

## RATING REPORT

### Sui Northern Gas Pipelines Limited

**REPORT DATE:**

January 20, 2025

**RATING ANALYST:**

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**RATING DETAILS**

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AA+	A1+	AA+	A1+
Rating Date	January 20, 2025		December 01, 2023	
Rating Outlook/ Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	

**COMPANY INFORMATION**

Incorporated in 1963	Chairman of the Board: Mr. Muhammad Ismail Qureshi
Public Listed Company	Chief Executive Officer: Mr. Amer Tufail
Key Shareholders (with stake 10% or more):	External Auditors: AF Fergusons & Co, Chartered Accountants
Government of Pakistan – 55%	
General Public and Others – 45%	

**APPLICABLE METHODOLOGY(IES)**

VIS Entity Rating Criteria Methodology – Industrial Corporates & Government Supported Entities  
<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>  
<https://docs.vis.com.pk/docs/Meth-GSEs202007.pdf>

**APPLICABLE RATING SCALE(S)**

VIS Issue/Issuer Rating Scale:  
<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

## Sui Northern Gas Pipelines Limited (SNGPL)

OVERVIEW OF  
THE  
INSTITUTION

## RATING RATIONALE

**Sui Northern Gas Pipelines Limited** is a public limited company incorporated in Pakistan in June 1963 under the Companies Act, 1913 (now Companies Act, 2017) and listed on the Pakistan Stock Exchange Limited. The principal activity of the Company is the purchase, transmission, distribution and supply of natural gas.

**Chairman of the board:**  
Mr. Muhamad Ismail Qureshi was last Rector of National School of Public Policy (NSPP), Pakistan's premier institute of public-servants' training and education till December, 2016. He has over 36 years of experience in public service and development, and has served in many positions in the Government of Pakistan

**Chief Executive Officer:**  
Mr. Amer Tufail is a Chartered Accountant with ICAP membership. He joined the Company in 2004, holding key roles including Deputy MD (Services). With 28+ years of experience, he's worked in national and multinational entities, including multilateral funding agencies, exhibiting expertise in diverse fields.

**Company Profile**

Sui Northern Gas Pipeline Limited ('SNGPL' or the 'Company') is the largest integrated gas transmission and distribution company serving more than 7.5 million consumers in Punjab, Khyber Pakhtunkhwa, and Azad Jamu & Kashmir, as of FY23. SNGPL commenced as a private limited company in 1963 and later converted into a public limited company in January 1964, under the Companies Act 1913 (now, the Companies Act 2017) and it is listed on the Pakistan Stock Exchange (PSX: SNGP). It has over 6 decades of experience in operation and maintenance of high-pressure gas transmission and distribution system, currently providing 700 BCF natural gas supply and fulfilling 30% of energy demand in the country.

Over the past year, the company connected 108 new towns and villages to the existing system by laying 2,916 kilometers of distribution mains and service lines. This expansion has brought the total length of the network to 149,242 kilometers (FY22: 146,327 km). As a result, the company's network now serves 5,500 towns, villages, district headquarters, and tehsil headquarters. The company's transmission network of high-pressure pipelines has also grown to 9,239 kilometers (FY22: 9,051 kilometers) during the period under review.

**Industry Review:**

The gas utilities (SSGC & SNGPL) responsible for transmitting and distributing gas to end consumers in Pakistan. These companies rely on two primary supply sources, indigenous system gas supplied by local exploration and production (E&P) companies, and Liquid Natural Gas (LNG), which is imported largely by Pakistan State Oil (PSO) and re gasified locally. It is then supplied to power, industrial and other customers by the two gas utility companies mentioned above. In recent years, Pakistan has increasingly become dependent on imported LNG, which is more expensive than locally sourced system gas, as the local gas production falls short of total national gas demand.

