



The Pakistan Credit Rating Agency Limited

Rating Report

Sapphire Electric Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
19-Feb-2024	AA-	A1+	Stable	Maintain	-
22-Feb-2023	AA-	A1+	Stable	Maintain	-
25-Feb-2022	AA-	A1+	Stable	Maintain	-
26-Feb-2021	AA-	A1+	Stable	Maintain	-
28-Feb-2020	AA-	A1+	Stable	Maintain	-
30-Aug-2019	AA-	A1+	Stable	Maintain	-
20-Mar-2019	AA-	A1+	Stable	Maintain	-
06-Nov-2018	AA-	A1+	Stable	Maintain	-
29-Mar-2018	AA-	A1+	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect the strong business profile of Sapphire Electric Company Limited (“Sapphire Electric” or “The Company”) emanating from the demand risk coverage under the Power Purchase Agreement signed between CPPA-G (Central Power Purchasing Agency) and the Company. Meanwhile, the Implementation Agreement provides a sovereign guarantee for cashflows, given adherence to agreed performance benchmarks. The ratings incorporate low operational risk, a result of performance of General Electric - the O&M operator. The primary fuel of the plant is Regasified Liquefied Natural Gas (RLNG) which is supplied by Sui Northern Gas Pipeline Limited (SNGPL). Thus, fuel supply risk is considered adequate, pertaining to the meaningful addition of RLNG in Pakistan’s fuel mix. During the period, FY23, provided ~453GWh of electricity to the national grid and recorded sales revenue of PKR ~18,968mln along with a Net Profit of PKR ~3,207mln (FY22: PKR 2,094mln). Although previous receivables under the Master Agreement has been received but the trend of mounting receivables is observed again since 2QFY23 which is posing pressure on the Company’s working capital requirements. In order to carter the issue, the Company has arranged ample working capital lines whose utilization stands at 21% on average as end FY23. Sapphire Electric project-related debt has been completely paid off in Sep’20. The Company has strong equity base which going forward is expected to be diluted due to cash outlay for the construction of Sapphire Hydro Limited, a Hydro Power project of 150MW in Sharmai Khyber Pakhtunkhawa which is a wholly owned subsidiary.

Upholding operational performance in line with agreed performance levels would remain a key rating driver. The Company's association with Sapphire Group provides comfort to the ratings. Sustained good financial discipline and upholding strong operational performance in line with agreed performance levels remain important.

Disclosure

Name of Rated Entity	Sapphire Electric Company 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 Independent Power Producer Rating(Jul-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Power(Jan-23)
Rating Analysts	Anam Waqas Ghayour anam.waqas@pacra.com +92-42-35869504

Profile

Plant Sapphire Electric Company Limited (the Company) is operating a Combined Cycle thermal power plant on a build-own-operate (BOO) basis, with gross capacity of 225MW.

Tariff Electric's key source of earnings is the generation tariff from the power purchaser, Central Power Purchasing Agency (CPPA-G). The reference generation tariff comprises a capacity charge component and an energy charge component. The fuel cost component of energy charge as per NEPRA determination is 24.9681 PKR/Kwh on RLNG fuel on June 2023.

Return On Project The IRR of Sapphire Electric, as agreed with NEPRA, is 12% of dollar based equity and 17% of PKR based equity.

Ownership

Ownership Structure Sapphire Electric's is majority owned by Sapphire Group with 70% holding, while Xenel Saudi Arabia (20%), Meezan Bank (5%), and high net worth individuals (5%) are other shareholders respectively.

Stability Stability in the IPPs is drawn from the agreements signed between the Company and power purchaser. However, sponsors affiliation with Sapphire group will continue to provide comfort.

Business Acumen Sapphire Group is engaged in the business of manufacturing and selling of yarn & fabric and home textile products.

Financial Strength The financial strength of the sponsors is considered strong as the sponsors have well diversified profitable businesses.

Governance

Board Structure The seven-member Board of Directors (BOD) is majorly composed of representatives from Sapphire Group, including the CEO, while Xenel is represented by one member. Due to dominance of the Sapphire Group on the board, the board has limited diversification. All the board members are seasoned professionals having interests in various sectors of the industry.

Members' Profile Board members are qualified and have relevant experience in their portfolio reflecting strong management profile.

