



The Pakistan Credit Rating Agency Limited

Rating Report

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

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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 economic risk factors, along with sovereign guarantees on power purchaser's payment obligation, which also contributes positively towards the ratings. Comfort is drawn from TBEA Xinjiang Sunoasis Company Ltd. – the O&M operator having international experience. Free cash flows of the Company are in a comfortable position to make debt repayments. QASPL has repaid ~51% of its debt on time, facet of strong financial profile and sound working capital management which currently 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. Ratings incorporate adherence to performance benchmarks through power generation, underpinned by healthy cash flows generation.

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 Independent Power Producer Rating(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Power(Jan-22)
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 Limited (QASPL) was incorporated as a private limited Company under the repealed Companies Ordinance, 1984 (Now the Companies Act, 2017) on September 16, 2013.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.

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 Ghangro 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 FY21 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 Installed capacity of electricity increased to 37,261 MW during July-April FY2021 compared to same period last year, showing an addition of 1,289MW. Likewise, its generation increased to 102,742 GWh showing an additional generation of 6,360 GWh during the period under discussion.

Generation The Company achieved Commercial Operations Date (COD) on July 15, 2015. The electricity generation stood at 165 GWh during FY21. During the period, company successfully generated the electricity on average 90.27% availability factor. Company reported the topline at PKR 1,699mln & PKR 3,571mln during 1HFY22 & FY21 with the net profit margin of 59.5% and 56.1% respectively.

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 23 installments by end Jun-21.

Liquidity Profile During FY21, trade receivables of the company peaked at PKR 5,173mln because of the delayed payments from the off taker. However, by end Dec-21 receivables reduced to PKR 4,309mln.

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 increased to 504 days as on end Dec-21 (FY21:437 days).

Cash Flow Analysis During 1HFY22, free cash flows from operations (FCFO) stood at PKR 1,462mln (FY21: PKR 3, 066mln). Interest and debt coverage ratio stood at 4.7x 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 32.3% at end-Dec-21 (FY21: 35.3%).



Quaid-e-Azam Solar Power (Pvt.) Ltd. Power	Dec-21 6M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	10,232	10,511	11,059	11,598
2 Investments	-	-	-	-
3 Related Party Exposure	1	0	0	0
4 Current Assets	7,777	7,618	6,492	4,127
<i>a Inventories</i>	-	-	-	-
<i>b Trade Receivables</i>	4,309	5,173	3,501	2,154
5 Total Assets	18,010	18,130	17,552	15,725
6 Current Liabilities	463	487	878	745
<i>a Trade Payables</i>	40	57	76	64
7 Borrowings	5,589	6,178	7,251	8,062
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	266	163	124	88
10 Net Assets	11,692	11,301	9,298	6,831
11 Shareholders' Equity	11,692	11,301	9,298	6,829
B INCOME STATEMENT				
1 Sales	1,699	3,571	4,335	3,623
<i>a Cost of Good Sold</i>	(437)	(894)	(901)	(888)
2 Gross Profit	1,262	2,677	3,434	2,735
<i>a Operating Expenses</i>	(55)	(88)	(81)	(80)
3 Operating Profit	1,208	2,589	3,353	2,655
<i>a Non Operating Income or (Expense)</i>	183	266	366	138
4 Profit or (Loss) before Interest and Tax	1,390	2,855	3,720	2,793
<i>a Total Finance Cost</i>	(323)	(713)	(1,236)	(1,066)
<i>b Taxation</i>	(56)	(138)	(16)	58
6 Net Income Or (Loss)	1,012	2,004	2,467	1,786
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	1,462	3,066	3,842	2,661
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	1,143	2,303	2,598	1,686
<i>c Changes in Working Capital</i>	633	(1,348)	(971)	(507)
1 Net Cash provided by Operating Activities	1,776	954	1,627	1,179
2 Net Cash (Used in) or Available From Investing Activities	(3)	(19)	(28)	(2)
3 Net Cash (Used in) or Available From Financing Activities	(1,108)	(1,061)	(801)	(1,431)
4 Net Cash generated or (Used) during the period	666	(126)	799	(253)
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	-4.8%	-17.6%	19.7%	--
<i>b Gross Profit Margin</i>	74.3%	75.0%	79.2%	75.5%
<i>c Net Profit Margin</i>	59.5%	56.1%	56.9%	49.3%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	123.3%	48.1%	66.2%	59.5%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sl</i>	17.2%	18.0%	28.0%	26.2%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	509	443	238	217
<i>b Net Working Capital (Average Days)</i>	504	437	232	211
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	16.8	15.6	7.4	5.5
3 Coverages				
<i>a EBITDA / Finance Cost</i>	5.5	5.1	3.6	3.3
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.5	1.6	1.7	1.4
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	2.4	2.6	2.8	5.0
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	32.3%	35.3%	43.8%	54.1%
<i>b Interest or Markup Payable (Days)</i>	76.1	71.9	62.6	84.4
<i>c Entity Average Borrowing Rate</i>	10.6%	10.3%	15.8%	12.9%

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 Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	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.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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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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(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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