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
22-Mar-2022	AA-	A1	Stable	Upgrade	-
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	-

Rating Rationale and Key Rating Drivers

The ratings reflect strong business profile of Saif Power Limited (Saif Power) emanating from the demand risk coverage under Power Purchase Agreement signed between Central Power Purchasing Agency (CPPA-G) and the company. Meanwhile, the Implementation Agreement provides sovereign guarantee for cashflows, given adherence to agreed performance benchmarks. Saif Power continues to meet its availability (88%) and other performance benchmarks. Fuel supply risk is considered low 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. The ratings stemmed from the fact that the long-term debt of the company was fully paid successfully in March-2020. As a result of the revision in agreement with CPPA-G, the Company’s profitability indicators will be slightly lower going forward. 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, company managed to sustained the utilization at 52%. Settlement of overdue receivables is crucial. As a key point of MOU with GoP, Saif Power received first installment of 40% of pending receivables from the off taker.

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 remains committed to sustain improvement in management of commercial obligations reflected by the timely and fully repayment of long-debt.

Disclosure

Name of Rated Entity	Saif Power Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Independent Power Producer Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Power(Jan-22)
Rating Analysts	Anam Waqas Ghayour | anam.waqas@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 RLNG 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 Saif Power has revised its ROE in respect of local equity to 17% from 15% with no dollar indexation, and for foreign equity to 12% from 15% with dollar indexation.

Ownership

Ownership Structure The principal sponsor of the company is Saif Holding Limited (34%) followed by the sponsor family (16%). Other shareholders include Orastar Limited (17%), Financial Institutions (15%) and Others (17%) as at end Dec-21.

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. 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 2021.

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 38 years in different industries. He has worked for an international bank in Europe for about nine years. For the last 18 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, CPPA-G. 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 RLNG Gas to the Facility. High-Speed Diesel (HSD), the backup fuel, is sourced from Shell Pakistan.

Insurance Cover 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 653GWh of electricity during 9MCY21 as compared to 421GWh during 9MCY20 (CY20:460, CY19: 716GWh, CY18: 1,105GWh), an increase of 55% YoY basis. Company's top line amplified to PKR 13,010mln during 9MCY21 as compared to PKR 7,475mln during 9MCY20 (CY20: PKR 8,925mln, CY19: PKR 14,910mln). The increase in top-line is attributable to higher generation during the period. Net income stood at PKR 1,233mln during 9MFCY20. (CY20: PKR 2,372mln).

Performance Benchmark The required availability for SPL under the PPA is 88%. During 9MCY20, average plant availability has been maintained according to agreed parameter.

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. In March 2020 the company completely paid off its debt.

Liquidity Profile As circular debt continues to be an issue for the power sector, consequently IPPs have to manage their liquidity requirements from short-term borrowings. Receivable days decreased to 261 days as of end-Sep21 (1HCY21: 350 days) owing to the receiving of pending dues from the power purchaser resulting in de-escalation of net cash cycle days to 234 days during 9MCY21(1HFY21: 332)

Working Capital Financing Company mainly meet its working capital requirements – procurement of gas/fuel and funding of overdue receivables – from internal cash flow generation. During 9MCY21, total working capital lines that are arranged to amount PKR 13.13bln (CY20: PKR13.43bln) of which ~52% has been utilized. The cushion to borrow, in case the company needs it, is ~48%.

Cash Flow Analysis During the 9MCY21, company posted growth in FCFOs on back of strong revenues. FCFO stands at PKR 2,313mln as compared to PKR 3,100mln in the corresponding period (CY20: PKR 3,798mln, CY19: PKR 4.4bln).

Capitalization SPL had a 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. In March 2020 the company completely paid off its debt.

