SSGC
Sui Southern Gas
Company Limited

SSGC/CS/2024-177
18 December 2024

The General Manager,
Pakistan Stock Exchange Ltd.,
Stock Exchange Building,
Stock Exchange Road,
Karachi.

DISCLOSURE OF MATERIAL INFORMATION

Dear Sir,

We are pleased to inform you that the company's long-term credit rating has been upgraded from **"A+"** to **"AA-"** by The Pakistan Credit Rating Agency Limited (PACRA).

For your reference, press clippings from *Business Recorder* and *The Express Tribune* dated December 18, 2024, are attached. Additionally, PACRA's press release dated December 13, 2024, along with its report, is also enclosed.

Kindly inform the TRE Certificate holders of the Exchange accordingly.

Yours Sincerely,

Fawad Ahmed Khan
Company Secretary

Cc: **Director / HOD**
Offsite-ll Department
Supervision Division
Securities and Exchange Commission of Pakistan
NIC Building, 63 Jinnah Avenue,
Blue Area, Islamabad.

SSGC House, Sir Shah Suleman Road, Gulshan-e-Iqbal, P.O. Box 17989, Karachi-75300
PABX Telephone : 99021000, Fax : 92-21-99231550, Website : www.ssgc.com.pk

Announcement

The Pakistan Credit Rating Agency Limited

For further details visit www.pacra.com or scan the QR Code

Entity/ BFR/ Broker Management/ Social Impact and Performance Rating	Rating Type	Action	LTR	STR	Outlook
JS Global Capital Limited	Entity	Maintain	AA	A1+	Stable
Sui Southern Gas Company Limited	Entity	Upgrade	AA-	A1	Stable
Toyota Jinnah Motors (Pvt.) Limited	Entity	Withdraw	-	-	-
IGI Holdings Limited	Entity	Maintain	AA	A1+	Stable
Mega Conglomerate (Pvt.) Limited	Entity	Maintain	AA-	A1	Stable
Sapphire Retail Limited	Entity	Upgrade	A	A1	Stable
Pharmatec Pakistan (Pvt.) Limited	Entity	Initial	A-	A2	Stable
MACPAC Films Limited	Entity	Maintain	BBB+	A2	Stable
Arif Habib Limited | BFR	BFR	Maintain	BFR 1	-	Stable
JS Global Capital Limited | BFR	BFR	Maintain	BFR 1	-	Stable
JS Global Capital Limited | BMR	Broker Management	Maintain	BMR1	-	Stable
Arif Habib Limited | BMR	Broker Management	Maintain	BMR1	-	Stable
Rural Community Development Programmes	Social Impact and Performance Rating	Maintain	SIP3++	-	Positive
CSC Empowerment & Inclusion Programme	Social Impact and Performance Rating	Withdraw	-	-	-

Instrument Rating	Rating Type	Action	LTR	STR	Outlook
Select Technologies (Pvt.) Limited - PPSTS - PKR 4bln - TBI	Debt Instrument	Preliminary	A	A1	Stable

Funds Rating	Rating Type	Action	LTR	Outlook
Alhamra Cash Management Optimizer	Stability Rating	Maintain	AA+(f)	Stable
JS Fixed Term Munafa Fund	Stability Rating	Initial	AAA(f)	Stable

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Arif Habib Limited | BFR	BFR	Maintain	BFR 1	-	Stable
JS Global Capital Limited | BFR	BFR	Maintain	BFR 1	-	Stable
JS Global Capital Limited | BMR	Broker Management	Maintain	BMR1	-	Stable
Arif Habib Limited | BMR	Broker Management	Maintain	BMR1	-	Stable
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Select Technologies (Pvt.) Limited - PPSTS - PKR 4bln - TBI	Debt Instrument	Preliminary	A	A1	Stable
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Alhamra Cash Management Optimizer	Stability Rating	Maintain	AA+(f)		Stable
JS Fixed Term Munafa Fund	Stability Rating	Initial	AAA(f)		Stable

Pakistan National Shipping Corporation

Date
13-Dec-24

Analyst
Hashim Yazdani
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+92-42-35869504
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Applicable Criteria

- Methodology | Rating Modifiers | Apr-24
- Methodology | Correlation Between Long-term & Short-term Rating Scales | Jul-24
- Methodology | Corporate Rating | Jul-24

Related Research

- Sector Study | Distribution | Gas | Aug-24

PACRA Upgrades Entity Ratings of Sui Southern Gas Company Limited

Rating Type	Entity	
	Current (13-Dec-24)	Previous (15-Dec-23)
Action	Upgrade	Maintain
Long Term	AA-	A+
Short Term	A1	A1
Outlook	Stable	Stable
Rating Watch	-	Yes

