



The Pakistan Credit Rating Agency Limited

Rating Report

Sui Southern Gas Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
15-Dec-2022	A	A2	Stable	Maintain	Yes
22-Dec-2021	A	A2	Negative	Downgrade	Yes
24-Dec-2020	A+	A1	Negative	Maintain	Yes
28-Dec-2019	A+	A1	Negative	Maintain	Yes
28-Jun-2019	A+	A1	Negative	Maintain	Yes
31-Dec-2018	A+	A1	Negative	Maintain	Yes
30-Jun-2018	A+	A1	Negative	Maintain	Yes
23-Jun-2017	A+	A1	Negative	Maintain	-

Rating Rationale and Key Rating Drivers

SSGC business profile is considered adequate owing to its exclusive license to operate in areas of the franchise (provinces of Sindh and Balochistan) and guaranteed return on its net operating assets. However, the Company's profitability has been significantly impacted over the period on account of substantially high UFG disallowances and other matters pertaining to operating / non-operating income. The management of the Company is focusing to re-strategize its operations; i) eliminating the inefficiencies which includes the establishment of UFG hub on DMD level; reflecting the effectiveness of controls, ii) diversifying its business streams in order to manage/ earn Non-Operating Income and ultimately improve the Company's financial position. The management believes that the Company's existing experience and expertise complement the development of new revenue streams and ultimately supplement the adverse bottom line. The multi pronged strategy is being adopted. This will enable new gas addition to the system, primarily from bio material and secondarily from the non-functional wells. To accomplish this, the company already incorporated a fully owned subsidiary; SSGC Alternate Energy (Pvt.) Ltd. Under the proposition, revenue will be generated through toll charges by using current infrastructure. In addition, the Company has successfully reported operating profits consistently in last three quarters of FY21. However, timely settlement of pending receivables is also important as the company's liquidity profile is significantly stretched. The management has been working vigorously to resolve the liquidity issues. Furthermore, SSGC has not issued its financial statements for FY21 & FY22; quarterly financials are also pending. The management is obligated to issue its quarterly statements and yearly financial statements in due time, however; the company sought an extension on issuing of accounts owing to the finalization of a petition filed with OGRA.

The company's financial risk profile is deteriorated owing to consistent losses that have been made for the last few years. However, company's resilience shown in operating profits reflects in "Stable" outlook. Also, the delay in the publishing of financial statements is a consideration for rating watch. Going forward, consistency in operating profits and vigorous follow up on the initiatives will reflect positively on the Ratings.

Disclosure

Name of Rated Entity	Sui Southern Gas Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Distribution Gas(Jun-22)
Rating Analysts	Anam Waqas Ghayour anam.waqas@pacra.com +92-42-35869504

Profile

Legal Structure Sui Southern Gas Company Limited (SSGC) was formed in 1989 as a result of merger of three pioneering companies, namely Sui Gas Transmission Company Limited, Karachi Gas Company Limited, and Indus Gas Company Limited. SSGC is listed on Pakistan Stock Exchange (PSX).

Background SSGC is primarily engaged in the business of purchase, transmission, and distribution of natural gas in its franchise area, comprising the Sindh and Balochistan provinces, where it enjoys a monopoly position.

Operations The Company operates with a transmission and distribution network of 47,520km, SSGC serves ~2.8mln, customers, across Sindh and Balochistan. Owns and operates gas meter manufacturing plant; company has successfully produced 452,670 meters during FY20.

Ownership

Ownership Structure The company is majority (~53%) owned by Government of Pakistan (GoP) excluding 12% through public sector companies and corporations.

Stability The ownership structure is likely to remain the same in foreseeable future.

Business Acumen The business acumen is considered adequate.

Financial Strength Given the strategic importance of the company as an extended arm of the government for its socioeconomic policy implementation, support from the GoP is expected to be forthcoming in times of crisis.

Governance

Board Structure The overall control of the company vests with an eleven-member board. The board comprises Chairperson and ten non-executive directors including six independent members. Board members possess a good mix of skill sets; the risk of political intervention remains.

Members' Profile Dr. Shamshad Akhter (nominee of Govt. of Pakistan) has joined the company as Chairman of the board since Apr-19; wherein Lt. General Javed Zia was previous Chairperson and held the position during FY18. She has been associated with the State Bank of Pakistan; designated as Governor.

Board Effectiveness The board has constituted six committees, namely (i) Human Resource and Remuneration, (ii) Audit, (iii) Finance and Procurement, (iv) Unaccounted for Gas (UFG) Committee (v) Risk Management, Litigation & HSEQA (vi) Board Corporate Governance and Ethics Committee and (vi) Nomination Committee. Audit Committee reports boarding in line with code of corporate governance.

