

March 17, 2021

Lead analysts:

Ilya Makarov, Director
+7 (495) 139-0480, ext. 220
ilya.makarov@acra-ratings.ru

Ekaterina Mozharova, Senior Director
+7 (495) 139-0498
ekaterina.mozharova@acra-ratings.ru

Key rating assessment factors

ACRA assigns A(RU) to SINARA TRANSPORTATION, outlook Stable

The credit rating of [SINARA TRANSPORTATION](#) (hereinafter, the Company, or ST) is based, on the one hand, on the strong assessment of the market position and business profile of the Company, as well as its high profitability. On the other hand, most of the important factors, such as the size of business, corporate governance, geographical diversification, leverage and coverage, as well as liquidity, received an average assessment, which had a neutral impact on the rating. The low value of free cash flow (in terms of the negative value of free cash flow (FCF)) constrained the credit rating of the Company.

ST is a machine-building holding specializing in the production and servicing of a wide range of railway equipment: electric trains, freight electric locomotives, diesel locomotives of various modifications, industrial diesel engines and diesel generators, track equipment, as well as units and components of railway equipment. The Company is part of Sinara Group, which unifies companies specializing in the construction of housing, provision of financial and banking services, agribusiness, power industry, and the tourism and leisure industry, as well as machinery and equipment production. The ultimate controlling party of the Company is D. A. Pumpyansky.

The Company's business profile is assessed as strong due to the stability of its financial indicators which stems from a long-term contract base in terms of deliveries to and services for the largest customer — Joint Stock Company "Russian Railways" ([AAA\(RU\), outlook Stable](#)). The need to renew and expand the fleet of locomotive and track equipment determines the low cyclicity of the markets for the Company's key products. A positive factor in evaluating the business profile is the high degree of vertical integration, which ensures control over the entire production chain and low dependence on subcontracting and components.

The strong assessment of the market position and average assessment of diversification of sales markets are based on the fact that the Company is a key (and for some types of equipment — the only) supplier of railway equipment to Joint Stock Company "Russian Railways". ST's products are supplied primarily to the Russian market. Despite this, the market is characterized as being sufficiently diversified. The share of export sales is currently low at around 5% of the Company's revenues, however, one of the management's future strategic tasks is increasing the share of exports to equal 30% of the Company's revenues.

The average corporate governance assessment reflects the average assessment (in terms of the Russian corporate sector) of corporate governance sub-factors such as management strategy, risk management system, and management structure. The Company has established procedures and designated bodies responsible for making decisions with regard to all the aforementioned sub-factors. The Company's strategic priorities are improving competencies in the area of modern railway equipment, diversifying the business by developing the urban public transport segment, including the possibility of participating in concession projects for the development of public transport, and broadening export positions in international markets. Despite the concentration of shareholder capital on the key shareholder, who is also a member of the board of directors, strategic decisions are made collectively by the board, which includes an independent director. The key shareholder also refrains from participating in the operational management of the Company — this function has been delegated to senior management, which has considerable experience in the machine-building industry. The group structure sub-factor received an average score. The average assessment of the

financial transparency sub-factor stems from the lack of publicly disclosed financial reporting as per international standards, as well as the absence of the practice of holding conference calls with investors as part of the publication of operating and financial indicators on a regular basis. However, the Company plans to start publishing financial statements and carrying out such procedures as part of its efforts to raise public debt, which may lead to a better assessment of this sub-factor.

The bbb+ assessment of the financial risk profile is based on the average size of business for the corporate sector (absolute value of FFO before interest and taxes ranges from RUB 5 to 30 bln) and the average assessment of leverage and coverage. At the same time, ACRA notes the Company's high profitability — the weighted ratio of FFO before interest payments and taxes to revenues for 2018–2023 will be around 12%. The weighted value of profitability for the specified period takes into account its growth in 2020 and the forecast period due to the inclusion of Ural Locomotives LLC, one of the country's largest manufacturers of electric locomotives and electric trains, in the Company's perimeter.

Average assessment of leverage and coverage. The ratio of the Company's total debt to FFO before net interest payments declined to 4.4x in 2019 vs. 7.2x in 2018. ACRA expects this indicator to fall to 3.6x in 2020 and to 3.2x in 2021 due to growth of operating cash flow amid stable total debt. The debt service indicator (ratio of FFO before net interest payments to interest payments) was 2.1x in 2019 compared to 1.7x a year before. ACRA expects this indicator to increase to 3.0x as of the end of 2020 and 3.3x as of the end of 2021.

Average FCF and liquidity. In 2017–2019, the Company's FCF was negative, mainly due to the growth of investments in working capital. ACRA expects this situation to continue in the forecast period as a result of the growth in business volumes and higher investment flows, especially in 2021 and 2022. The Agency expects the Company to achieve positive FCF no earlier than 2023 as the peak of the investment program passes. ST's liquidity is average, with substantial support provided by undrawn credit lines. Taking into account the negative FCF, as well as the prevalence of short-term liabilities in the Company's loan portfolio, the Agency considers that this situation is not comfortable enough and expects an increase in the level of diversification of the loan portfolio and an improvement in the repayment schedule due to a higher share of public debt.

Key assumptions

- Achieving the revenue and operating cash flow targets for 2021–2023;
- Total volume of capital investments in 2021–2023 in line with the approved business plan;
- Average FFO margin before interest payments and taxes at no lower than 12% in the forecast period;
- Balanced dividend policy.