The ratings upgrade of Sui Southern Gas Company Limited (SSGC) portrays the enhancement in the Company's operational efficiency along with the turnaround in the financial performance which is expected to strengthen in the coming periods. SSGC is one of the two government-owned entities that possess the integrated license for the transmission, distribution, and sale of natural gas and RLNG. The Company being the sole operator in Sindh and Balochistan, has been provided a guaranteed return by OGRA on its net operating assets. The Company's profitability is highly susceptible to the aforementioned guaranteed return and the UFG losses that result from meter tampering, theft, and leakages. Through rigorous measures and comprehensive strategy implementation by the management, the Company has recorded a consecutive decline in reported UFG losses for the past four years. Extensive initiatives undertaken by the management resulted in a significant decline in the Balochistan region during FY24, along with notable success in Karachi with UFG percentage loss restricted to a single digit. Subsequently, the Company's Net loss has decreased from PKR 11.44bln during FY22 to PKR 1.60bln during FY23. Although still above its regulatory benchmark, the Company remains optimistic about its future trajectory of UFG losses. Furthermore, the Company has initiated a massive rehabilitation program to address system leakages and strengthen network integrity. Timely settlement of pending receivables is also important as the Company's liquidity profile is significantly stretched. In addition, the Company is continuously working to diversify its business streams in order to manage/earn non-operating income. SSGC LPG (Pvt) Limited is a wholly owned subsidiary of SSGC engaged in LPG marketing and distribution across the country. It recorded the highest volumes in LPG sales, increasing by 98,700 MT during FY23, and the market share rose to 7.7%. Furthermore, SSGC AE (Pvt) Limited is another venture by SSGC to bring unallocated gas through alternate ways to the customers on competitive terms. This would further provide a sustainable source of income generation for the parent company in the future. Due to the delayed OGRA decision on the SSGC petition for the Final Revenue Requirement (FRR), the Company has recently published its audited financial statements for FY23. Audited accounts for FY24 are expected to be published by last quarter of FY25. The Company has shown substantial recovery in its financial performance through improvement in its bottom line, which is evident from the Net profit of PKR 4,158mln reported during 1QFY24 which has translated towards positive equity of PKR 1,497mln at the end of September 2023.
The assigned ratings encompass the strong ownership structure along with the commitment from GoP to extend necessary financial support to the Company. Furthermore, the assigned upgrade captures the improvement in operational efficiency of the Company that subsequently translated towards the financial performance. Going forward, the management is confident it can sustain and improve the performance in the coming years, as shared in the Business plans approved by the board.

About the Entity
Sui Southern Gas Company (SSGC) is Pakistan's leading integrated public-limited large-scale natural gas utility company. The GoP directly and indirectly owns the majority of the shareholding of the Company. 54% of the ownership stake is held by government through the President of Pakistan while 7.25% is held by SSGC Employees Empowerment Trust. Mr. Muhammad Amin Rajput is currently the Acting Managing Director of the Company.

Sui Southern Gas Company Limited

CREDIT RATING REPORT | DEC-24

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Rating History

Dissemination Date	Long-Term Rating	Short-Term Rating	Outlook	Action	Rating Watch
13-Dec-24	**AA-**	**A1**	**Stable**	**Upgrade**	**-**
15-Dec-23	A+	A1	Stable	Maintain	YES
31-Jan-23	A+	A1	Stable	Upgrade	YES
15-Dec-22	A	A2	Stable	Maintain	YES
22-Dec-21	A	A2	Negative	Downgrade	YES

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Rating Rationale

The ratings upgrade of Sui Southern Gas Company Limited (SSGC) portrays the enhancement in the Company's operational efficiency along with the turnaround in the financial performance which is expected to strengthen in the coming periods. SSGC is one of the two government-owned entities that possess the integrated license for the transmission, distribution, and sale of natural gas and RLNG. The Company being the sole operator in Sindh and Balochistan, has been provided a guaranteed return by OGRA on its net operating assets. The Company's profitability is highly susceptible to the aforementioned guaranteed return and the UFG losses that result from meter tampering, theft, and leakages. Through rigorous measures and comprehensive strategy implementation by the management, the Company has recorded a consecutive decline in reported UFG losses for the past four years. Extensive initiatives undertaken by the management resulted in a significant decline in the Balochistan region during FY24, along with notable success in Karachi with UFG percentage loss restricted to a single digit. Subsequently, the Company's Net loss has decreased from PKR 11.44bln during FY22 to PKR 1.60bln during FY23. Although still above its regulatory benchmark, the Company remains optimistic about its future trajectory of UFG losses. Furthermore, the Company has initiated a massive rehabilitation program to address system leakages and strengthen network integrity. Timely settlement of pending receivables is also important as the Company's liquidity profile is significantly stretched. In addition, the Company is continuously working to diversify its business streams in order to manage/earn non-operating income. SSGC LPG (Pvt) Limited is a wholly owned subsidiary of SSGC engaged in LPG marketing and distribution across the country. It recorded the highest volumes in LPG sales, increasing by 98,700 MT during FY23, and the market share rose to 7.7%. Furthermore, SSGC AE (Pvt) Limited is another venture by SSGC to bring unallocated gas through alternate ways to the customers on competitive terms. This would further provide a sustainable source of income generation for the parent company in the future. Due to the delayed OGRA decision on the SSGC petition for the Final Revenue Requirement (FRR), the Company has recently published its audited financial statements for FY23. Audited accounts for FY24 are expected to be published by last quarter of FY25. The Company has shown substantial recovery in its financial performance through improvement in its bottom line, which is evident from the Net profit of PKR 4,158mln reported during 1QFY24 which has translated towards positive equity of PKR 1,497mln at the end of September 2023.

Key Rating Drivers

The assigned ratings encompass the strong ownership structure along with the commitment from GoP to extend necessary financial support to the Company. Furthermore, the assigned upgrade captures the improvement in operational efficiency of the Company that subsequently translated towards the financial performance. Going forward, the management is confident it can sustain and improve the performance in the coming years, as shared in the Business plans approved by the board.

