The Pakistan Credit Rating Agency Limited

Rating Report

Quaid-e-Azam Solar Power (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
04-Apr-2023	AA	A1+	Stable	Maintain	-
04-Apr-2022	AA	A1+	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Quaid-e-Azam Solar Power (Pvt.) Limited (QASPL) is operating a 100MW Solar Power Plant – set up by the Government of Punjab (GoPb), and commenced its operations in Jul-15 and operates under the Renewable Energy Policy 2006. The Ratings take into account the association of GoPb. A long-term energy purchase agreement of 25 years with CPPA-G, mitigating the underlying business and economical risk factors, along with sovereign guarantees on power purchaser's payment obligation, also contribute positively towards the ratings. Comfort is drawn from TBEA Xinjiang Sunoasis Company Ltd. – the O&M operator having international experience. Ratings incorporate adherence to performance benchmarks through power generation, underpinned by healthy cash flows generation. QASPL has repaid ~67% of its debt on time, facet of strong financial profile and sound working capital management. Most of the working capital requirements are fulfilled through internal cash flow generation. This generation ability provides strength to the company and creates room for further expansion, which the management is already considering.

Upholding operational performance in line with agreed performance levels is important. Improving, indeed aligning, receipt pattern from power purchaser, debt repayment behavior and liquidity cushion would impact the directions of ratings. External factors such as any adverse changes in the regulatory framework and weakening of financial profile may impact negatively.

Disclosure

Name of Rated Entity	Quaid-e-Azam Solar Power (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22),Methodology | Independent Power Producer Rating(Jun-22)
Related Research	Sector Study | Power(Jan-23)
Rating Analysts	Anam Waqas Ghayour | anam.waqas@pacra.com | +92-42-35869504

Profile

Plant Quaid-e-Azam Solar Power (Pvt.) Limited (QASPL) was incorporated as as a private limited Company under the repealed Companies Ordinance, 1984 (Now the Companies Act, 2017) on September 16, 2013. The principal activity of the Company is to build, own, operate and maintain a solar power plant having a total capacity of 100 MW in Lal Sohanra, Cholistan, Bahawalpur. the Company achieved Commercial Operations Date (COD) on July 15, 2015.

Tariff QASPL has been provided a reference levelized tariff of 14.15 US¢ (PKR 14.8591) per KWh. Tariff control period is 25 Years from the COD. However, after the continuous indexation, company is now receiving the tariff of PKR 28.05.

Return On Project The return on equity (ROE) as per the tariff determination of the project is at 12%.

Ownership

Ownership Structure QASPL is wholly owned by Government of Punjab through Energy department.

Stability Stability in the IPPs is drawn from the agreements signed between the Company and power purchaser. The term of the EPA is 25 years. Meanwhile, the Implementation Agreement provides a sovereign guarantee for cashflows, given adherence to agreed performance benchmarks.

Business Acumen Major stakeholder in the Company is the GoPb. Business acumen is, therefore, considered strong.

Financial Strength Financial strength of the owners is deemed strong because of the ownership of GoPb.

Governance

Board Structure QASPL's Board of Directors (BoD) comprises twelve members, excluding the CEO. Five members represent Government of Punjab through different departments i.e., Secretary Energy, Secretary Finance, Chairman P&D Board, Chairman PBIT and Secretary Industries. While seven members of the board are independent directors including the chairman. The board members have diverse experience from different industries.

Members' Profile Mr. Zaheer Ahmed Ghanghro is the Chairman of BoD with over two decades of professional experience in different functions and designations related to power generation companies. He also held the position of Chairman of BoD in Quaid-e-Azam Thermal Power Limited and CEO of Halmore Power Generation Company.

Board Effectiveness To ensure the effectiveness, there are seven board committees i.e., Risk Management Committee, Audit Committee, HR, F&P, CSR, GRC and Nomination Committee.

Financial Transparency BDO Ebrahim & Co. Chartered Accountants, are the external auditor of the company. They gave an unqualified audit report on FY22 financials.

Management

Organizational Structure IPPs generally feature by a flat organizational structure, mainly comprising of finance and technical staff, while the engineering, construction and operations of the plant are outsourced. However project company is overseeing EPC and O&M Contractors through renowned foreign independent engineer technical advisor.