Pakistan's total natural gas reserves including shale/tight gas are estimated at around 100 trillion cubic feet (TCF). Of this total, currently 19.5 TCF are approximately proven and operational largely due to low investment in exploration and development. Current domestic production stands at approximately 3,390 million cubic feet per day (MMCFD). At this production rate, the balance demand of gas needs to be imported in LNG form and re gasified to meet the energy needs. Pakistan has an extensive natural gas infrastructure, comprising over 13,775 kilometers of transmission pipelines, 157,395 kilometers of distribution mains, and 41,352 kilometers of service pipelines. This network serves over 10.7 million consumers nationwide.

To address the availability of gas the government beside pursuing the gas supply arrangements from regional countries rich in gas has also taken initiatives to align well head gas prices to attract investment and increase local production of gas.

**Key Rating Drivers:****Government Ownership and Sovereign Support**

SNGPL's ownership status as a semi government entity, with ~55% of shares held directly or indirectly by the government, is a factor that provides significant comfort to ratings. This ownership structure provides a level of assurance in terms of potential sovereign support. The business risk profile of the company derives strength from its established network, guaranteed return on net operating assets and presence of the sovereign throughout the value chain.

### Regulatory Framework and Policy Dynamics

Ratings are significantly impacted by the regulatory framework governing the gas sector in Pakistan. The sector operates under strict oversight by the Oil and Gas Regulatory Authority (OGRA), which annually determines tariff structures and operational costs.

### Monopolistic Market Structure and Strategic Importance

SNGPL's ratings are influenced by the monopolistic market structure of the gas distribution sector in Pakistan, further compounded by its strategically significant role in the country. With SNGPL and Sui Southern Gas Company Limited (SSGCL) being the primary players, each serving specific regions, the lack of competition within their respective jurisdictions affects the business environment. This concentration of market share not only underscores revenue generation and operational efficiency dynamics, but also emphasizes SNGPL's pivotal contribution to Pakistan's energy landscape, highlighting its strategic importance in the country.

### Higher sales on the back of increased tariff adjustments

During the year, the company's net revenue grew by 13% YoY, driven by tariff adjustments, particularly for indigenous gas. The weighted average cost of capital (WACC), as determined by the government, was set at 16.6% for FY 2022-2023; however, the company fell short of this target, with its return on fixed assets declining to 12.09% in FY23, down from 12.88% in FY22.

However, the Company has demonstrated exceptional progress in reducing Unaccounted-for Gas (UFG) losses, both for indigenous gas and RLNG, over the years with total UFG losses decreasing from 8.98% in FY20 to 5.15% in FY23. This improvement translates into a volumetric loss reduction of 30 BCF, representing a 50% decline (Volumes, FY20: 62,627 MMCF to FY23: 32,588).

**Table 1: SNGPL's UFG levels**

Actual UFG (Indigenous + RLNG)		
	MMCF	%
FY20	62,627	8.98%
FY21	50,036	6.91%
FY22	38,547	5.58%
FY23	32,588	5.15%

These notable reductions are the result of targeted efforts to minimize gas losses, including the restoration of pipelines to address leakages and the implementation of Town Border Stations (TBS) to better regulate gas distribution and billing. Additionally, the passing of the Gas (Theft Control and Recovery) Act of 2016 has further empowered the Company to tackle gas theft more effectively, contributing to its continued success in reducing UFG.

During the review period, FY23, SNGPL's UFG level clocked at 5.15% down from 5.58%, representing a 0.43% improvement. The volume of UFG also decreased by 5.9 BCF, from 38.5 BCF to 32.6 BCF. OGRA assessed UFG in the transmission system at 0.24% and in the

distribution system at 8.33% leading to a disallowance of Rs. 3.07 billion for the year, up from PKR 2.5 Bn in FY22. As per the management, this increase in disallowance is primarily attributed to higher cost of gas during the year and the application of new UFG benchmarks separated for transmission and distribution networks, which were previously combined.