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2. Financial Summary
3. Rating Scale
4. Regulatory Disclosure

METHODOLOGY

- Methodology | Rating Modifiers | Apr-24
- Methodology | Correlation Between Long-term & Short-term Rating Scales | Jul-24
- Methodology | Corporate Rating | Jul-24

RELATED RESEARCH

- Sector Study | Distribution | Gas | Aug-24

RATING ANALYST

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Sui Southern Gas Company Limited

RATING ANALYSIS

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Profile

Legal Structure

Sui Southern Gas Company Limited ("SSGC" or "the Company") is a public limited Company incorporated in Pakistan under the Companies Act, 2017 (repealed Companies Ordinance, 1984) and is listed on the Pakistan Stock Exchange. The registered office of the Company is situated at SSGC House, Sir Shah Muhammad Suleman Road, Block 14, Gulshan-e-Iqbal, Karachi. The meter manufacturing plant is situated at its' registered office.

Background

Starting with a humble beginning in 1954 as the Sui Transmission Gas Company, SSGC was officially established on March 30, 1989, through the merger of Karachi Gas Company, Indus Gas Company, and Sui Gas Transmission Company. Today SSGC is a pulsating powerhouse, committed to providing natural gas to its 3 million-plus customers in Sindh and Balochistan. Moreover, the Company also has two wholly owned subsidiaries, namely SSGC LPG (Pvt) Limited (SSL) and SSGC AE (Pvt) Limited (SSGC-AE). SSL is a fully integrated LPG marketing and distribution company capable of giving customers reliable and economic supply of product. The company's supply chain extends from allocation from local producers and a fully owned import terminal at Port Qasim to supply consumer retail packs of LPG. As such, activities of the Company start from the import of LPG and go on to the storage, bottling, distribution, and marketing of LPG, both in bulk tanks and cylinders. SSGC-AE continues to explore alternative energy sources that have been outside SSGC's core business.

Operations

SSGC is Pakistan's leading integrated public-limited large-scale natural gas utility Company. SSGC has been engaged in the business of transmission and distribution of natural gas, besides installation of high-pressure transmission and low-pressure distribution systems in the franchise provinces of Sindh and Balochistan, since 1954. Being a downstream company, the Company buys gas in bulk from more than twenty-four local and foreign Exploration and Production companies (E&P) for supply across its franchise areas. SSGC's transmission system as of FY 23 comprises over 4,175 km of high-pressure pipeline ranging from 12" to 42" in diameter. The distribution activities covering over 160 cities and towns and 3,800 villages in Sindh and Balochistan are managed through its regional offices. SSGC operates its own meter manufacturing plant (MMP), established under license from M/s. Itron, France. The plant manufactures G-4 and G-1.6 meters for local consumption along with some exports to international buyers.

Ownership

Ownership Structure

The Government of Pakistan (GoP) holds a majority stake in the company, with 54% owned through the President of Pakistan and 7.25% held by the SSGC Employees Empowerment Trust. Public sector entities, including banks, development finance institutions (DFIs), insurance companies, non-banking finance companies, Takaful operators, and Modarabas, collectively account for 12.50% of the ownership. The remaining shares are distributed among mutual funds, directors, the general public, and other institutions.

Stability

As a public sector utility, SSGC and its pipeline network serve as strategic assets for the GoP. Given its critical importance and the scope of its operations, the government's majority ownership is anticipated to remain steady.

Business Acumen

Through two gas utility companies, SNGPL and SSGC, the GoP captures a significant combined share of ~79% in the total gas supply business in Pakistan. The Ministry of Petroleum (Petroleum Division) overlooks the portfolio of the government in the gas distribution business along with any formal policy development, while the Oil and Gas Regulatory Authority (OGRA) acts as a regulatory body.

Financial Strength

Given the strategic importance of the Company as an extension of the Government of Pakistan (GoP), it is anticipated that financial support will be provided during times of need. The GoP (Finance Division) has explicitly confirmed its commitment to extending the necessary financial assistance through a formal letter, ensuring the Company's ability to maintain its going concern status.

Governance

Board Structure

As of June 30, 2023, the board comprises ten members, including four Non Executive Directors, five Independent Directors and one Executive Director. The structure and appointment of the board of directors have been made in the best interests of the Company and in line with the standards of Corporate Governance.

Members' Profile

The Board of Directors comprises accomplished professionals with diverse expertise. Dr. Shamshad Akhtar, the Chairperson, has over 40 years of experience in national and international development organizations, specializing in governance, privatization, and public-private partnerships. She also served as the Governor of the State Bank of Pakistan from 2006 to 2009. The independent directors bring a wealth of expertise from various sectors. Mr. Muhammad Raziuddin Monem is a seasoned professional with over 40 years of experience in oilfield performance management, emphasizing QHSE and team building, and has collaborated with global energy giants like Exxon, Shell, and BP. Dr. Sohail Khan, a corporate strategy and business development consultant, has extensive international experience in the oil and gas sector. Mr. Ayaz Dawood, CEO of BRR Investments, is a distinguished entrepreneur and founder of several financial institutions, including Dawood Islamic Bank and Dawood Capital Management. Government representation on the Board includes Mr. Shakeel Qadir Khan, Chief Secretary of Balochistan, who has extensive experience in financial management, disaster response, and institutional development. Ms. Saira Najeeb Ahmed, a senior civil servant, has expertise in economic policy, particularly in the power and petroleum sectors, and international development. The non-executive directors further strengthen the Board. Mr. Shoaib Javed Hussain, Chairman of the State Life Insurance Corporation of Pakistan, has over 20 years of global experience in insurance, finance, audit, and risk management. Mr. Zafar Abbas, Additional Secretary (Policy) at the Ministry of Energy, is a seasoned civil servant with expertise in energy policy, international cooperation, and project management. Together, this distinguished team brings extensive experience and leadership to the organization.

