The Pakistan Credit Rating Agency Limited

SAIF POWER LIMITED

	NEW [OCT-17]	PREVIOUS [MAR-17]
LONG-TERM	A+	A+
SHORT-TERM	A1	A1
OUTLOOK	STABLE	STABLE
ACTION	MAINTAIN	MAINTAIN

REPORT CONTENTS

OCTOBER 2017

Profile &Ownership
- Saif Power Limited (SPL), established in 2004, is an Independent Power Producer (IPP) operating under the Power Policy 2002.
- SPL is operating a Combined Cycle thermal power plant with gross capacity of 225MW. It commenced operations on April 30, 2010.
- Primary fuel of the plant is Gas whereas High speed diesel is the backup fuel.
- SPL has signed 30 years Power Purchase Agreement with the power purchaser.
- SPL was listed on Pakistan Stock Exchange in December 2014.
- Saif Holdings Limited (SHL), with 51% stake, is the majority shareholder of the company followed by Orastar Limited (20.5%), and Habib Bank Limited (7.2%).
- Saif Group is one of the leading industrial and services conglomerates in Pakistan.

Governance
- SPL has a seven member BoD, including the CEO. 6 board members are representing saif family while one director is independent.
- Ms. Hoor Yousafzai replaced Mr. Saleem Saifullah as chairperson during 6MCY17.
- Three directors joined the board recently including an independent director.
- The board has formed two board committees namely Audit Committee and Human Resource & Remuneration Committee.

Management
- The CEO, Mr. Omar Saifullah, has been associated with the company since inception.
- Mr. Omar Saifullah is assisted by a small but efficient management team.
- Sohail H. Hydari is the Deputy CEO with overall diversified experience of 35 years with various industries. Mr. Hammad Mehmood is the Chief Financial Officer. He has work experience of over 13 years and he has been associated with the company for one decade.

Performance Risk
- SPL generated 416 GWHs of electricity during 6MCY17 (6MCY16: 564 GWHs) owing to low demand by power purchaser.
- General Electric International, the O&M operator, ensures adherence of the plant to meet minimum performance benchmarks.
- Sui Northern Gas Pipelines Limited supplies the Pipeline Quality Gas to the Facility. High Speed Diesel (HSD), the backup fuel, is sourced from Shell Pakistan.
- Since introduction of the LNG in the system, the gas has been made available to the company helping SPL to generate more efficient electricity through its primary fuel. However, recently the plant is mainly operating on HSD.
- Net profit remained strong during the period (6MCY17: PKR 1,323mln; CY16: PKR 2,312mln).

Financial Risk
- Company depends on power purchaser’s payment behavior in order to meet with working capital requirements. However, the company has arranged working capital lines of PKR 7,063mln out of which PKR 2,716mln (38%) were utilized at end-Jun17 (end-Jun16: available lines: PKR 7,160mln; utilization: 4%).
- Owing to delay in payments by the power purchaser, the company's receivables decreased at end-Jun17 to PKR 5,661mln (end-Dec16: PKR 4,377mln). Company's cash cycle decreased over the period (Net cash cycle: end-June17: 79days; end-Dec16: 94days) due to higher payable days.
- The Company’s interest coverages improved due to decreasing interest rates (6MCY17: 5.7x, CY16: 4.8x, CY15: 3.3x). FCFO of the company remained strong though declined (6MCY17: PKR 1,932mln; CY16: 3,650mln; CY15; 3,765mln).
- SPL has a leveraged capital structure (6MCY17: 46%; CY16: 46%; CY15: 54%) though declining on YoY basis.
- The company paid dividends worth PKR 734mln and PKR 966mln during 6MCY17 and CY16 respectively.