Management Team The management team is led by Mr. Muhammad Badar ul Munir, CEO. Mr. Muhammad Badar ul Munir has been associated with QASPL for 8 years. Before his appointment as CEO, he was the CFO of the company. The entire operational set-up of the company falls under the purview of CEO, with each department head directly reporting to him.

Effectiveness The management of QASPL is mostly engaged in the technical, finance and company management related activities. The main operations and maintenance of the plant has been outsourced to the O&M contractors i.e. TBEA Xinjiang Sunoasis company Ltd.

Control Environment The company maintains an adequate MIS which helps management to keep track of all operations and liaison with O&M operator. Moreover, the company has inhouse internal audit department to monitor the risk that arise from the operations.

Operational Risk

Power Purchase Agreement The electricity generated is sold to Central Power Purchasing Agency (Guarantee) Limited ("CPPA-G") under a 25-year Power Purchase Agreement (PPA).

Operation And Maintenance The operations and maintenance of the plant have been outsourced to the O&M contractors i.e. TBEA Xinjiang Sunoasis company Ltd. The O&M operator ensures adherence of the plant to meet minimum performance benchmarks.

Resource Risk Solar Energy is dependent on mainly two things irradiation and temperature. QASPL has employed single axis technology, which will help the plant to effectively utilize solar energy.

Insurance Cover QASPL has adequate insurance coverage for business interruptions, property damages etc. as per PPA and lenders facility agreements.

Performance Risk

Industry Dynamics Energy Sector is the backbone of an economy, while Power is one of the most significant segments of the Energy Sector. Power generation in Pakistan stood at ~153,874GWh in FY22, up ~7% YoY. Generation capacity, on the other hand, stood at ~43,775MW up ~10% YoY. As of FY22 end, there were 149 power plants installed in Pakistan based on all major technologies i.e., Thermal, Renewable, Hydel and Nuclear. There has been an addition of 19 renewable technology-based power plants over the previous 4 years, while 6 additional Hydel power plants (2 IPPs and 4 WAPDA), 3 coal based power plants and 1 Nuclear power plant have also been added.

Generation The Company achieved Commercial Operations Date (COD) on July 15, 2015. During 1HFY23, company generated 76.43GWh (FY22: 156.89 GWh, 1HFY22: 79.47GWh) and maintained the availability as per agreed parameters. Consequently, company reported the topline at PKR 2,059mln in 1HFY23 as compared to PKR 1,699mln in the corresponding period last year depicting an increase of 12%. (FY22: PKR 3,767mln, FY21: PKR 3,571mln).

Performance Benchmark The required availability for QASPL under the PPA is 75%. The company's required availability and efficiency remained above the required benchmark.

Financial Risk

Financing Structure Analysis Debt financing constitutes 75% of the project cost i.e. PKR 11,137mln. The 100% project debt of PKR 11,137mln was funded by Bank of Punjab (BoP) with a tenure of 10 years with quarterly payments including the grace period of 1 Year. The Equity portion of the project is PKR 3,810mln. QASPL has repaid 30 installments by end Jan-23.

Liquidity Profile Company is receiving the payments regularly from the power purchaser and as on end Dec-22 receivables stand at PKR 2,527mln down from PKR 3,884mln at end Jun-22.

Working Capital Financing Company manages its working capital needs through internal cash flows and have not avail any working capital lines. Net working Capital cycle of the company has decreased to 275 days as on end Dec-22 down from 440 days at end Jun-22 on back of regular payments from the Power Purchaser (FY21:437 days).

Cash Flow Analysis During 1HFY22, free cash flows from operations (FCFO) stood at PKR 2,075mln (FY22: PKR 3, 002mln). Interest and debt coverage ratio stood at 4.4x and 1.5x respectively, reflecting company's strong ability to pay its financial obligations.

Capitalization The project was started with the allowed project cost of PKR 15,130mln with 75:25 debt to equity ratio. Total project equity of PKR 3,810mln has been injected by equity sponsors. Currently debt to equity ratio stood at 24.8% at end-Dec-22 (FY22: 27.7%).