Board Effectiveness

The board conducted 14 meetings during FY23 to discuss matters relating to the Company's operations. The presence of the members during the meetings remained satisfactory. Additionally, the Board has established five committees, namely the Board Human Resource and Remuneration Committee, the Board Finance and Procurement Committee, the Board Audit Committee, the Board Risk Management, Litigation, and HSE & QA Committee, and the Board Special Committee on UFG. The primary function of these committees is to assist the Board in the effective and efficient discharge of its functions and to provide feedback on matters of significant importance for the Board's operations. The Board has approved Terms of Reference (ToR) for each of the committees to ensure that the interest of the Company is safeguarded. Each board committee also conducted regular meetings during the fiscal year to fulfill their respective roles.

Financial Transparency

SSGC, being a listed Company, adheres to the highest standards of Corporate Governance to ensure value, efficiency, and transparency in its business operations. As a public sector enterprise, the Company operates under a strong framework that includes the Public Sector Companies (Corporate Governance) Rules, 2013; the State-Owned Enterprises (Governance and Operations) Act, 2023; and the Code of Corporate Governance. M/s BDO Ebrahim & Co. are the external auditors of the company. The auditor gave a qualified opinion on the Company's financial statements for the year ended June 30, 2023.

Management

Organizational Structure

The Company has a very comprehensive and streamlined organization structure comprising various divisions, including Transmission, Distribution, Human Resources, Coordination, Treasury & Finance, Construction, Procurement, Billing, Sales, Internal Audit, Customer Services, Technical Services, Planning & Development, Administrative Services, Billing, Risk Management, etc. Each division is further divided into sub-departments that each have specific responsibilities. Both the divisions and sub-divisions are headed by Senior General Managers (SGMs) and General Managers (GM) who are accompanied by a team of professionals. The SGM and GMs report to the Managing Directors and Deputy Managing Director Operations, who in return report directly to the Board.

Management Team

The management team consists of the Managing Director, Deputy Managing Director, Senior General Managers and General Managers who possess the required technical expertise and vast experience in the respective fields. Mr. Muhammad Amin Rajput is currently the Managing Director of SSGC. Previously, he had served as Chief Financial Officer and Chief Internal Auditor of the Company. Mr. Rajput has over 30 years of diversified experience in finance, audit, and management in the oil and gas, energy, manufacturing, and automobile sectors. Before joining SSGC, he served with K-Electric as its Chief Internal Auditor and Zahid Tractor, Saudi Arabia (Volvo and Caterpillar), in various senior finance and audit positions. Mr. Rajput is a Fellow Chartered Accountant (FCA) and Certified Internal Auditor. Syed Muhammad Saeed Rizvi is the Deputy Managing Director, Operations, and has been associated with the Company for over a decade. Previously he has held key positions in the Company including GM Meter Manufacturing Plant and SGM Engineering Services. An engineer by profession, he has extensive experience in Project Management, Product Quality, Product Development, Operations & Manufacturing.

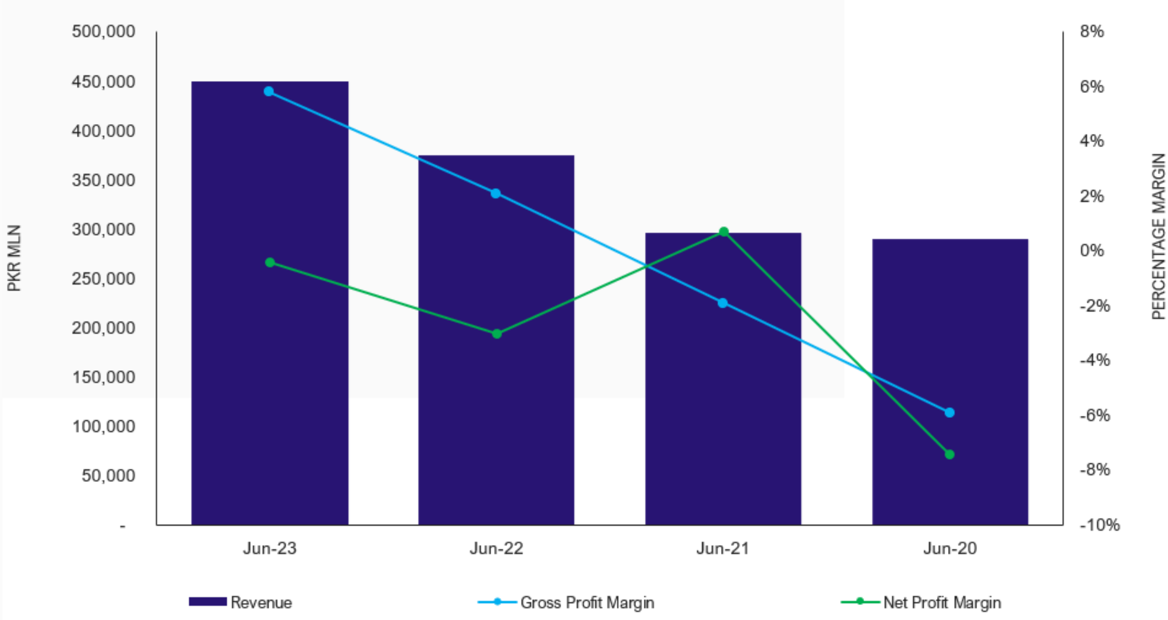
Effectiveness

High-quality performance assessment and results-based accountability have been institutionalized to achieve better outcomes as per the expectations of the stakeholders. To achieve this, the management has implemented new performance-based assessment criteria backed by rigorous KPIs. streams, which include leadership, managerial, and technical programs, which have been instrumental in fostering a culture of continuous learning. Moreover, proper segregation of duties along with well-defined reporting lines and a hierarchical structure leads to smooth functioning, ensuring informed decision-making.