Financial Transparency M/s BDO Ebrahim & Co. are the external auditors of the company. The auditor gave a qualified opinion on the company's financial statements for the year ended June 30, 2020. Highlighting that the majority of receivables from absorption of staggering losses till FY20, aggressive favorable treatment of litigations & other matters mentioned in Contingencies and Commitments, discontinuation of LPS expenses payable to Govt. controlled E&P companies.

Management

Organizational Structure Tall organization structure; adequately long associated and experienced management team. Operational infrastructure requires regular capital expenditure.

Management Team Mr. Muhammad Imran Maniar has been serving as MD since Feb-2021. He is an accomplished professional with more than 30 years of strong track record in building, leading and advising private equity and corporations in mergers and acquisitions, restructurings, turnarounds, capital market transactions, logistics, upstream and midstream operations, oil field and engineering services.

Effectiveness The board has constituted four committees, namely (i) Human Resource and Remuneration, (ii) Audit, (iii) Finance and Procurement, and (iv) Unaccounted for Gas (UFG) Committee. Each committee is headed by a board member and consists of other non-executive board members.

MIS Deploys Oracle-based ERP; comprehensive MIS reporting mechanism.

Control Environment Various MIS reports are generated for the senior management on a daily basis. These include reports pertaining to gas supply & demand, pending connections, field activities, metering, customer billing, etc. However, UFG reports are submitted to the management and board on a quarterly basis.

Business Risk

Industry Dynamics Currently, there are two gas distribution companies – SNGPL and SSGC – operating in Pakistan. Pakistan has an extensive gas network of over ~13,513km transmission, ~155,679km distribution and ~41,231km services gas pipelines to cater for the requirement of more than ~10.7mln connections across the country as of end-Jun22. Production of natural gas from indigenous resources is decreasing. Thus, to bridge the supply demand gap, Pakistan's reliance on imported Re-Gasified Liquefied Natural Gas (RLNG) has been increased in recent years. Since this sector is a supply deficit, the companies are not exposed to demand risk. The tariff of the companies is determined by OGRA on annual basis. While determining tariff, ORGA allows i) guaranteed return, and ii) operational cost. Gas utilities operate in a highly regulated environment.

Relative Position SSGC is currently catering to the gas requirements of about 305,097 million cubic feet (MMCF) gas was sold in FY22 to industrial, commercial and domestic consumers in designated regions through a distribution network of over 47,520 Km.

Revenues During 9MFY21, the turnover witnessed an increase and was recorded at PKR 217,323mln as compared to 211,098mln in the corresponding period. Profitability of the company is derived from the Guaranteed Return Formula prescribed by OGRA. Under this formula, SSGC is allowed 17.43% return on its average net operating fixed assets before financial charges and taxes. However, OGRA makes disallowances/ adjustments while determining the revenue requirements based on efficiency related benchmarks viz a viz Un-accounted for Gas (UFG), Human Resource Benchmark Cost, Provision for Doubtful Debts and some other expenses/ charges. These disallowances/ adjustments affect the bottom-line of the Company. In line with OGRA Determination on Final Revenue Requirement (DFRR) for FY 2019-20 issued on March 28, 2022, total disallowances absorbed / credits allowed in these nine months financial results amounted to PKR 8,901 million against Return on Assets of PKR 11,727 million. In Mar20, PM Office released directives, UFG benchmark should not exceed 7%- the decision could not be implemented due to technical in-competencies.

Margins Increase in UFG volume translated into higher UFG disallowance. Finance cost increased on account of high key policy rates which led to almost doubled the amount of finance cost on bank borrowings. Hence, the company reported losses of PKR 2,249mln in 9MFY21 (FY20: Loss PKR 21,393mln, 9MFY20: Loss PKR 19,100mln).

Sustainability Going forward, the finalization of financial statements for the year ending June 2021 and quarterly financial statements is of vital importance. Furthermore, asset-liability mismatch, UFG losses and weakened liquidity position are the factors that need urgent attention.

Financial Risk

Working Capital In recent years circular debt issue keeps on impacting the liquidity position of the company. Hence, the company has delayed its payments which impacted the payable days. During 9MFY21, company's receivables days and payables days stand at 433days (FY20: 468days) and 653days (FY20: 590days) respectively. Short term borrowings witnessed an increase to stand at PKR 22,661mln (FY20: PKR 14,980mln) on account of stretched working capital cycle of the company. Asset liability mismatch exists and short term trade leverage stood at -56.9% (FY20: -24.3%).

Coverages During last few years, increase in the company's losses kept it cash deficit. Resultantly, coverages of the company remained negative. The company is currently relying on short term borrowings to meet the obligations which has created asset liability mismatch. During 9MFY21, the company's free cash flows from operations turned positive. Hence, interest and debt coverage stood at 3.7x and 0.1x respectively. Going forward, consistent profitability remains vital for the company's going concern status.

