



Rating Action

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PACRA MAINTAINS RATINGS OF SAPPHIRE ELECTRIC COMPANY LIMITED

The Pakistan Credit Rating Agency Limited (PACRA) has maintained long term and short term entity ratings of Sapphire Electric Company Limited at 'A+' (single A plus) and 'A1' (A One), respectively. The ratings denote a low expectation of credit risk.

The ratings reflect SECL's strong operational performance vis-a-vis benchmarks agreed with the power purchaser. This entails sovereign guaranteed revenues and cash flows. The company's operations and maintenance operator, General Electric (GE), is a key source of comfort in managing the plant's operational risk. Continuing shortage of primary fuel, gas, has impelled the company to run its operations on alternative fuel - HSD. However falling international prices have provided respite as working capital requirement remains manageable. The company, while funding its net working capital from internal generation, lowered its reliance on short term borrowing. However, the company continues to avail the benefit of forbearance period, while making good its financial obligations. Volatility in repayment behavior of power purchaser remains a key concern. Nevertheless, SECL has been managing its financial profile adequately. The ratings draw comfort from SECL's association with a vibrant sponsor - Sapphire Group.

The Government of Pakistan is pursuing meaningful addition of LNG in Pakistan's fuel mix. This may benefit gas-based IPPs with higher availability of raw material. However, beneficial impact would require amicable solution of circular debt in country's energy chain. Meanwhile, upholding operational performance in line with agreed performance levels would remain important for SECL.

About the Company: Sapphire Electric Company Limited (SECL), an Independent Power Producer (IPP) with gross capacity of 225 MW, is operating under the Power Policy 2002. SECL commenced operations on 4th October 2010. Sapphire Group owns 70% stake in SECL mainly through Sapphire Fibres Limited (68%), while remaining stake is owned by Xenel Saudi Arabia (20%), Meezan Bank (5%) and few high net worth individuals (5%).

The seven-member Board of Directors (BoD), including the CEO, is majorly composed of representatives from Sapphire Group, while Xenel is represented by one member. The board has played an active role in providing strategic guidance to SECL and has been responsible for making key decisions. Mr. Shahid Abdullah, the CEO, also heads the parent company Sapphire Fibres Limited. He is supported by a professional management team.

Applicable Criteria and Related Research

- Independent Power Producer-Viewpoint | Feb-16
- IPPs Rating Methodology

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