MIS	SSGC has deployed an Oracle e-Business Suite as its Enterprise Resource Planning (ERP) solution. In order to stay abreast of the latest technology, the Company upgraded its ERP solution from Oracle 11i to the Oracle R12 version. In addition, an Enterprise Project Portfolio Management solution was implemented in all gas distribution regions in Karachi using IBM Rational Focal Point software. The solution facilitates engineers in centralized management of the processes, methods, and techniques to analyze and collectively manage current and proposed gas distribution projects based on strategic value and controlling UFG characteristics. SSGC has a comprehensive Customer Care and Billing (CC&B) system to cater to the needs of customers in its franchise area. In the recent past, the Company upgraded its CC&B software through in-house functional enhancement to effectively resolve the current as well as future business requirements. The CC&B application is used for processing, reviewing, analyzing, billing, and raising claims on an individual customer through a centralized interface.
Control Environment	The Board has established a system of sound internal control to ensure compliance with the fundamental principles of probity and propriety, objectivity, integrity, and honesty, and relationships with the stakeholders, in the manner prescribed in the rules. The Company continued to enhance technological integration, using GIS and MAZIK platforms to maximize operations monitoring and network analysis capabilities. The GIS Platform integrates live data from rehabilitation projects and unauthorized gas usage, helping improve gas supply management and planning. Automated monitoring of customer usage was expanded, with 50 Town Border Stations (TBS) sites in Karachi, remotely controlled and monitored for greater operational efficiency.

Business Risk

Industry Dynamics	Pakistan's primary energy mix is dominated by fossil fuels, with natural gas and oil being the most widely used energy sources. The remaining natural gas reserves in the country (including non-pipeline quality gas) are estimated at 20.95 trillion cubic feet, making it the second-largest natural gas producer in South Asia. The total recoverable oil reserves in Pakistan are 249.05 million US barrels. Natural gas remains the dominant energy source in the country, comprising a substantial 41% of the total energy mix. In addition, imports of Liquefied Natural Gas (LNG) have increased and it now represents 11.4% of the overall primary energy supply. Total supply during 9MFY24 was recorded at ~20.8mln MT, registering a decline of ~1.4% YoY. Of this, local production formed ~78.3% (SPLY: ~78.7%), while the share of RLNG imports stood at ~21.7% (SPLY: ~21.3%) during the year. During the period, indigenous gas contributed ~9.3% (SPLY: ~11.6%) to the country's power generation mix. Pakistan's reliance on imported Re-gasified Liquified Natural Gas (RLNG) has traced an increasing trend over the recent years. During 9MFY24, RLNG imports rose ~15.0% YoY to ~6.9mln MT. During 9MFY24, the two gas utility companies (SNGPL & SSGCL) had laid a ~156Km gas transmission network, including ~3,614Km mains and ~76Km services lines. The two Government-owned gas utilities, SNGPL and SSGC, make up a significant combined share of ~79% (FY22: ~77.0%) in total gas supply across the country. Meanwhile, Independent systems comprise consumers having direct arrangements with gas-producing companies since they receive natural gas through dedicated pipelines or through virtual networks, including containers. In 7MFY24, total LPG extracted/processed was recorded at ~438,960MT up ~1.4% YoY (SPLY: ~432,801MT). Of the total, ~75.0% was extracted from natural gas fields, while the remaining ~25.0% was produced in refineries. During the time period, LPG production from refineries recorded a ~3.1% YoY increase, while LPG production from fields grew by ~0.9% YoY. In 7MFY24, LPG supply registered a ~3.3% YoY increase, recording at ~0.8mln MT, with local production and imports comprising ~56.5% and ~43.5%, respectively (SPLY: ~57.6% and ~42.4%, respectively).
Relative Position	The two Government-owned gas utilities, SNGPL and SSGC, have a significant combined share of ~70% in total gas supply to consumers in the Country. Meanwhile, Independent systems comprise consumers having direct arrangements with gas-producing companies since they receive natural gas through dedicated pipelines or through virtual networks, including containers. SSGC occupies a 21% share in the supply of gas to the Country, whereas SNGPL holds a 47% market share. However, SSGC is the main distributor in its franchise area of Sindh and Balochistan.
Revenues	SSGC supplied 841 MMCFD of Gas including Natural Gas and RLNG during FY24 (FY23: 695MMCFD) to the consumers in different industries, including cement, fertilizer, power, and commercial, along with the domestic sector. During FY23, the Company recorded Net Revenues of PKR 449,501mln (FY22: 375,559mln) from the sale of Indigenous gas and RLNG net of taxes along with tariff adjustments on indigenous gas and RLNG which is a receivable from GoP under the provisions of license for transmission and distribution of natural gas granted to the Company by OGRA.



Margins

SSGC was allowed 23.45% (FY 2021-22: 16.60%) return on its average net operating fixed assets before financial charges and taxes. However, OGRA makes disallowances/ adjustments while determining the revenue requirements based on efficiency related benchmarks viz a viz Un-accounted for Gas (UFG), Human Resource Benchmark Cost, Provision for Doubtful Debts and some other expenses/ charges. These disallowances/ adjustments affect the bottom-line of the Company. In OGRA's Determination on Final Revenue Requirements dated October 01, 2024 for FY 2022-23, SSGC was allowed a Return of PKR 23,496 million. Against the allowed return, OGRA made disallowances on account of UFG for Rs.27,679 million, PKR 254 million on account of Provision made against expected credit loss for the year in compliance of IFRS 9, Financial Instruments. However, SSGC successfully controlled HR Cost which remained under benchmark and accordingly PKR 836 million was allowed in bottom-line for saving in HR Cost. In addition, OGRA allowed SSGC prior periods claim of PKR 1,852 million on account of provision against expected credit losses, KMI Differentials and T&D Cost. As a result, Gross Margin witnessed significant improvement from 2.1% to 5.8% during FY23. However, due to rising finance cost of PKR 8,619mln along with higher UFG in the Balochistan region, the Company reported negative Net Margin of 0.4%.