RATING RATIONALE

Saif Power Limited (SPL) runs 225MW Combined Cycle Thermal Power Plant at Sahiwal. The ratings reflect strong business profile of SPL emanating from the demand risk covered under PPA signed between NTDC and the company. The implementation agreement further provides sovereign guarantee for cashflows, given adherence to agreed performance benchmarks. The ratings incorporate low operational risk, a result of established performance credentials of GE - the O&M operator. The company mainly operates on HSD due to non-availability of gas. SPL’s receivables continues to remain dependent on power purchaser – CPPA-G – payment behaviour. SPL is paying dividend to its shareholders and intends to continue this pattern in future. The company's association with Saif Group provides comfort to the ratings.

KEY RATING DRIVERS

Management of receivables amidst rising circular debt will remain critical. Meanwhile, upholding operational performance in line with agreed performance levels would be important.

PKR mln

Saif Power Limited

BALANCE SHEET	30-Jun-17	31-Dec-16	31-Dec-15	31-Dec-14
	6M	Annual	Annual	Annual
Non-Current Assets	**13,942**	**14,218**	**14,803**	**15,674**
Current Assets	**7,427**	**5,016**	**5,556**	**5,213**
Inventory	172	128	128	228
Trade Receivables	5,661	4,377	5,075	4,417
Other Current Assets	1,593	508	348	354
Cash & Bank Balances	1	3	5	214
Total Assets	**21,369**	**19,234**	**20,359**	**20,887**
Debt	**8,442**	**7,772**	**9,356**	**11,550**
Short-term	2,716	1,267	866	1,508
Long-term (Inlc. Current Maturity of long-term debt)	5,726	6,506	8,490	10,041
Other Short term liabilities (inclusive of trade payables)	2,399	1,487	3,035	2,158
Other Long term Liabilities	724	759	97	211
Shareholder's Equity	**9,804**	**9,216**	**7,872**	**6,969**
Total Liabilities & Equity	**21,369**	**19,234**	**20,359**	**20,887**
INCOME STATEMENT				
Turnover	**7,624**	**11,946**	**14,981**	**18,520**
Gross Profit	1,735	3,188	3,290	3,746
Other Income	3	13	4	59
Financial Charges	(336)	(761)	(1,128)	(1,727)
Net Income	**1,323**	**2,312**	**2,063**	**1,988**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	1,932	3,650	3,765	4,279
Net Cash changes in Working Capital	(462)	(842)	1,088	765
Net Cash from Operating Activities	1,141	2,031	3,573	3,316
Net Cash from InvestingActivities	(1,061)	(140)	346	(293)
Net Cash from Financing Activities	(82)	(1,892)	(4,128)	(3,502)
Net Cash generated during the period	(2)	(2)	(209)	(479)
Ratio Analysis				
Performance				
Turnover Growth	29.1%	-20.3%	-19.1%	55.7%
Gross Margin	22.8%	26.7%	22.0%	20.2%
Net Margin	17.4%	19.4%	13.8%	10.7%
ROE	13.5%	25.1%	26.2%	28.5%
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.5	1.5	1.2	1.1
Interest Coverage (X) (FCFO/Gross Interest)	5.7	4.8	3.3	2.5
FCFO Pre-WC/Gross interest+CMLTD	1.5	1.5	1.2	1.1
FCFO POST-WC/Gross interest+CMLTD	1.2	1.1	1.5	1.3
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	79	94	44	67
Capital Structure				
Net Debt/Net Debt+Equity	46.3%	45.8%	54.3%	62.4%

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

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

Regulatory and Supplementary Disclosure

Rated Entity

Name of Rated Entity	Saif Power Limited
Sector	Independent Power Producer
Type of Relationship	Solicited

Purpose of the Rating: Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
10-Mar-17	A+	A1	Stable	Maintain
09-Mar-16	A+	A1	Stable	Maintain
11-Mar-15	A+	A1	Stable	Maintain
09-Jan-14	A+	A1	Stable	Maintain
30-Nov-12	A+	A1	Stable	Downgrade

Related Criteria and Research

Methodology: IPP's Rating Methodology
Sector Research: Power Generation - Viewpoint | Mar17

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Rating Team Statement

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

Disclaimer

Rating Shopping

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Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

Reporting of Misconduct

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality

PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties

Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

Prohibition

Probability of Default (PD)

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.