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
21-Mar-2024	AA-	A1	Stable	Maintain	-
22-Mar-2023	AA-	A1	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

Saif Power Limited ("SPL" or "the Company") has been established to set up and operate, combined cycle dual fuel, 225 MW net power generation plant, for generation of electricity and onward sale of electricity to the Power Purchaser (CPPA-G). The plant achieved its commercial operations date (COD) on April 30, 2010. The ratings reflect strong business profile of the Company emanating from the demand risk coverage under 30-year Power Purchase Agreement (PPA) signed between CPPA-G and the Company starting from the COD. Meanwhile, the Implementation Agreement provides sovereign guarantee for cash flows, given adherence to agreed performance benchmarks. The Company continues to meet its performance benchmarks. Comfort is drawn from General Electric International Inc. (G.E) which is the Operations, Maintenance and Service (O&M) Contractor having both local and international experience in the energy sector. The primary fuel of the plant is Gas/Regasified Liquefied Natural Gas (RLNG) which is supplied by Sui Northern Gas Pipeline Limited (SNGPL) and HSD is the backup fuel. Thus, fuel supply risk is considered adequate, pertaining to the meaningful addition of RLNG in Pakistan's fuel mix. During 9MCY23, SPL generated revenues of PKR ~17.6bln (9MCY22: PKR ~20.2bln; CY22: PKR ~22.9bln), resulting in a net income/(loss) of PKR ~ (25) mln (9MCY22: PKR ~1.8bln; CY22: PKR ~1.95bln). In previous years, SPL accrues overhaul expenses annually on the basis of operating hours of the plant. However, this was rectified in 2022 in the light of the opinion issued by ICAP. Thus resulted in overhaul cost of PKR 1.28bln. Additionally, finance costs increased to PKR ~1.8bln from PKR ~1.0bln in the same period of the previous year, contributing to the loss. SPL meets its working capital requirements through a combination of short-term borrowing and internal cash flows. As of the end of Dec'23, SPL had arranged working capital lines totaling PKR ~19.33bln, with 60% (PKR ~11.6bln) have been utilized. Moreover, Saif Power successfully settled its project-related debt in March'20.

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 ability to continue with this practice. Furthermore, going forward delay in receiving the amounts from power purchaser remains a cause of concern. However, the management ably supported by sponsors' 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 | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23),Methodology | Independent Power Producer Rating(Jul-23)
Related Research	Sector Study | Power(Jan-24)
Rating Analysts	Ali Arslan Malik | Ali.Arslan@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, CPPA-G. 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 (23%) followed by the sponsor family (27%). Other shareholders include Orastar Limited (17%), Financial Institutions (15%) and Others (17%) as at end Dec-23.

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, excluding 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. Rashid Ibrahim is Chairman of the AC & Ms. Saima Akbar Khattak is Chairperson of HR Committee.

Financial Transparency M/s GT Anjum Rahman & Co. Chartered Accountants has given an unqualified opinion on the financial statements as at end-Dec 2022.

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 40 years in different industries. He has worked for an international bank in Europe for about nine years. For almost two decades, he has been associated with the power industry. Prior to this, he was associated with the textile industry for 8 years.

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 Saif Power has adequate insurance coverage.

Performance Risk

Industry Dynamics As on June 30,2023 the installed capacity within CPPAG system stood at 42,362MW which is distributed amongst various sources including thermal (60%), Hydroelectric (25%), Wind (4%), Solar (1%), Biomass (1%) and Nuclear (9%). Total electricity generated in the country during FY23 amounted to 138,029 GWh (FY22: 154,056 GWh). The fall in consumption is a result of declining economic activity and slowdown in the industrial and commercial operations. The high cost of electricity for consumers has also negatively impacted the consumption patterns of households.

Generation SPL generated electricity in 9MCY23: 415GWh (CY22: 616GWh, CY21: 747GWh). Company's top line amplified to PKR 17,602mln during 9MCY23 as compared to PKR 20,223mln during 9MCY22 (CY22: PKR 22,870mln). This decrease in generation is mainly attributed to shift of electricity demand towards a less expensive source of generation i.e., Hydro, Solar, Wind and Biogas from the power purchase in wake of cost effective energy basket.

Performance Benchmark The actual averaged availability factor of the Company 93% as against of agreed availability factor of 90% during the CY22.

Financial Risk

Financing Structure Analysis SPL's project capital structure, comprises 60% equity and 40% debt. The debt represents a dollar debt component taken from Orastar Limited, this loan is duly registered with State Bank of Pakistan (SBP). The loan carries markup at the rate of 3 month's USD LIBOR plus 3% per annum and is payable in quarterly installments in a period of six years starting from January 1, 2019 subject to availability of surplus funds for distribution. As per loan agreement, the Company can also issue shares to Orastar Limited in lieu of repayment on mutually agreed basis.

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 180 days as of end-Sep23 (CY22: 194 days, CY21: 267 days) owing to the receiving of pending dues from the power purchaser resulting in de-escalation of net cash cycle days to 182 days during 9MCY23 (CY22: 189 days, CY21: 254 days).