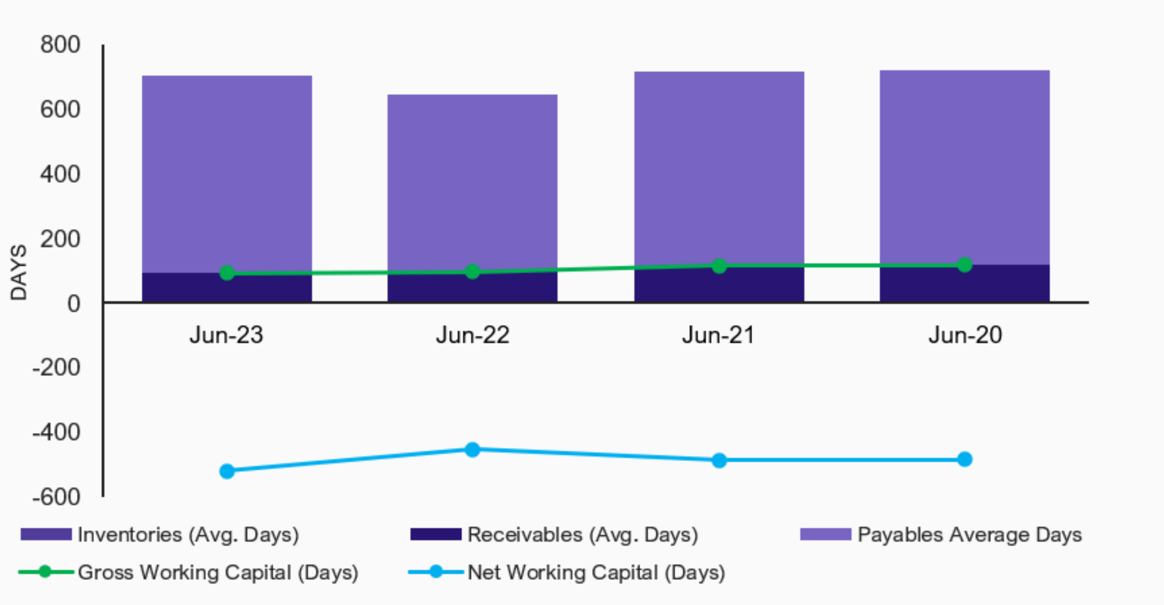
Sustainability

The Company has been undertaking extensive initiatives to improve its bottom line through vigorous and sustainable reduction in UFG. Company-wide UFG figures were reduced to 51.15 BCF against 59.99 BCF the previous year FY22, and the UFG percentage declined from 17.84% to 16.56%, reflecting an 8.84 BCF reduction and 1.28% decrease in UFG. In Karachi, an intense UFG reduction effort led to notable success, with a single-digit UFG percentage maintained from October 2022 until year-end, culminating in an annual UFG volume reduction of 7 BCF and a UFG percentage of 8.28% compared to 10.73% in the prior year. A comprehensive three-year plan has been developed to further optimize gas purchases in high-demand areas. In parallel, a master plan for Karachi will help improve pressure, reliability, and supply to industrial areas. Similarly, the Upper Sindh region achieved a 2.8 BCF reduction in UFG, with a UFG percentage decrease from 16.3% to 13.3% year-over-year. A three-year UFG Reduction Plan has also been implemented for Upper Sindh, focusing on strengthened operational controls and sustainable improvement. Balochistan remains a priority focus for UFG reduction, where weather and socio-economic conditions pose unique challenges. Although UFG levels remained at 25.9 BCF, the Company has rolled out an aggressive reduction plan aimed at saving 8 BCF in FY 2023-24. This initiative underscores SSGC's dedication to achieving regulatory compliance and implementing long-term solutions in this region. To maintain a sound gas distribution network, especially in areas where infrastructure has reached the end of its useful life, a massive rehabilitation program has been initiated. Focusing primarily on Karachi and Upper Sindh, this program addresses system leakages and strengthens network integrity. As part of this effort, significant organizational adjustments have been made to optimize efficiency, resulting in doubled rehabilitation capacity over last year. This rehabilitation initiative is targeting 7,500 km of the network over the next three years.