As a result of shortfall in total revenue requirement, tariff adjustment saw a significant increase of 74% YoY, reaching PKR 377 Bn, compared to PKR 217 Bn in FY22.

### **New and Ongoing Projects**

#### **- Pipeline system project for gas injection from Kot Palak Gas Field**

Recently, the M/s Al-Haj group of Pakistan successfully made a gas and condensate discovery in Dera Ismail Khan (D.I. Khan) district. The hydrocarbon reserve was discovered in Baska North Block from an exploratory well (92-Kot Palak: -1) with an estimated flow of 45 MMCFD.

Therefore, SNGPL is in process of executing a pipeline system project for gas injection from Kot Palak Gas Field into its transmission system by laying 77 Km new transmission pipeline and 188 Km pipeline under system augmentation of existing transmission network.

#### **- Town Border Stations (TBS) Meter Installation Plan**

As part of its ongoing efforts to reduce Unaccounted-for Gas (UFG) losses, the company aims to enhance meter coverage at Town Border Stations (TBSs) by installing a total of 6,636 meters. This comprehensive plan is being implemented in two phases. Phase 1 has already been completed, with the installation of 1,470 meters, bringing the total meter coverage at TBSs to 22%. Currently, the first part of Phase 2 is underway, which involves the installation of an additional 1,200 meters. The entire plan is expected to be fully executed by Oct/Nov'25.

### **Liquidity and Coverage**

For the period under review, the company's liquidity ratios have remained relatively stable, with the current ratio slightly decreasing to 0.97x in FY23, compared to 0.98x in FY22 and a 5-year average of 0.96x. Meanwhile, the net operating cycle showed an improvement, lengthening to -205 days from -180 days in FY22, driven by an increase in the payable period. However, despite these adjustments, the company's net working capital remains negative at PKR -38.24 Bn (FY22: PKR -22.2 Bn), coupled with a sharp 521% increase in short-term borrowings in FY23, signaling a weakening liquidity position.

The company's coverage profile has steadily declined over the period, primarily due to rising finance costs and its increasingly leveraged position. The debt service coverage ratio (DSCR) fell to 1.15x in FY23 from 1.31x in FY22, reflecting strain on the Company's ability to service its debt. The company may get some respite here in the wake of reducing policy rates.

### **Capitalization and Circular debt Challenges**

The Company's capitalization profile indicates an increasing leveraged position, with its gearing ratio rising sharply to 3.2x as at end-FY23 (FY22:1.3x). This increase in leverage is primarily driven by a 184% YoY rise in total debt, largely attributed to a surge in short-term borrowings (FY23: PKR 118 Bn, FY22: PKR 19 Bn). However, by the end of 3QFY24, the company's gearing ratio improves slightly to 3.0x, on the back of a 21.4% rise in tier-1 equity. The company's position in circular debt on account of accumulation of receivables related to tariff adjustment to be

provided by the government are mitigated by the company by accruing payables to the government-controlled entities for purchase of gas and RNLG.

The noted increase in utilization of short-term borrowing comes on the back of Company's exposure to circular debt. SNGPL, which continues to grapple with the challenges of circular debt, has accumulated significant receivables and payables related to the government of Pakistan. As of FY23, trade receivables and payables (including accrued interest) amounted to PKR 1,247 Bn and PKR 1,268 Bn, respectively. However, excluding government-related balance, the company's receivables and payables stood at PKR 84.8 Bn and PKR 61 Bn, respectively reflecting the manageable liquidity position of the company, net of government related payables and receivables.

Furthermore OGRA, which has acknowledged these liabilities when determining the company's Final Revenue Requirement (FRR) for 2018-2023, has excluded the accrued interest from the shortfall calculation. As a result, the company currently owes PKR 217 Bn in interest on delayed government payments, which has been deferred until the circular debt issue is resolved.