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Financial Summary
PKR mln

Saif Power Limited	Sep-21	Dec-20	Dec-19	Dec-18
SPL	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	11,883	12,290	12,857	13,298
2 Investments	-	-	-	-
3 Related Party Exposure	789	785	738	631
4 Current Assets	14,127	12,345	11,125	9,115
a Inventories	*186*	*169*	*133*	*134*
b Trade Receivables	*13,409*	*11,363*	*9,651*	*8,416*
5 Total Assets	26,799	25,419	24,720	23,043
6 Current Liabilities	2,729	1,486	2,738	1,600
a Trade Payables	*2,037*	*851*	*2,027*	*1,040*
7 Borrowings	7,871	8,001	7,175	9,396
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	16,199	15,932	14,808	12,047
11 Shareholders' Equity	16,199	15,932	14,808	12,047
B INCOME STATEMENT				
1 Sales	13,010	8,925	14,910	16,690
a Cost of Good Sold	*(11,049)*	*(5,595)*	*(9,892)*	*(12,625)*
2 Gross Profit	1,961	3,330	5,018	4,065
a Operating Expenses	(119)	(161)	(161)	(140)
3 Operating Profit	1,842	3,169	4,857	3,925
a Non Operating Income or (Expense)	*(108)*	*(80)*	*(84)*	*(125)*
4 Profit or (Loss) before Interest and Tax	1,733	3,089	4,773	3,800
a Total Finance Cost	*(500)*	*(717)*	*(1,123)*	*(767)*
b Taxation	-	-	-	-
6 Net Income Or (Loss)	1,233	2,372	3,650	3,033
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*2,313*	*3,798*	*5,471*	*4,516*
b Net Cash from Operating Activities before Working Capital Changes	*1,760*	*2,926*	*4,406*	*3,792*
c Changes in Working Capital	*(599)*	*(2,382)*	*(1,066)*	*(3,525)*
1 Net Cash provided by Operating Activities	1,160	543	3,340	267
2 Net Cash (Used in) or Available From Investing Activities	(5)	(44)	(72)	(633)
3 Net Cash (Used in) or Available From Financing Activities	(1,154)	(488)	(3,268)	362
4 Net Cash generated or (Used) during the period	1	11	0	(4)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	45.8%	-40.1%	-10.7%	36.2%
b Gross Profit Margin	15.1%	37.3%	33.7%	24.4%
c Net Profit Margin	9.5%	26.6%	24.5%	18.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	13.2%	15.9%	29.5%	5.9%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	10.4%	15.1%	25.5%	27.2%
2 Working Capital Management				
a Gross Working Capital (Average Days)	264	436	224	154
b Net Working Capital (Average Days)	234	377	187	132
c Current Ratio (Current Assets / Current Liabilities)	5.2	8.3	4.1	5.7
3 Coverages				
a EBITDA / Finance Cost	4.7	5.3	4.9	5.9
b FCFO / Finance Cost+CMLTB+Excess STB	2.8	3.3	2.4	1.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.4	0.3	0.4	1.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	32.7%	33.4%	32.6%	43.8%
b Interest or Markup Payable (Days)	378.3	316.3	226.2	261.9
c Entity Average Borrowing Rate	8.1%	9.2%	13.6%	9.1%

Credit Rating

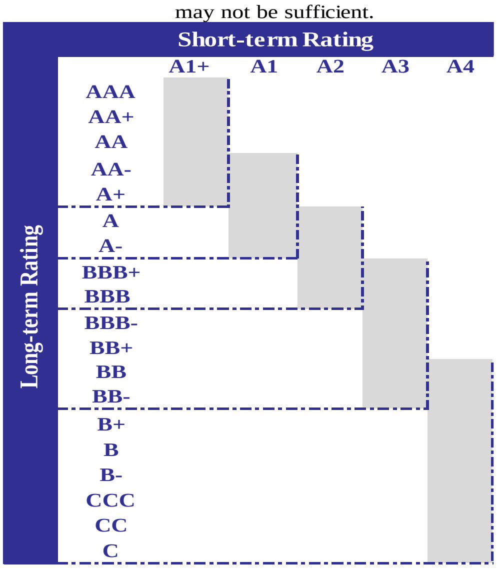
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
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 Rating

Scale	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
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 surveill 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):

Entities
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

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

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)
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