Financial Risk

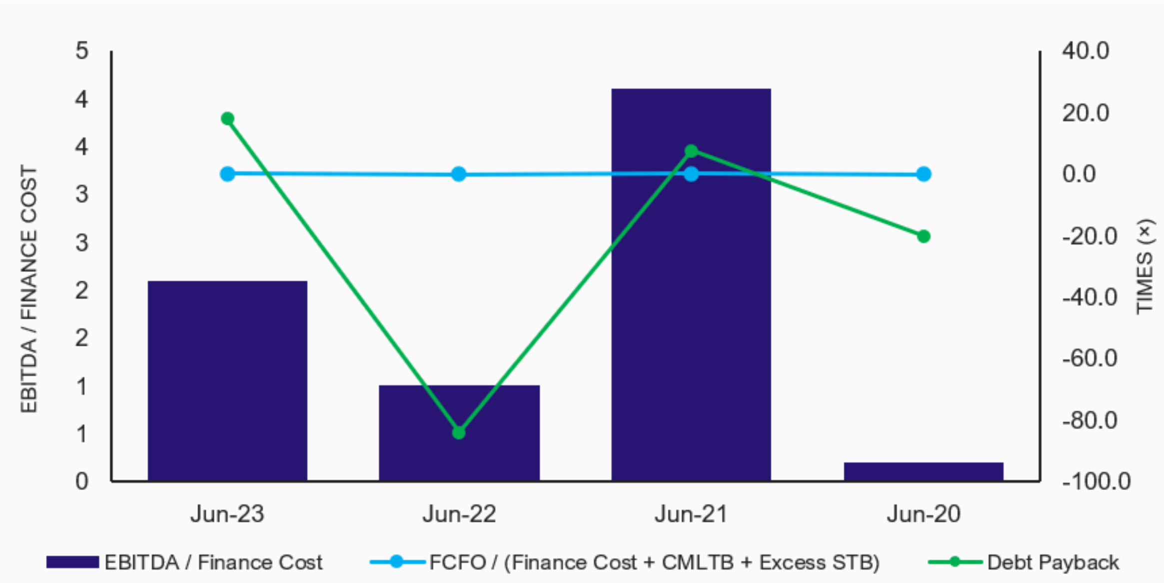
Working capital

The Company is facing the situation of accumulated receivables from GoP and other government and non-government departments due to the overall circular debt situation. The Company has increased reliance on short-term borrowings of PKR 34,096mln, witnessing an increase over the years, obtained for working capital shortfall due to delay in tariff determination. In order to facilitate the operations, the GoP (Finance Division) has shown commitment to extend all support to meet its working capital requirements.



Coverages

The Company incurred financial charges of PKR 8,619mln during FY23 in relation to its borrowings. During FY23, the Company's free cash flows from operations stood at PKR 16,760mln (FY22: 3,587mln). Hence, interest coverage (EBITDA/Finance Cost) and debt coverage (FCFO/Finance Cost) stood at 2.1x and 0.1x, respectively. Going forward, the borrowing is going to increase due to the rehabilitation plan in the coming years. The return on net assets received by the Company from OGRA will reflect the cost of borrowings in the tariff.

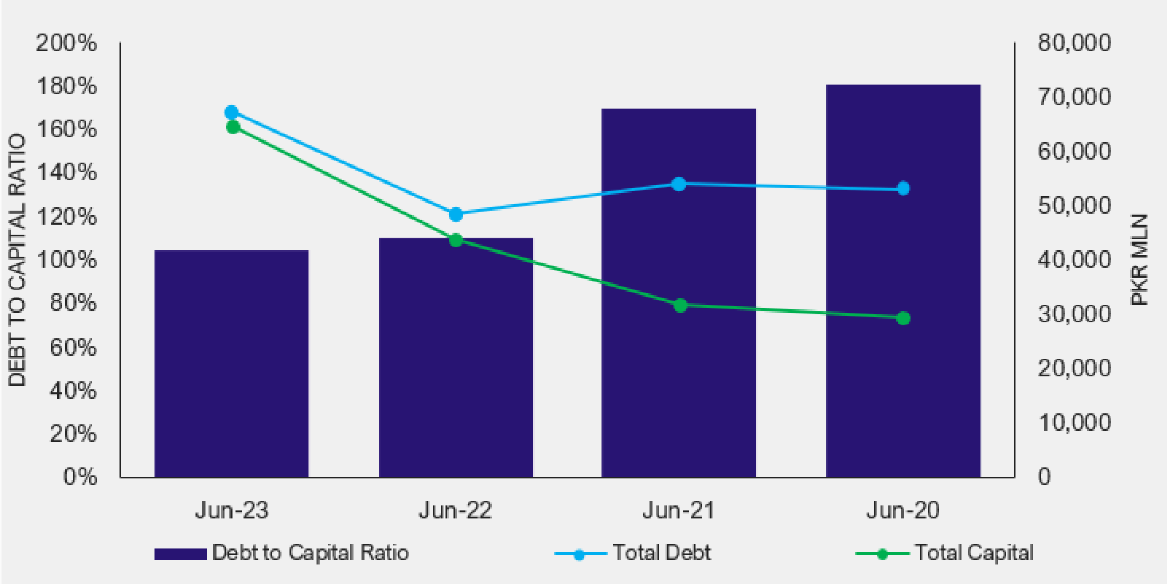


Capitalization

SSGC has obtained both long-term and short-term borrowings for capital expenditure and working capital shortfall. As of June 30, 2023, total borrowings of the Company stood at PKR 67,236mln witnessing a rise from the previous year. Loans under sovereign guarantee stood at PKR 16,333mln. The Company's leveraging ratio stood at 104.2% as on June 30, 2023, down from 110.2% at the end of the previous year. The slight improvement was due to the decline in losses during FY23. Furthermore, as of the end of Sep 2023, the Company's equity has turned positive to PKR 1,497mln as a result of reported Net income of PKR 4,158mln during 1QFY24.

Sui Southern Gas Company Limited

RATING ANALYSIS



Sui Southern Gas Company Limited

FINANCIAL SUMMARY (PKR mln)

Together. Creating Value.