In the 9MFY24 while the company's leverage ratios with and without adjustments of receivables and payables from government remained elevated with minor movements from full year FY23 and some respite seen in gearing, a significant portion of the ST debts of the company carry a government guarantee (PKR 50 Bn i.e., 36.7% of total ST borrowing). The debt service coverage, however, remained stable at FY23 level indicating the continued ability of the company to service its debt obligations. Also, the liquidity remained sound with cash conversion cycle remaining negative leading to an increase in healthy cash and bank balances standing at around Rs 26.4 Bn at end of 9MFY24.

## Sui Northern Gas Pipelines Limited

<b>FINANCIAL SUMMARY</b> ( <i>amounts in PKR Mn</i> )				
<b>BALANCE SHEET</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>3QFY24</b>
Property, Plant and Equipment	214,091	224,938	245,880	266,205
Stock-in-Trade	4,680	12,497	18,247	18,002
Trade Debts	618,464	910,335	1,247,408	1,483,047
Cash & Bank Balances	10,328	15,794	16,234	26,428
<b>Total Assets</b>	<b>918,060</b>	<b>1,268,107</b>	<b>1,684,716</b>	<b>1,975,624</b>
Trade and Other Payables	528,309	828,842	1,038,818	1,192,784
Short Term Borrowings	29,599	19,019	118,179	135,920
Long-Term Borrowings ( <i>Inc. current matur</i> )	36,996	31,894	26,377	29,129
<b>Total Liabilities</b>	<b>883,840</b>	<b>1,228,459</b>	<b>1,639,130</b>	<b>1,920,276</b>
Revenue Reserve	27,878	33,306	39,243	49,016
Paid-Up Capital	6,342	6,342	6,342	6,342
Tier-1 Equity/ Total Equity	34,220	39,648	45,586	55,358
<b>INCOME STATEMENT</b>				
<b>Net Sales</b>	<b>757,627</b>	<b>1,293,677</b>	<b>1,459,044</b>	<b>1,233,544</b>
Gross Profit	52,852	85,522	127,458	137,144
Profit Before Tax	15,842	15,504	15,772	19,012
Profit After Tax	10,986	10,366	10,564	10,724
FFO	65,817	77,970	130,926	130,182
<b>RATIO ANALYSIS</b>				
Gross Margin (%)	7.0%	6.6%	8.7%	11.1%
Net Margin (%)	1.5%	0.8%	0.7%	0.9%
Net Working Capital	-22,707	-22,263	-38,244	-41,723
FFO to Long-Term Debt (x) *	2.38	3.05	6.69	7.73
FFO to Total Debt (x) *	0.99	1.53	0.91	1.05
Current Ratio (x)	0.97	0.98	0.97	0.98
Debt Servicing Coverage Ratio (x) *	1.49	1.31	1.15	1.14
Gearing (x)	1.95	1.28	3.17	2.98
Leverage (x)	25.83	30.98	35.96	34.69
Adjusted Leverage (x)	8.31	7.24	9.57	9.40
ROA (%) *	1.3%	0.9%	0.7%	0.8%
ROE (%) *	37.0%	28.1%	24.8%	27.6%
Cash Conversion Cycle (days)	(189)	(180)	(205)	(215)

\*Annualized figures

REGULATORY DISCLOSURES				Appendix II	
<b>Name of Rated Entity</b>	Sui Northern Gas Pipelines Limited				
<b>Sector</b>	Gas Utilities				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook/Watch</b>	<b>Rating Action</b>
	20/01/2025	AA+	A1+	Stable	Reaffirmed
	01/12/2023	AA+	A1+	Stable	Reaffirmed
	02/11/2022	AA+	A1+	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>		<b>Designation</b>		<b>Date</b>
	1	Mr. Raheel Farooq	General Manager Accounts		Dec 18, 2024
	2	Mr. Faraz Ejaz	Chief Accountant – Financial Reporting		
	3	Mr. Muhammad Asad	Deputy Chief Accountant – Financial Reporting		