RATING REPORT

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

REPORT DATE:
July 09, 2018

RATING ANALYSTS:

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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	AA	A-1+	AA	A-1+
Rating Outlook	Stable		Stable	
Rating Date	07/04/2017		10/31/2017	

COMPANY INFORMATION

Incorporated in 2015	**External auditors:** KPMG Taseer & Hadi Co., Chartered Accountants
Private Limited Company	**Chairman of Board of Directors:** Mr. Arif Saeed
Key Shareholders (with stake 5% or more): NIL (Qualifying shareholders 4 with shares 0.0000004%)	**Chief Executive Officer (Acting):** Mr. Asad Rehman Gilani
Government of Punjab – 100%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporate (Oct 2016)*
http://jcrvis.com.pk/docs/Corporate-Methodology-201605.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 establishing a 1,180 MW Combined Cycle Gas Turbine (CCGT) power plant at Bhikki, District Sheikhupura, Punjab under power generation policy 2015.

Profile of Chairman

Mr. Arif Saeed is serving on the Boards of various public and private sector companies. He carries vast experience across industries and holds a Bachelor's Degree in philosophy, politics and economics from University of Oxford.

Profile of CEO

Mr. Asad Rehman Gilani is presently serving as (acting) CEO of QATPL. Mr. Asad carries around 20 years of civil service experience with various departments including food, transport & irrigation. He has Master's degree in Public Administration from Harvard University, USA. He also possesses MBBS degree from King Edward Medical

RATING RATIONALE

The ratings assigned to Quaid-e-Azam Thermal Power (Private) Limited (QATPL) incorporate its strong sponsor profile; QATPL is wholly owned by the Government of Punjab (GoPb). Ratings also draw comfort from presence of a non-supply event in the Power Purchase Agreement (PPA) which insulates the project from risk of gas non-supply as the Company shall continue to receive capacity payments during the non-supply period. In addition, the "Suspension" clause in the PPA allows the company to suspend its plant operations if the receivable amount from Central Power Purchase Agency (Guarantee) Limited (CPPA) at any point in time remains outstanding for 60 days or more, while QATPL will continue to receive capacity payments during the suspension period. This provision further insulates the Company from circular debt risk. Commercial Operations Date (COD) of the combined cycle plant has been recently achieved after a delay of about 5 months.

QATPL has established a 1,180 MW Re-liquefied Natural Gas (RLNG) based Combined Cycle Gas Turbine (CCGT) power plant at Bhikki, Punjab. The project comes under the ambit of Power Generation Policy, 2015 which offers a guaranteed equity Internal Rate of Return (IRR), cost indexation and pass-through structure in line with other IPP projects in Pakistan. Apart from main fuel, the plant can also be operated on High Speed Diesel (HSD) as back-up fuel for a continuous period not in excess of 7 days; QATPL is required to maintain a 7-day inventory back-up for HSD. Power generation license was awarded to the Company on 2nd June 2016, while a 30-year levelized tariff of Rs. 6.3676/kWh with RLNG and Rs. 10.45/kWH with HSD as fuel has been approved by NEPRA.

Material Contracts

Engineering, Procurement & Construction (EPC)

QATPL has an EPC agreement in place with a joint venture of Harbin Electric International Company Limited (HEI) and Habib Rafiq (Pvt.) Ltd. (HRL). The EPC contractor carries satisfactory project completion track record, while obligations of the contractor are adequately covered through a performance guarantee in favor of QATPL. Moreover, liquidation damages will be imposed on the EPC contractor if performance benchmarks are not met pertaining to net power output and net heat rate.

Power Purchase Agreement (PPA)

A 30-year PPA was signed between QATPL and Central Power Purchasing Agency (Guarantee) Limited (CPPA) on 22nd July, 2016. Obligations of CPPA are guaranteed by the Government of Pakistan (GoP) under the Implementation Agreement. The PPA covers risk associated with the event of gas non-supply. As per the event, any interruption of supply of gas from and after the COD resulting in company's inability to declare full available capacity will be treated as "gas non-supply event" and the company shall continue to receive capacity payments during the non-supply period. Also, QATPL has the right to suspend the supply of available capacity to CPPA after notice if the receivable amount remains outstanding for 60 days or more.

