RATING REPORT

Quaid-e-Azam Thermal Power (Private) Limited (QATPL)

REPORT DATE:
April 25, 2016

RATING ANALYSTS:

Waqas Munir, FRM
waqas.munir@jcrvis.com.pk

Maham Qasim
maham.qasim@jcrvis.com.pk

RATING DETAILS

	Rating	
Rating Category	**Long-term**	**Short-term**
Entity	AA	A-1+
Rating Outlook	Stable	
Outlook Date	*April 19, 2016*	

COMPANY INFORMATION

Incorporated in 2015	**External auditors:** A.F. Ferguson & Co. Chartered Accountants
Private Limited Company	**Chairman:** Mr. Arif Saeed
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Ahad Khan Cheema
Government of Punjab – 100%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporate (Oct 2003)*
http://www.jcrvis.com.pk/images/IndustrialCorp.pdf

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

OVERVIEW OF THE INSTITUTION

Quaid-e-Azam Thermal Power (Private) Limited (QATPL) was incorporated on 25 March, 2015 under the companies' ordinance, 1984. It is a wholly owned company of Government of Punjab (GoPb). The company is in the process of setting up a 1,180 MW Combined Cycle Gas Turbine (CCGT) power plant at Bhikki, District Sheikhupura, Punjab under GoP power generation policy 2015. Company's head office is located in Lahore

RATING RATIONALE

Quaid-e-Azam Thermal Power Limited (QATPL), wholly owned by Government of Punjab (GoPb), is in the process of setting up a 1,180 MW Re-liquefied Natural Gas (RLNG) based Combined Cycle Gas Turbine (CCGT) power plant at Bhikki, Punjab. The project is established under the Power Generation Policy, 2015 which offers a guaranteed equity Internal Rate of Return (IRR), cost indexation and pass-through structure in line with other IPPs projects in Pakistan. Power generated shall be sold to Central Power Purchase Agency (Guarantee) Limited (CPPA) under a Power Purchase Agreement (PPA) and the obligations of CPPA are guaranteed by the Government of Pakistan under the Implementation Agreement. The ratings also take into account the presence of anon-supply event in the PPA which insulates the project from the risk of gas non supply; the company shall continue to receive capacity payments during the non-supply period. In addition, the "Suspension" clause in the PPA entitles the Company to suspend its plant operations in case the receivable amount from CPPA at any point of time remains outstanding for 60 daysor more, while continue to receive capacity payments during the suspension period. This provision further insulates the Company from circular debt risk.

QATPL has signed an agreement for Engineering, Procurement & Construction (EPC) with a joint venture of Harbin Electric International Company Limited (HEI) and Habib Rafiq (Pvt) Ltd (HRL), companies carrying satisfactory track record in their respective fields. HEI is majority owned by Harbin Electric Corporation, a state owned enterprise established in China. The obligations of EPC contractor are adequately covered through a performance guarantee provided by HEI-HRL from a local bank in addition to guarantee issued by HEI's parent company. Moreover, liquidation damages will be imposed on the EPC contractor in the event performance benchmarks are not met pertaining to net power output and net heat rate.

A draft PPA, agreed between the parties, is in place between QATPL and CPPA. Gas Supply Agreement has been signed with SNGPL which will arrange RLNG at the plant site. Ministry of Petroleum and Natural Resources has issued a letter of comfort to QATPL assuring that all requisite arrangements for imports, re-gasification, transport and delivery of up to 200 MMCFD of RLNG shall be in place on or before January 2017. RLNG fuel price shall be determined by OGRA on a periodical basis and any change in the fuel price is a pass-through item under the PPA. The company has also applied for the power generation license and has completed all necessary formalities in this regard. A Public hearing has also been held by NEPRA on February 9, 2016 and license is expected in due course. Moreover, NEPRA has announced the interim tariff for QATPL to allow it to proceed on a fast track basis. The Commercial Operation Date (COD) is projected to be achieved by December, 2017.

The project cost is estimated at USD 833.33mwith a debt to equity ratio of 75:25. Equity amounting to Rs. 22.5b has already been received from GoPB. A project finance facility of up to Rs. 67.5b has been arranged and completely underwritten by NBP and HBL. The facility is repayable in 20 semiannual payments over a period of 13 years including a grace period of 3 years. As per management's projections, cash flows are considered adequate to meet financial obligations. The project's internal rate of return is estimated at 23%. The payback period is estimated at 6 years and 2 months while the equity payback is 4 years and 3 months.

The project management team comprises seasoned professionals having extensive experience. The management team is headed by Mr. Ahad Khan Cheema, a civil servant, carrying track record of successful completion of various projects of the Government of Punjab. Board of Directors comprises senior GoPb officials and experienced professionals from the private sector.

Quaid-e-Azam Thermal Power (Private) Limited (QATPL) **Appendix 5**

Projections (All figures in USD million)

BALANCE SHEET	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Equity	54.15	177	313	329	349	373	403	438	480	528	584	648
Short term loan	-	115	115	115	115	115	115	115	115	115	115	115
Long term loan	162	510	604	563	519	469	415	355	289	216	136	48
	FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**F25**	**FY26**	**FY27**
INCOME STATEMENT												
Revenues	-	222	717	1,012	1,012	1,013	1,015	1,017	1,019	1,022	1,026	1,030
Gross Profit	-	7	144	248	248	249	249	250	252	254	257	261
Financial Charges	-	-	47	70	65	61	56	50	44	37	29	21
Profit After Tax	-	6.7	101	184	188	193	199	206	213	222	233	245
	FY16	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**F25**	**FY26**	**FY27**
RATIO ANALYSIS												
Gross Margin (%)	-	3	20	25	25	25	25	25	25	25	25	25
Gearing (x)	2.99	3.53	2.34	1.73	1.61	1.46	1.31	1.14	1.00	0.78	057	0.36
Leverage(x)	3.23	3.71	2.36	1.75	1.62	1.48	1.33	1.16	0.99	0.88	0.59	0.38
FFO	-	-	115	209	213	218	223	230	238	247	258	270
FFO to Total Debt (x)	-	-	0.16	0.30	0.33	0.37	0.42	0.49	0.59	0.74	1.02	1.65
FFO to Long Term Debt (x)	-	-	0.19	0.37	0.41	0.46	0.54	0.65	0.82	1.14	1.9	5.6
Debt Servicing Coverage Ratio (x)	-	-	3.45	2.53	2.54	2.54	2.53	2.55	2.56	2.59	2.62	2.66
ROAE (%)	-	6	42	53	48	49	49	50	51	53	54	55

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix 6

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES Appendix 7

Name of Rated Entity	Quaid-e-Azam Thermal Power Private Limited
Sector	Power
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
Statement by the Rating Team	JCR-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.
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2015 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
April 19, 2016	AA	A-1+	Stable	Initial