



The Pakistan Credit Rating Agency Limited

Rating Report

Saif Power Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Mar-2021	A+	A1	Stable	Maintain	-
30-Mar-2020	A+	A1	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

Saif Power Limited (Saif Power) is a 225MW Combined Cycle Thermal Power Plant at Sahiwal. The ratings reflect the strong business fundamentals 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 remains a challenge. The ratings incorporate low operational risk, a result of established performance credentials of GE - the O&M operator. The company produced ~99% of the electricity through gas during 9MCY20. Fuel supply risk is considered adequate as they procure RLNG 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 long-term debt of the company is fully paid successfully in March-2020. The Company's financial risk profile is dependent on the timely receipt of receivables from the power purchaser. Saif Power, has recently signed the agreement in pursuant to MoU which will improve the liquidity in future, upon receipt of 40% of trade receivables, as first installment, in the form of cash, PIBs and instrument rest 60% will be paid after 6 months of receipt of first installment. Further, ROE is reduced to 12% for foreign equity investment and for local investors ROE will be changed to 17% per annum in PKR. In actual the impact of executed agreement is yet to be seen. Sound financial profile of Saif Group, the major sponsor, provides comfort to the ratings.

Upholding operational performance in line with agreed performance levels would remain a key rating driver. Accumulation of circular debt would pose threat to the company's ability to continue with this practice. Any significant increase in overdue receivables, as a result of rise in circular debt, may impact the ratings.

Disclosure

Name of Rated Entity	Saif Power Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology IPP(Jun-20),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria Rating Modifier(Jun-20)
Related Research	Sector Study Power(Jan-21)
Rating Analysts	Sana Shameen sana.shameen@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 leveled tariff of PKR 5.61 per Kilowatt hour (KWh) when plant operates on gas, while leveled 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 (3%), Financial Institutions (12%) and Others (17%) as at end Dec-20.

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, including the CEO. Five board members are representing Saif family while two directors are independent. Mrs. Hoor Yousafzai is the 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 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-June 2020.

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 37 years in different industries. He has worked for an international bank in Europe for about nine years. For the last 17 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 Owing to newly installed plants, Pakistan's energy mix is shifting towards Solar/Gas/and coal from Furnace Oil and other expensive sources. As on June-20, installed capacity of electricity reached 38,719 MW, which was 38,995 MW at end June-19, decline of 0.7%.(276MW)in FY20, due to the expunge of 784MW of GTPS-Kotri (144MW) and TPS Guddu (640MW). There was an increase of 508MW new power projects including CPEC from coal and renewable sources and this will increase further in coming years. Although electricity generation varies due to availability of inputs and other constraints, generation decreased from 136,532 GWh to 134,745 GWh, posting a decline of 1.3% in FY20 as compared to FY19.

Generation SPL generated 423GWh of electricity during 9MCY20 as compared to 691GWh during 9MCY19 (CY19: 716GWh, CY18: 1,105GWh), the decline of around 38%.

Performance Benchmark The required availability for SPL under the PPA is 88%. During 9MCY20, average plant availability has been maintained according to agreed parameter. Company's top line declined to PKR 7,475mln during 9MCY20 as compared to PKR 13,283mln during 9MCY19 (CY19: PKR 14,910mln, CY18: PKR16,690mln). The decrease in top-line is attributable to lower generation during the period. Net income stood at PKR 1,954mln during 9MCY20. (CY19: PKR 3,649mln).

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. The debt is completely paid off by the entity.

Liquidity Profile As at end Sep-20, total receivables of the company stood at PKR 11,136mln (CY19: PKR 9,650mln). As circular debt continues to be an issue for the power sector, consequently IPPs have to manage their liquidity requirements from short-term borrowings.

Working Capital Financing Debtors days increased (9MCY20: 381days, 9MCY19: 212days) owing to deteriorated payment behavior from the power purchaser resulting in escalation of net cash cycle days (9MCY20: ~330days, 9MCY19: 186 days). During 9MCY20, total working capital lines that are arranged amount to PKR 13.430bln of which ~52% has been utilized. The cushion to borrow, in case the company needs it, is ~48%.

Cash Flow Analysis SPL has shown debt coverage ratio [FCFO pre WC / Gross Interest +CMLTD], to 3.5x during 9MCY20 (CY19: 2.4x, CY18: 1.4x).

Capitalization SPL leveraging at end of Sep-20 remained moderate at ~34.% (CY19: 32%, CY18: 44%). STD comprised 86% and LTD stood 14% of total debt financing.



The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Saif Power Ltd Power	Sep-20 9M	Dec-19 12M	Dec-18 12M	Dec-17 12M
A BALANCE SHEET				
1 Non-Current Assets	12,476	12,857	13,298	13,691
2 Investments	-	-	-	-
3 Related Party Exposure	777	738	631	-
4 Current Assets	12,085	11,125	9,115	5,984
a Inventories	163	133	134	128
b Trade Receivables	11,137	9,651	8,416	5,384
5 Total Assets	25,339	24,720	23,043	19,676
6 Current Liabilities	1,685	2,738	1,600	1,811
a Trade Payables	1,040	2,027	1,040	992
7 Borrowings	8,147	7,175	9,396	7,468
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	15,507	14,808	12,047	10,396
11 Shareholders' Equity	15,507	14,808	12,047	10,396
B INCOME STATEMENT				
1 Sales	7,476	14,910	16,690	12,257
a Cost of Good Sold	(4,725)	(9,892)	(12,625)	(8,780)
2 Gross Profit	2,751	5,018	4,065	3,478
a Operating Expenses	(119)	(161)	(140)	(182)
3 Operating Profit	2,632	4,857	3,925	3,295
a Non Operating Income or (Expense)	(111)	(84)	(125)	(48)
4 Profit or (Loss) before Interest and Tax	2,521	4,773	3,800	3,247
a Total Finance Cost	(566)	(1,123)	(767)	(655)
b Taxation	-	-	-	-
6 Net Income Or (Loss)	1,955	3,650	3,033	2,592
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	3,100	5,471	4,516	3,858
b Net Cash from Operating Activities before Working Capital Changes	2,359	4,406	3,792	3,204
c Changes in Working Capital	(1,947)	(1,066)	(3,525)	(853)
1 Net Cash provided by Operating Activities	412	3,340	267	2,351
2 Net Cash (Used in) or Available From Investing Activities	(39)	(72)	(633)	(5)
3 Net Cash (Used in) or Available From Financing Activities	(370)	(3,268)	362	(2,494)
4 Net Cash generated or (Used) during the period	3	0	(4)	(148)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-33.1%	-10.7%	36.2%	2.6%
b Gross Profit Margin	36.8%	33.7%	24.4%	28.4%
c Net Profit Margin	26.1%	24.5%	18.2%	21.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	15.4%	29.5%	5.9%	24.5%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)	17.0%	25.5%	27.2%	24.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	386	224	154	164
b Net Working Capital (Average Days)	330	187	132	135
c Current Ratio (Current Assets / Current Liabilities)	7.2	4.1	5.7	3.3
3 Coverages				
a EBITDA / Finance Cost	5.5	4.9	5.9	5.9
b FCFO / Finance Cost+CMLTB+Excess STB	3.5	2.4	1.4	1.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.3	0.4	1.1	1.7
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	34.4%	32.6%	43.8%	41.8%

Credit Rating

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
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+	
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-	
CCC	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.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
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.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) 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.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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(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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Conduct of Business

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- (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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- (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)
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- (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)
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- (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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