Gas Supply Agreement (GSA)

A 15-year GSA agreement is in place between QATPL and Sui Northern Gas Pipeline Limited (SNGPL) under which SNGPL will arrange RLNG at the plant site. RLNG fuel price shall be determined by Oil & Gas Regulatory Authority (OGRA) on a periodical

University, Lahore. He is serving as Secretary Energy Department, GoPb.

basis and any change in the fuel price is a pass-through item under the PPA. Prior to expiry of the GSA, SNGPL shall enter into necessary arrangements to ensure the term is extended for a further period of 15 years for which QATPL shall have the first right of refusal for any gas available in the system.

Financial Snapshot

Net equity: 1HFY18: Rs. 21.4b; FY17: Rs. 22.3b; FY16: Rs. 22.8b

Net profit: 1HFY18: Rs. (914.7m); FY17: Rs. (529.4m); FY16: Rs. 330.4m

Project Progress
COD of combined cycle plant, earlier envisioned to be achieved by Dec'2017, was achieved in May'2018; as per management, delay had been witnessed on account of Force Majeure and vibration in GT-1. The company has managed to control cost overruns on account of lower utilization of debt than envisaged initially. Actual Interest During Construction Cost (IDC) has been lower as the company did not utilize entire debt by Dec'2017. Remaining payment of the project cost to the EPC contractor will be netted-off with Liquidated Damages (LDs) (maximum of US$ 53.9m) to be paid by the EPC contractor.

Project Cost and Funding
Total cost of the project is USD 769.9m with a debt to equity ratio of 75:25. Equity amounting to 22.5b was received from GoPb from which Rs 21.25b was equity contribution towards project financing and Rs 1.25b was equity contribution towards working capital facility. The project finance facility of up to Rs. 63.8b has been arranged from a consortium of local banks and is repayable in 20 semiannual payments over a period of 10 years. Mark-up on the facility is equal to 3-month KIBOR+3% per annum paid on a semiannual basis.

By end-March'18, debt drawdown amounted to Rs. 44.784b (end-1HFY18: Rs. 38.658b; end-FY17: Rs. 30.585b; end-FY16: Rs. nil). Total project financing (inclusive of equity financing) amounts to Rs. 85b, whereas the company utilized financing (inclusive of equity portion) of Rs. 66.034b by end-March'2018. The management foresees a maximum utilization of Rs. 17.0b-18.0b out of the remaining debt portion of Rs. 19.0b mainly due to savings pertaining to lower costs related to no major fluctuation in interest rate component.

With the declaration of COD, the availability period of the approved financing expired, leaving a significant undisbursed portion of debt needed to complete the approved project cost payments payable post COD. The company has accordingly sought an extension in the availability period of financing up to December 31, 2018 and merged the prorated installment falling due in June 2018 (due to expiry of the financing availability period) with the December, 2018 installment, keeping with the spirit of project financing and enabling it to draw upon the un-availed amounts from the contracted facility. Lenders have confirmed to the management that the aforementioned arrangement has in principally being agreed by them, subject to regulatory approvals and execution of necessary documentation to this effect. JCR VIS believes that completion of this arrangement has high significance for the sustainability of the project which has been setup as a green field project under the project financing arrangements.

Asset Mix
By end-1HFY18, total assets of the company amounted to 82.0b (FY17: Rs. 72.6b; FY16: Rs. 24.0b) with property, plant and equipment representing more than three-fourth of the asset base. Trade debts amounted to Rs. 5.2b (FY17: Rs. 6.4b; FY16: nil), while inventory amounted to Rs. 2.0b (FY17: Rs. 0.17b; FY16: Rs. nil) by end-1HFY18. Long-term deposits & prepayments amounted to Rs. 5.5b (FY17: Rs.5.6b; FY16: Rs. 365.2m) at end-1HFY18 mainly on account of gas supply deposit maintained in an escrow account with National Bank of Pakistan (NBP) as part of GSA with SNGPL. By end-1HFY18, other assets amounted to Rs. 4.4b (FY17: Rs. 3.0b; FY16: Rs. 804.3m) primarily owing to sales tax refundable from GoP of Rs. 2.6b, advance of Rs. 984.9m to the long-term service