Potential outlook or rating change factors

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Ratio of total debt to FFO before net interest payments falling below 3.5x at the same time as the ratio of FFO before net interest payments to interest payments exceeding 5.0x;
- Positive FCF;
- Growth of liquidity and the qualitative assessment of leverage due to higher diversification of the loan portfolio as a result of issuing public debt.

A negative rating action may be prompted by:

- Profitability falling below 10%;
- Ratio of total debt to FFO before net interest payments exceeding 3.5x at the same time as the ratio of FFO before net interest payments to interest payments falling below 2.5x;
- Continued negative FCF amid significant worsening of access to external liquidity sources.

Rating components**SCA:** a.**Adjustments:** none.**Issue ratings**

No outstanding issues have been rated.

Regulatory disclosure

The credit rating has been assigned to SINARA TRANSPORTATION under the national scale for the Russian Federation based on the [Methodology for Credit Ratings Assignment to Non-Financial Corporations under the National Scale for the Russian Federation](#) and the [Key Concepts Used by the Analytical Credit Rating Agency within the Scope of Its Rating Activities](#).

A credit rating has been assigned to SINARA TRANSPORTATION for the first time. The credit rating and its outlook are expected to be revised within one year following the publication date of this press release.

The credit rating was assigned based on the data provided by SINARA TRANSPORTATION, its IFRS financial statements, information from publicly available sources, and ACRA's own databases. The credit rating is solicited, and SINARA TRANSPORTATION participated in its assignment.

No material discrepancies between the provided data and the data officially disclosed by SINARA TRANSPORTATION in its financial statements have been discovered.

ACRA provided no additional services to SINARA TRANSPORTATION. No conflicts of interest were discovered in the course of credit rating assignment.

(C) 2021

Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)

75, Sadovnicheskaya embankment, Moscow, Russia

www.acra-ratings.com

The Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions and its authorized capital exceeding RUB 3 bln. ACRA's main objective is to provide the Russian financial market with high-quality rating products. Methodologies and internal documents of ACRA are developed in compliance with Russian legislation and with regard to global rating industry best practices.

The provided information, including, without limitation, credit and non-credit ratings, rating assessment factors, detailed credit analysis results, methodologies, models, forecasts, analytical reviews and materials, as well as other information placed on the ACRA website (further referred to as Information), coupled with the ACRA website software and other applications, are intended for information purposes only. Information must not be modified, reproduced or distributed by any means, in any way or form, either in whole, or in part, in marketing materials, as part of public relations events, in news bulletins, in commercial materials or reports without prior written consent from, and reference to, ACRA. Any use of Information in violation of these requirements or the law is prohibited.

ACRA credit ratings reflect ACRA's opinion about the ability of a rated entity to meet its financial obligations or about the credit risk of individual financial obligations and instruments of a rated entity at the time of publication of the relevant Information.

Non-credit ratings reflect ACRA's opinion about certain non-credit risks assumed by interested parties interacting with a rated entity.

The assigned credit and non-credit ratings reflect all material information pertaining to a rated entity and known by ACRA (including the information received from third parties), the quality and reliability of which ACRA considers appropriate. ACRA shall not be responsible for the accuracy of information provided by clients or relevant third parties. ACRA does not audit or otherwise verify the provided data and shall not be held responsible for their accuracy and completeness. ACRA conducts rating analysis of information provided by customers using its own methodologies, with the texts thereof available on ACRA's website – www.acra-ratings.com/criteria.

The only source that reflects the latest Information, including the one about credit and non-credit ratings assigned by ACRA, is ACRA's official website – www.acra-ratings.com. Information is provided on an "as is" basis.

Information shall be considered by users exclusively as ACRA's statement of opinion and must not be regarded as advice, recommendation or suggestion to buy, hold or sell securities or other financial instruments of any kind, nor shall it be viewed as an offer or advertisement.

Neither ACRA, nor its employees and persons affiliated with ACRA (further referred to as the ACRA Parties) provide any direct or implied guarantee expressed in any form or by any means regarding the accuracy, timeliness, completeness or applicability of Information for making investment and other decisions. ACRA does not act as a fiduciary, auditor, investment or financial advisor. Information must be regarded solely as one of the factors affecting an investment decision or any other business decision made by any person who uses ACRA's information. It is essential that each of such persons conduct their own research and evaluation of a financial market participant, as well as an issuer and its debt obligations that may be regarded as an object of purchase, sale or possession. Users of Information shall make decisions on their own, involving their own independent advisors, if they deem it necessary.

ACRA Parties shall not be responsible for any action taken by users based on Information provided by ACRA. ACRA Parties shall under no circumstances be responsible for any direct, indirect or consequential damages or losses resulting from interpretations, conclusions, recommendations and other actions taken by third parties and directly or indirectly connected with such information.

Information provided by ACRA is valid only as of the date of preparation and publication of materials and may be amended by ACRA in the future. ACRA shall not be obliged to update, modify or supplement Information or inform anyone about such actions, unless the latter was recorded separately in a written agreement or is required by legislation of the Russian Federation.

ACRA does not provide advisory services. ACRA may provide additional services, if this does not create a conflict of interest with rating activities.

ACRA and its employees take all reasonable measures to protect all confidential and/or material non-public information in their possession from fraud, theft, unlawful use or inadvertent disclosure. ACRA provides protection of confidential information obtained in the course of its business activities as required by legislation of the Russian Federation.