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Quaid-e-Azam Solar Power (Pvt.) Ltd.	Dec-22	Jun-22	Jun-21	Jun-20
Power	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	9,987	10,203	10,511	11,059
2 Investments	-	-	-	-
3 Related Party Exposure	1	0	0	0
4 Current Assets	8,279	8,666	7,618	6,492
a Inventories	-	-	-	-
b Trade Receivables	*2,527*	*3,884*	*5,173*	*3,501*
5 Total Assets	18,267	18,869	18,130	17,552
6 Current Liabilities	929	859	487	878
a Trade Payables	*59*	*147*	*57*	*76*
7 Borrowings	4,237	4,986	6,178	7,251
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	245	24	163	124
10 Net Assets	12,855	13,000	11,301	9,298
11 Shareholders' Equity	12,855	13,000	11,301	9,298
B INCOME STATEMENT				
1 Sales	2,059	3,676	3,571	4,335
a Cost of Good Sold	*(463)*	*(939)*	*(894)*	*(901)*
2 Gross Profit	1,596	2,737	2,677	3,434
a Operating Expenses	(116)	(136)	(88)	(81)
3 Operating Profit	1,480	2,601	2,589	3,353
a Non Operating Income or (Expense)	*355*	*443*	*266*	*366*
4 Profit or (Loss) before Interest and Tax	1,835	3,044	2,855	3,720
a Total Finance Cost	*(419)*	*(699)*	*(713)*	*(1,236)*
b Taxation	*(60)*	*(143)*	*(138)*	*(16)*
6 Net Income Or (Loss)	1,355	2,202	2,004	2,467
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,805*	*2,759*	*3,066*	*3,842*
b Net Cash from Operating Activities before Working Capital Changes	*1,397*	*2,108*	*2,303*	*2,598*
c Changes in Working Capital	*1,357*	*1,396*	*(1,348)*	*(971)*
1 Net Cash provided by Operating Activities	2,754	3,503	954	1,627
2 Net Cash (Used in) or Available From Investing Activities	(68)	(255)	(19)	(28)
3 Net Cash (Used in) or Available From Financing Activities	(1,883)	(1,116)	(1,061)	(801)
4 Net Cash generated or (Used) during the period	803	2,132	(126)	799
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	12.0%	2.9%	-17.6%	19.7%
b Gross Profit Margin	77.5%	74.5%	75.0%	79.2%
c Net Profit Margin	65.8%	59.9%	56.1%	56.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	153.6%	113.0%	48.1%	66.2%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	20.7%	17.3%	18.0%	28.0%
2 Working Capital Management				
a Gross Working Capital (Average Days)	284	450	443	238
b Net Working Capital (Average Days)	275	440	437	232
c Current Ratio (Current Assets / Current Liabilities)	8.9	10.1	15.6	7.4
3 Coverages				
a EBITDA / Finance Cost	5.1	4.4	5.1	3.6
b FCFO / Finance Cost+CMLTB+Excess STB	1.7	1.4	1.6	1.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.5	2.4	2.6	2.8
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	24.8%	27.7%	35.3%	43.8%
b Interest or Markup Payable (Days)	74.6	88.4	71.9	62.6
c Entity Average Borrowing Rate	16.6%	12.1%	10.3%	15.8%

Credit Rating

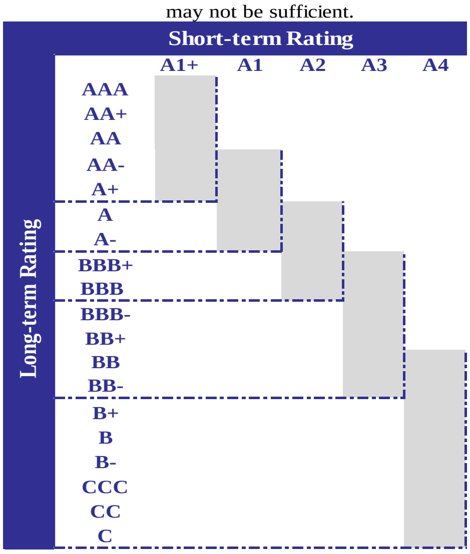
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
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.

Short-term Rating

Scale	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
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 surveill 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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Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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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**

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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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(4) 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 business relationship with the customer | Chapter III; 10-7-(d)

(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

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(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).

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(9) PACRA ensures before 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)

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

(11) PACRA promptly investigates, in the event of a 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)

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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)

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(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 | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(f-VII)

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