contractor, General Electric, and SBLC security deposits amounting to Rs. 650.0m. Short-term investments declined to Rs. 32.1m (FY17: Rs. 1.5b; FY16: Rs. 4.9b) partly on account of liquidation of TDRs to fund capital requirements, while cash balances amounted to Rs. 917.8m (FY17: Rs. 98.5m; FY16: Rs. 4.7b) by end-1HFY18.

Profitability
QATPL shall now start recognizing revenue subsequent to COD of the combined cycle power plant. During 1HFY18, loss before tax stood at Rs. (876.8m) (FY17: Rs. (430.2m); FY16: Rs. 614.5m) primarily on account of administrative expenses and higher finance cost. Accounting for taxation, net loss amounted to Rs. (914.7m) (FY17: Rs. (529.4m); FY16: Rs. 330.4m). The management is projecting revenues and gross margins to sustain from FY19 onwards owing to fixed levelized tariff and pass-through structure of the project.

Liquidity & Cash flows
By end-1HFY18, current ratio stood lower at 0.4x (FY17: 0.5x; FY16: 33.3x) primarily on account of increase in trade & other payables; the same amounted to Rs. 15.6b (FY17: Rs. 15.4b; FY16: Rs. 0.3b) by end-1HFY18. Increase in trade & other payables was mainly on account of outstanding payable of Rs. 10.0b owed to the EPC contractor against equipment delivery. By end-1HFY18, short-term borrowings increased to Rs. 5.5b (FY17: Rs. 4.0b; FY16: Rs. nil) in order to finance working capital requirements, while other liabilities amounted to Rs. 1.5b (FY17: Rs. 812.1m; FY16: 835.7m) mainly owing to mark-up accrued on both long-term and short term borrowings.

Fund from Operations (FFO) are projected to remain stable and adequate for timely debt repayment.

Board & Management
Board of Directors (BoD) at QATPL comprise senior GoPb officials and experienced professionals from the private sector. Mr. Asad Rehman Gilani is serving as acting CEO at QATPL; management team comprises seasoned professionals having extensive experience.

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

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	FY16	FY17	1HFY18
Fixed Assets	13,172.2	55,794.2	63,938.6
Long-term Deposits & Prepayments	365.2	5,620.1	5,492.5
Trade Debts	-	6,356.7	5,248.1
Stock-in-Trade	-	171.1	2,009.5
Short-term Investments	4,873.7	1,544.7	32.1
Cash & Bank Balances	4,738.3	98.5	917.8
Other Assets	804.3	3,015.4	4,368.6
Total Assets	**23,953.7**	**72,600.7**	**82,007.2**
Trade and Other Payables	313.0	15,401.3	15,605.1
Long Term Debt *(including current maturity)*	-	30,068.7	38,034.5
Short-term Debt	-	4,043.0	5,491.5
Other Liabilities	835.7	812.1	1,515.2
Total Liabilities	**1,148.7**	**50,325.1**	**60,646.3**
Total Equity	**22,805.0**	**22,275.6**	**21,360.9**
INCOME STATEMENT	**FY16**	**FY17**	**1HFY18**
Net Sales	-	-	-
Gross Profit	-	-	-
Profit before Tax	614.5	(430.2)	(876.8)
Profit After Tax	330.4	(529.4)	(914.7)

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

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 III				
Name of Rated Entity	Quaid-e-Azam Thermal Power (Private) Limited				
Sector	Power				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
			RATING TYPE: ENTITY		
	July 04, 2018	AA	A-1+	Stable	Reaffrmed
	October 10, 2017	AA	A-1+	Stable	Reaffirmed
	April 06, 2017	AA	A-1+	Stable	Reaffirmed
	April 19, 2016	AA	A-1+	Stable	Initial
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.				
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