)	(1,892)
Net Cash generated during the period	0	(4)	(148)	148
Ratio Analysis				
Performance				
Turnover Growth	-15.1%	36.2%	2.6%	-20.3%
Gross Margin	31.4%	24.4%	28.4%	26.7%
Net Margin	21.6%	18.2%	21.1%	19.4%
ROE	25.1%	25.2%	24.9%	25.1%
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	0.7	1.4	1.5	1.5
Interest Coverage (X) (FCFO/Gross Interest)	4.9	5.9	5.9	5.0
FCFO Pre-WC/Gross interest+CMLTD	0.7	1.4	1.5	1.5
FCFO POST-WC/Gross interest+CMLTD	0.2	0.3	1.2	1.1
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	213	154	120	100
Capital Structure				
Net Debt/Net Debt+Equity	42.8%	43.8%	41.8%	48.0%

Credit Rating Scale & Definitions

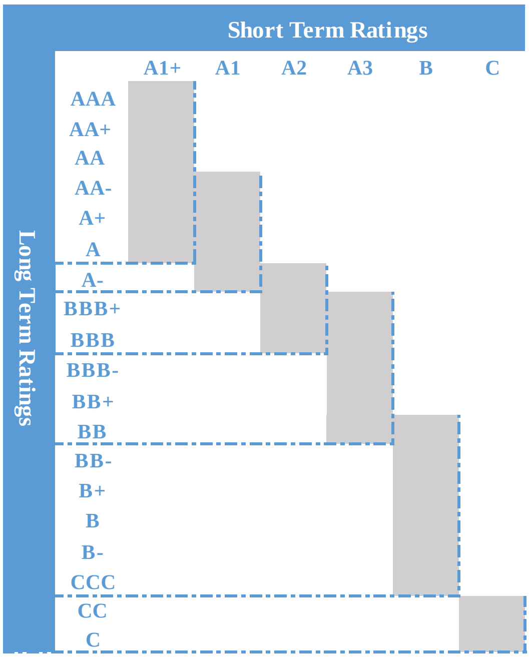
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
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.
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.
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+ 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.
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.

Short Term Ratings

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.



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 surveill the opinion due to lack of requisite information.

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

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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)

Independence & Conflict of interest

(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)

Proprietary Information