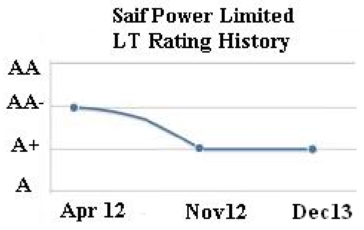
INDEPENDENT POWER PRODUCERS (IPP)

RATINGS (DECEMBER 2013)

SAIF POWER LIMITED (SPL)

	NEW (Dec13)	PREVIOUS (Nov12)
ENTITY		
Long Term	A+	A+
Short Term	A1	A1



FINANCIAL DATA

(PKR mln)

	1HCY 13*	CY12	CY 11
Project Debt	11,233	11,817	12,503
Project Debt-Repaid	(426)	(583)	(608)
ST Debt	4,392	4,075	3,966
Total Debt-Outstanding	15,395	15,655	3,967
Equity	5,716	6,464	5,034
Debt-Equity	68:32	71:29	76:24
FCFO debt coverage	1.1*	1.1	1.2
Adjusted FCFO Coverage	2.2*	0.8	0.8

*Annualized

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RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect low business risk to SPL emanating from the demand risk coverage under PPA signed between NTDC and the company. The Implementation Agreement further covers the sovereign guarantee, given adherence to agreed performance benchmarks under PPA. With GE as the O&M operator, the plant is expected to maintain its performance parameters. Meanwhile, non-availability of the gas, forcing the plant to run on HSD, adds to working capital requirements. Operational performance remains adequate. However, certain differences with NTDC/CPPA on the availability benchmark have led to lower capacity payments. Nonetheless, the company expects a positive outcome. Although good financial discipline of the sole customer – NTDC – remains the key challenge, comfort is drawn from the company's association with the Saif Group since SPL is one of the most profitable investments of the group.
- The efforts of the new Government to revive the liquidity-starved power sector, including the release of funds to clear inter-corporate debt and formulation of Energy Policy 2013-17, lend optimism. Sustained materialization of these policy initiatives, particularly reflected in better financial conduct of sector participants, would be imperative for rating upgrade. Meanwhile, upholding strong operational performance in line with agreed performance levels would remain important for SPL.

ASSESSMENT

- Over the recent past, Pakistan's power sector has faced a conundrum of issues ranging from deficient supply to strained cash management, all leading to the much flaunted menace of inter-corporate debt. Understanding the significance of the power sector and the imbalance between power generation and demand, the GoP has taken some important initiatives to resolve the underlying concerns. These include, (i) paying off outstanding dues to the IPPs and PSO, (ii) giving priority to fuel efficient power plants, (iii) decision to convert certain RFO-based power plants to coal, and (iv)raising the power tariff. The newly formulated Energy Policy 2013-17 is expected to address some of the concerns in the medium term.
- SPL is operating a combined cycle thermal power plant with gross capacity of 225 MW (net capacity at CoD: ~210MW). The plant is located in Qadarabad, District Sahiwal. The company achieved its COD on 30th April 2010. The total cost of the project was ~US$247mln (allowed: US$237mln). SPL has different tariff for Gas and HSD. It has generation tariff of PKR 6.90 per Kilowatt hour (KWh) when plant operates on gas while generation tariff for HSD is PKR 23.66 per Kilowatt hour (KWh).
- During 1HCY13, SPL operated at a higher level on YoY basis. Since it operated on gas vis-a-vis expensive HSD the top line reduced significantly compared to same period last year. However, overall operational profile remains adequate. Certain amount of Capacity Purchase Price - a component of revenue – on account of non-availability is disputed between NTDC and the company. Although SPL, in light of PPA, expects this matter to resolve in company's favor, the flow of these funds has been delayed. Since many IPPs are facing the same issue, both parties have agreed to resolve it through expert mediation.
- General Electric Energy Parts Inc. (GEEPI) is the O&M operator of the plant. The O&M contract for the plant is for 16 years with an option of extending the contract further. The company has also entered into a Gas Supply Agreement with SNGPL for operating the plant on Pipeline Quality Gas. However, the gas supply is not guaranteed. SPL has a backup fuel supply agreement for High Speed Diesel (HSD) with Shell Pakistan, for a period of twelve years.
- To manage its working capital requirements – mainly procurement of fuel and funding of overdue receivables – the company has arranged for working capital lines of PKR 4.1bln. SPL also has sizeable receivable in respect of insurance claim (PKR 1,226mln).The receivable position improved at end-Jun13 with debtor days declining to 101 days from 167 days at end-Jun12. However, this is on account of the decline in receivables following the latest release of funds by the GoP to clear the IPPs' dues. Unless a permanent solution is sought for the resolution of circular debt, the working capital situation may revert to its previous low. The plant witnessed some technical disruption during 4QCY12. Meanwhile, during 2013, SPL made a milestone payment of US$5.1mln to GE on completion of 20,000 hours of each turbine.
- The project has a total outstanding debt of PKR 10,859mln at end Jun-13. The debt coverages remain adequate., Since NTDC's repayment behavior has remained inconsistent over the past few years, SPL, at times, take benefit of tacit forbearance period available in domestic financial industry to match casflows. The company paid 35% dividend during FY13, and is expected to follow prudent financial discipline while prioritizing to honor its financial obligations. Nevertheless, past support from the sponsors in the form of loans and guaranteed from associated companies/sponsors has lent comfort.
- The settlement of circular debt in Jun-13 eased the liquidity constraint of the sector. Meanwhile, the government has devised policy to ensure sustainability of overall power sector. However, till a permanent solution of the same is achieved and implemented, risk of piling up of receivables stays.

PROFILE

- SPL, a public limited unlisted company, was established in November 2004. The sponsors of the company are Saif Holdings Limited (SHL) (51.01%), Orastar Limited (40.64%) and Habib Bank Limited (8.35%).
- SPL has seven members BoD, including the CEO. The presence of Mr. Javed Saifullah Khan, CEO Saif Holdings Limited (SHL), on SPL's board is an indication of group's commitment towards the project. In addition, the presence of four senior directors of the Saif group in the BoD bodes well for the company with regards to decision making. All board members have sufficient education and work experience, both local and foreign.