	Jun-23 12M	Jun-22 12M	Jun-21 12M
A. BALANCE SHEET			
1. Non-Current Assets	196,761	179,842	140,555
2. Investments	152	152	283
3. Related Party Exposure	1,084	1,249	1,249
4. Current Assets	867,617	614,566	492,415
a. Inventories	3,445	2,304	1,576
b. Trade Receivables	118,245	102,209	92,134
5. Total Assets	1,065,614	795,810	634,503
6. Current Liabilities	946,902	701,170	557,952
a. Trade Payables	876,467	632,570	500,257
7. Borrowings	67,236	48,410	53,957
8. Related Party Exposure	0	0	0
9. Non-Current Liabilities	54,164	50,708	44,765
10. Net Assets	(2,688)	(4,479)	(22,172)
11. Shareholders' Equity	(2,688)	(4,479)	(22,172)
B. INCOME STATEMENT			
1. Sales	449,501	375,559	296,129
a. Cost of Good Sold	(423,301)	(367,841)	(301,879)
2. Gross Profit	26,200	7,719	(5,750)
a. Operating Expenses	(6,074)	(5,085)	(4,910)
3. Operating Profit	20,126	2,634	(10,660)
a. Non Operating Income or (Expense)	(13,098)	(5,179)	16,414
4. Profit or (Loss) before Interest and Tax	7,028	(2,545)	5,754
a. Total Finance Cost	(8,619)	(5,190)	(4,619)
b. Taxation	(10)	(3,709)	820
6. Net Income Or (Loss)	(1,601)	(11,444)	1,956
C. CASH FLOW STATEMENT			
a. Free Cash Flows from Operations (FCFO)	16,760	3,587	20,252
b. Net Cash from Operating Activities before Working Capital Changes	8,062	(1,296)	14,958
c. Changes in Working Capital	(14,398)	19,483	(5,431)
1. Net Cash provided by Operating Activities	(6,336)	18,187	9,527
2. Net Cash (Used in) or Available From Investing Activities	(12,681)	(12,384)	(10,427)
3. Net Cash (Used in) or Available From Financing Activities	8,420	(5,742)	(7,997)
4. Net Cash generated or (Used) during the period	(10,596)	62	(8,897)
D. RATIO ANALYSIS			
1. Performance			
a. Sales Growth (for the period)	19.7%	26.8%	2.0%
b. Gross Profit Margin	5.8%	2.1%	-1.9%
c. Net Profit Margin	-0.4%	-3.0%	0.7%
d. Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	0.5%	6.1%	5.0%
e. Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	22.3%	42.9%	-4.3%
2. Working Capital Management			
a. Gross Working Capital (Average Days)	92	96	116
b. Net Working Capital (Average Days)	-521	-454	-488
c. Current Ratio (Current Assets / Current Liabilities)	0.9	0.9	0.9
3. Coverages			
a. EBITDA / Finance Cost	2.1	1.0	4.1
b. FCFO / Finance Cost+CMLTB+Excess STB	0.1	0.0	0.2
c. Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	18.0	-84.1	7.6
4. Capital Structure			
a. Total Borrowings / (Total Borrowings+Shareholders' Equity)	104.2%	110.2%	169.8%
b. Interest or Markup Payable (Days)	825.9	1262.8	1354.6
c. Entity Average Borrowing Rate	15.4%	10.2%	8.2%

Sui Southern Gas Company Limited

RATING SCALE

Together. Creating Value.

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
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.

Scale	Short-Term Rating
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.

Rating Modifiers | Rating Actions

Outlook (Stable, Positive, Negative, Developing)	Rating Watch	Suspension	Withdrawn	Harmonization
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'.	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.	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.	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.	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. Rating actions may include "maintain", "upgrade", or "downgrade".

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 Company

1. **Rating Team Statements**
   I. **Rating** is just an opinion about the creditworthiness of the entity and does not constitute a 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))**
   II. **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)]**
      iv. Explanation: for the purpose of the above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee.
2. **Restrictions**
   i. 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))**
   ii. 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 a business relationship with the customer. **(Chapter III; 10-7-(d))**
   iii. PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of the entity subject to rating. **(Chapter III; 10-7-(k))**
3. **Conduct of Business**
   i. 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))**
   ii. PACRA uses due care in the 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 verify or validate information received in the rating process or in preparing this Rating Report. **(Clause 11-(A)(p))**
   iii. PACRA prohibits its employees and analysts from soliciting money, gifts, or favors from anyone with whom PACRA conducts business. **(Chapter III; 11-A-(q))**
   iv. PACRA ensures before the 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))**
   v. PACRA maintains the principle of integrity in seeking rating business. **(Chapter III; 11-A-(u))**
   vi. PACRA promptly investigates in the event of 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))**
4. **Independence & Conflict of Interest**
   i. 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 ii) fee mandate - signed with the payer, which can be different from the entity.
   ii. PACRA does not provide consultancy/advisory services or other services to any of its customers or their associated companies and associated undertakings that are being rated or have been rated by it during the preceding three years, unless it has an adequate mechanism in place ensuring that the provision of such services does not lead to a conflict of interest situation with its rating activities. **(Chapter III; 12-2-(d))**
   iii. 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. **(Chapter III; 12-2-(f))**
   iv. PACRA ensures that the rating assigned to an entity or instrument is not 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))**
   v. PACRA ensures that the analysts or any of their family members shall not buy, sell, or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause, however, does not apply to investments in securities through collective investment schemes. **(Chapter III; 12-2-(l))**
   vi. PACRA has established policies and procedures 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))**
5. **Monitoring and Review**
   i. 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 an effective manner after appropriate consultation with the entity/issuer. **(Chapter III; 17-(a))**
   ii. PACRA reviews all the outstanding ratings periodically on an annual basis. Provided that public dissemination of annual review and in an instance of change in rating will be made. **(Chapter III; 17-(b))**
   iii. PACRA initiates an 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))**
   iv. 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))**
6. **Probability of Default**
   i. 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, the actual transition of rating may not follow the pattern observed in the past. **(Chapter III; 14-3(f)(vii))**
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