Capitalization Since last few years, the company has high leveraged capital structure. During FY20, debt to debt plus equity ratio stood at 180.7% and reached 185.6% by end of 9MFY21, (FY19: 114.6%) on account of surge in short term debt levels to finance working capital requirements. The equity base (9MFY21: -25,929mln, FY20: PKR -23,691mln) of the company has witnessed drag on unappropriated profits due to the consistent losses in recent years. Going forward, the timely repayment of debt remains important for the company.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

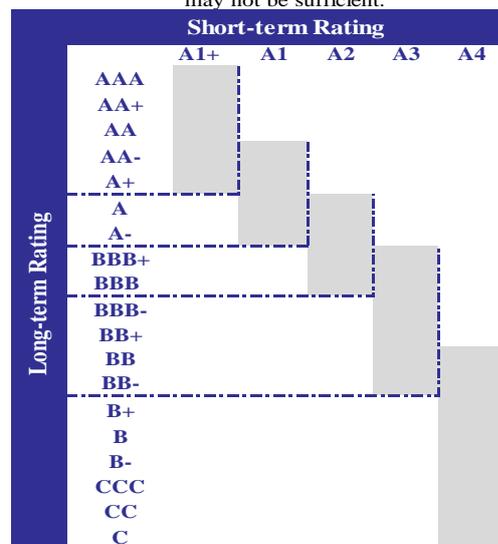
Sui Souther Gas Company Limited Power	Mar-21 9M	Jun-20 12M	Jun-19 12M	Jun-18 12M
A BALANCE SHEET				
1 Non-Current Assets	136,427	134,769	129,945	120,770
2 Investments	279	311	1,425	1,623
3 Related Party Exposure	113,595	2,535	-	-
4 Current Assets	383,462	470,872	396,653	263,693
<i>a Inventories</i>	1,903	2,347	2,011	1,305
<i>b Trade Receivables</i>	299,989	387,404	356,850	226,001
5 Total Assets	633,763	608,487	528,023	386,087
6 Current Liabilities	561,325	539,091	436,391	285,388
<i>a Trade Payables</i>	515,462	521,364	417,609	267,253
7 Borrowings	56,217	53,059	63,052	66,055
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	42,149	40,027	36,603	31,237
10 Net Assets	(25,929)	(23,691)	(8,022)	3,406
11 Shareholders' Equity	(25,929)	(23,691)	(8,022)	3,406
B INCOME STATEMENT				
1 Sales	217,323	290,240	297,167	177,404
<i>a Cost of Good Sold</i>	(223,480)	(307,291)	(295,120)	(187,181)
2 Gross Profit	(6,157)	(17,051)	2,046	(9,777)
<i>a Operating Expenses</i>	(5,661)	(10,193)	(25,506)	(4,475)
3 Operating Profit	(11,818)	(27,243)	(23,460)	(14,252)
<i>a Non Operating Income or (Expense)</i>	14,644	15,429	13,398	8,866
4 Profit or (Loss) before Interest and Tax	2,826	(11,814)	(10,062)	(5,386)
<i>a Total Finance Cost</i>	(3,320)	(7,235)	(6,758)	(5,440)
<i>b Taxation</i>	(1,755)	(2,344)	(1,575)	(4,022)
6 Net Income Or (Loss)	(2,249)	(21,393)	(18,395)	(14,848)
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	12,178	1,294	973	3,217
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	8,711	(6,877)	(5,349)	(1,362)
<i>c Changes in Working Capital</i>	(4,150)	27,050	17,765	4,635
1 Net Cash provided by Operating Activities	4,560	20,173	12,416	3,274
2 Net Cash (Used in) or Available From Investing Activities	(7,764)	(8,769)	(9,485)	(11,079)
3 Net Cash (Used in) or Available From Financing Activities	(4,554)	(9,728)	(9,538)	460
4 Net Cash generated or (Used) during the period	(7,758)	1,676	(6,606)	(7,346)
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	-0.2%	-2.3%	67.5%	13.2%
<i>b Gross Profit Margin</i>	-2.8%	-5.9%	0.7%	-5.5%
<i>c Net Profit Margin</i>	-1.0%	-7.4%	-6.2%	-8.4%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	3.7%	9.8%	6.3%	4.4%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]</i>	6.0%	67.5%	797.0%	-152.4%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	437	471	360	399
<i>b Net Working Capital (Average Days)</i>	-216	-120	-61	-78
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	0.7	0.9	0.9	0.9
3 Coverages				
<i>a EBITDA / Finance Cost</i>	3.6	0.2	0.2	1.0
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	0.1	0.0	0.0	0.1
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	19.8	-20.3	-18.7	-55.3
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	185.6%	180.7%	114.6%	95.1%
<i>b Interest or Markup Payable (Days)</i>	1445.9	878.9	1018.8	1317.4
<i>c Entity Average Borrowing Rate</i>	7.9%	12.3%	9.6%	7.7%

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	
CC	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.
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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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)

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(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 | Clause 11-(A)(p).

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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)

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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)

(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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