Board Effectiveness The experiences of board will help guiding the management in developing effective operational and financial policies. The board has formulated two committees, i) Audit, & ii) HR and Remuneration Committee, to ensure smooth and effective monitoring of operations. Participation of all board members during board meetings remained satisfactory

Financial Transparency M/s A.F Ferguson is the external auditor of the company. They have expressed an unqualified opinion on the Company's financial statements at FY23 while drawing attention to the matter of recoverability of certain trade debts.

Management

Organizational Structure Sapphire Electric's has a lean management structure. The CEO is supported by a team of qualified and experienced professionals.

Management Team The management control of the company vests with Sapphire Fibres Limited being largest shareholder. Mr. Shahid Abdullah, the CEO, has been spearheading the Company as he carries with him over three decades of experience in various fields of industry

Effectiveness The management of Sapphire Electric is mostly engaged in the finance related activities. The operations and maintenance of the plant have been outsourced to GE by way of the O&M contract. In this regard, Company has built up a team of senior technicians at the plant site, whom are conducting bi-weekly and monthly meetings with GE personnel to further enhance and fortify their knowledge of operating the power plant.

Control Environment Sapphire Electric take advantage of advanced I.T. solutions delivered comparatively better on many fronts. Moreover, quality of the I.T infrastructure and the breadth and depth of activities performed has remained well satisfactory.

Operational Risk

Power Purchase Agreement Sapphire Electric's key source of earnings is the revenue generated through sale of electricity to the power purchaser, CPPA-G. The Company will receive the capacity payments if it is at the benchmark availability and is ready to provide electricity, even if no purchase order is placed by the Power Purchaser.

Operation And Maintenance Sapphire Electric has negotiated an O&M contract with GE started from COD in October 2010 and extended till Oct 04, 2040.

Resource Risk Sapphire Electric's power plant is fueled by Pipeline Quality Gas supplied by Sui Northern Pipelines Limited (SNGPL). SECL has signed an interim agreement in 2018 with SNGPL for supplying RLNG due to acute shortages of gas in the country. In case of non-availability of RLNG, company runs its plant on HSD.

Insurance Cover Sapphire Electric has significant insurance coverage for property damage and business interruption. The insured values for damages include a property damage cover (upto PKR 42,794mln) & business interruption cover (up to PKR 4,265mln). Local insurance is covered by Adamjee Insurance Co and foreign insurance is covered by Lockton (MENA) Limited.

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. The total installed generation capacity was recorded at~41,394MW as in FY22 (FY21: 39,772MW, FY20: ~38,719MW) up ~3% YoY basis, while actual power generation was recorded at 453GWh in FY23 (780GWh in FY22), down by ~41% YoY basis as per the demand posted by the Power Purchaser.

Generation Electricity produced during FY23 is 453GWh (FY22: 780GWh) as per the power demand posted by CPPA-G.

Performance Benchmark The required availability for Sapphire Electric Company under the PPA is 88%. During FY23, average plant availability has been maintained according to agreed parameters. Sapphire Electric's net income increased to PKR 3,207mln during FY23 in comparison to the corresponding period last year; FY22: 2,095mln (1QFY24: PKR 1,131mln) on account of reduced cost of sales. Moreover, decrease in finance cost to PKR 352mln (FY22: PKR 439mln, 1QFY24: PKR 64mln) augmented the bottom line.

Financial Risk

Financing Structure Analysis Sapphire Electric's current capital structure comprises 91.5% equity (PKR 21.8bln) and 8.5% debt (PKR 2.03bln) which is short-term borrowing. During FY21, the Company has already paid-off its long-term project debt.

Liquidity Profile During FY23, trade receivables of the Company stood at PKR 12,161mln (1QFY24: PKR 13,649mln, FY22: PKR 8,878mln). As circular debt continues to be an issue for companies operating in power sector, consequently IPPs have to manage their liquidity requirements from short-term borrowings.

Working Capital Financing During FY23, Sapphire Electric Company's working capital requirements, represented by net cash cycle (net working capital days) – a function of receivables and payables increased to 206 days (1QFY24: 122days, FY22: 179days) due to delay in receipt of receivables from CPPA-G. against energy invoices. The Company meets working capital requirements through a mix of internal cash flows and STBs.

Cash Flow Analysis Sapphire Electric coverage has shown increase in debt coverage ratio to 11.4x in FY23 [EBITDA / Finance Cost] from 7.1x in FY22 (1QFY24: 20.8x), mainly owing to comparatively lower STB utilization.