Working Capital Financing During CY23, total working capital lines that are arranged to amount PKR 19,330mln (CY22: 19,030mln, CY21: PKR13,630mln) of which ~60% has been utilized.

Cash Flow Analysis During the 9MCY23, Company posted decline in FCFOs on back of decrease in revenues. FCFO stands at PKR 2,288mln as compared to PKR 3,155mln in the corresponding period (CY22: PKR 3,921mln, CY21: PKR 3,146mln). Thus, SPL has shown a debt coverage ratio [FCFO pre-WC / Gross Interest +CMLTD], to 1.3x with a decrease during 9MCY22 from the corresponding period (CY22: 4.0x).

Capitalization 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 April 2021 the Company completely paid off its debt. As at end Sep'23 leverage of the Company stood at 44% (CY22: 54%).

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Financial Summary
PKR mln

Saif Power Limited Power	Sep-23 9M	Dec-22 12M	Dec-21 12M	Dec-20 12M
A BALANCE SHEET				
1 Non-Current Assets	11,074	11,347	11,759	12,290
2 Investments	26	7,242	1,016	-
3 Related Party Exposure	8	-	789	785
4 Current Assets	13,476	13,444	13,448	12,345
a Inventories	*400*	*400*	*246*	*169*
b Trade Receivables	*11,472*	*11,647*	*12,656*	*11,363*
5 Total Assets	24,585	32,033	27,011	25,419
6 Current Liabilities	2,430	1,752	1,875	1,081
a Trade Payables	*298*	*154*	*1,159*	*447*
7 Borrowings	9,694	16,153	8,175	8,001
8 Related Party Exposure	83	261	409	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	12,377	13,867	16,552	16,337
11 Shareholders' Equity	12,377	13,867	16,552	16,337
B INCOME STATEMENT				
1 Sales	17,602	22,870	16,394	8,925
a Cost of Good Sold	*(15,648)*	*(19,371)*	*(13,655)*	*(5,595)*
2 Gross Profit	1,955	3,499	2,739	3,330
a Operating Expenses	(164)	(207)	(165)	(161)
3 Operating Profit	1,791	3,291	2,575	3,169
a Non Operating Income or (Expense)	*11*	*(306)*	*3*	*(80)*
4 Profit or (Loss) before Interest and Tax	1,801	2,985	2,578	3,089
a Total Finance Cost	*(1,826)*	*(1,035)*	*(831)*	*(717)*
b Taxation	-	-	-	-
6 Net Income Or (Loss)	(25)	1,951	1,747	2,372
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*2,288*	*3,921*	*3,146*	*3,800*
b Net Cash from Operating Activities before Working Capital Changes	*891*	*2,923*	*2,453*	*2,927*
c Changes in Working Capital	*257*	*(48)*	*(414)*	*(2,382)*
1 Net Cash provided by Operating Activities	1,148	2,874	2,039	545
2 Net Cash (Used in) or Available From Investing Activities	(7)	12	(6)	(44)
3 Net Cash (Used in) or Available From Financing Activities	(8,358)	3,343	(1,242)	(488)
4 Net Cash generated or (Used) during the period	(7,218)	6,229	792	13
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	2.6%	39.5%	83.7%	-40.1%
b Gross Profit Margin	11.1%	15.3%	16.7%	37.3%
c Net Profit Margin	-0.1%	8.5%	10.7%	26.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	14.5%	16.9%	16.7%	15.9%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sharehol*	-0.2%	15.3%	10.9%	14.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	186	199	272	436
b Net Working Capital (Average Days)	182	189	254	385
c Current Ratio (Current Assets / Current Liabilities)	5.5	7.7	7.2	11.4
3 Coverages				
a EBITDA / Finance Cost	1.3	4.0	3.9	5.3
b FCFO / Finance Cost+CMLTB+Excess STB	1.0	2.5	2.4	3.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.4	0.3	0.4	0.3
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	44.1%	54.2%	34.2%	32.9%
b Interest or Markup Payable (Days)	222.3	394.9	312.6	316.3
c Entity Average Borrowing Rate	22.4%	10.2%	9.9%	9.2%

Credit Rating

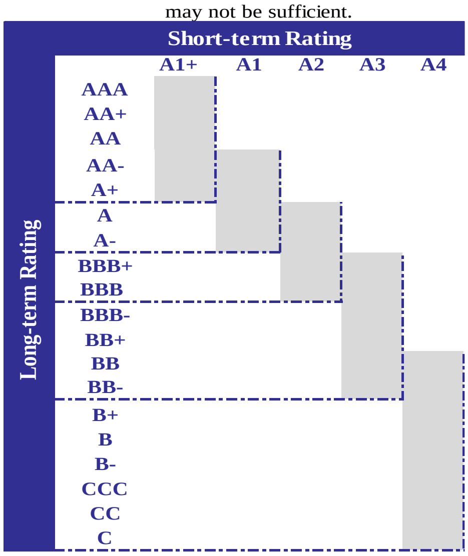
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies 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 | Clause 11-(A)(p).
(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
Proprietary Information