Capitalization Sapphire Electric's leveraging for FY23 remained low at ~8.5% (1QFY24: 7.4%, FY22: 16.4%). Short term borrowing comprised 100% of total debt financing.



Sapphire Electric Pvt. Ltd. Power	Sep-23 3M	Jun-23 12M	Jun-22 12M	Jun-21 12M
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A BALANCE SHEET

1 Non-Current Assets	10,019	10,157	10,732	11,437
2 Investments	-	1,610	4,776	-
3 Related Party Exposure	189	183	176	170
4 Current Assets	16,768	15,166	11,019	14,553
<i>a Inventories</i>	302	304	310	276
<i>b Trade Receivables</i>	13,649	12,161	8,878	12,730
5 Total Assets	26,976	27,116	26,702	26,160
6 Current Liabilities	2,874	3,269	2,910	1,719
<i>a Trade Payables</i>	2,829	2,925	2,820	1,079
7 Borrowings	1,790	2,029	3,909	6,016
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	22,312	21,818	19,883	18,424
11 Shareholders' Equity	22,312	21,818	19,883	18,424

B INCOME STATEMENT

1 Sales	9,684	18,968	22,092	12,184
<i>a Cost of Good Sold</i>	(8,457)	(15,416)	(19,477)	(8,952)
2 Gross Profit	1,227	3,552	2,614	3,232
<i>a Operating Expenses</i>	(34)	(116)	(85)	(103)
3 Operating Profit	1,193	3,436	2,529	3,129
<i>a Non Operating Income or (Expense)</i>	2	124	5	(141)
4 Profit or (Loss) before Interest and Tax	1,195	3,560	2,534	2,988
<i>a Total Finance Cost</i>	(64)	(352)	(439)	(460)
<i>b Taxation</i>	-	(1)	(0)	-
6 Net Income Or (Loss)	1,131	3,207	2,095	2,528

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	1,337	4,022	3,116	3,720
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	1,209	3,691	2,726	3,205
<i>c Changes in Working Capital</i>	(1,787)	(3,658)	4,775	(3,020)
1 Net Cash provided by Operating Activities	(578)	32	7,501	185
2 Net Cash (Used in) or Available From Investing Activities	(10)	3,569	(3,598)	(52)
3 Net Cash (Used in) or Available From Financing Activities	(636)	474	(2,887)	(1,195)
4 Net Cash generated or (Used) during the period	(1,224)	4,076	1,016	(1,062)

D RATIO ANALYSIS

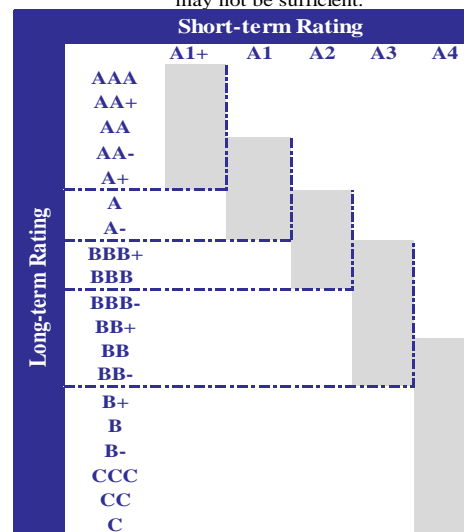
1 Performance				
<i>a Sales Growth (for the period)</i>	104.2%	-14.1%	81.3%	19.2%
<i>b Gross Profit Margin</i>	12.7%	18.7%	11.8%	26.5%
<i>c Net Profit Margin</i>	11.7%	16.9%	9.5%	20.7%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	-4.6%	1.9%	35.7%	5.7%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sl</i>	20.2%	14.8%	10.6%	14.2%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	124	208	183	354
<i>b Net Working Capital (Average Days)</i>	97	153	151	311
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	5.8	4.6	3.8	8.5
3 Coverages				
<i>a EBITDA / Finance Cost</i>	20.8	11.4	7.1	8.3
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	20.8	11.4	7.1	8.3
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.0	0.0	0.0	0.0
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	7.4%	8.5%	16.4%	24.6%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	74.7	32.4
<i>c Entity Average Borrowing Rate</i>	15.3%	15.9%	9.9%	7.1%

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.

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+	
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-	
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):
 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

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(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

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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)
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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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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)
- (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)

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