RATING REPORT

Quaid-e-Azam Thermal Power (Private) Limited

REPORT DATE:
July 08, 2019

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating Long-term	Latest Rating Short-term	Previous Rating Long-term	Previous Rating Short-term
Entity	AA	A-1+	AA	A-1+
Rating Date	*04 Jul'19*		*04 Jul '18*	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION

Incorporated in 2015	**External auditors:** KPMG Taseer & Hadi Co., Chartered Accountants.
Private Limited Company	**Chairman:** Mr. Abdul Basit **CEO:** Mr. Akhtar Hussain Mayo

Key Shareholders (with stake 5% or more):
- Government of Punjab – 100%
- NIL (Qualifying shareholders 4 with shares 0.0000004%)

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Industrial Corporates (May 2019)
https://www.vis.com.pk/kc-meth.aspx

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

OVERVIEW OF THE INSTITUTION

Quaid-e-Azam Thermal Power (Private) Limited (QATPL) was incorporated on March 25, 2015 under the companies' ordinance, 1984 (now companies act, 2017).

Profile of Chairman
Mr. Abdul Basit is serving as Chairman of the BoD at QATPL. He is the founder Chairman of Big Bird Group and has previously served as the Chairman Punjab Board of Investment & Trade, Government of the Punjab and president of Lahore Chamber of Commerce and Industries (LCCI) and Chairman of Pakistan Poultry Association (PPA).

Profile of CEO
Mr. Akhtar Hussain Mayo has over 36 years' experience, he is a mechanical engineer by profession. He is currently serving as Chief Executive Officer of QATPL. Previously he served as GM/ Head of Power Plants & Mechanical Section at NESPAK.

Financial Snapshot

Net equity: 9MFY19: Rs. 26.8b; FY18: Rs. 20.9b; FY17: Rs. 22.3b

Net profit: 9MFY19: Rs. 2.7b; FY18: Rs. (1.4b); FY17: Rs. (529m)

RATING RATIONALE

Quaid-e-Azam Thermal Power (Private) Limited (QATPL) is wholly owned by the Government of Punjab (GoPb). The company owns and operates re-liquefied Natural Gas (RLNG) based Combined Cycle Gas Turbine (CCGT) power plant of 1,183 MW generating capacity at Bhikki, District Sheikhupura – Punjab. The ratings draw comfort from the presence of a clause in the Power Purchase Agreement (PPA) whereby QATPL will continue to receive capacity payments during the period of non-supply of gas. 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 protects the company from the circular debt risk. Commercial Operation Date (COD) of combined cycle plant was achieved on May 20, 2018.

The ratings also factor in positive earnings trajectory due to a combination of higher sales, strengthening of profit margins and improved liquidity position on the back of higher cash flows generation. While leverage indicators have weakened primarily with the mobilization of long-term borrowings, the company's debt service coverage has become adequate on the back of improved cash flows from operations.

Ratings Drivers

Power Purchase Agreement (PPA)
A 30-year PPA was signed between QATPL and Central Power Purchasing Agency (Guarantee) Limited (CPPA) on July 22, 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 Commercial Operations Date (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 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.

Asset Mix
Asset base of the company augmented to Rs. 115.5b by end-9MFY19 (FY18: Rs. 96.1b; FY17: Rs. 72.6b) mainly on account of notable increase in current assets. Fixed assets predominantly consisted of property, plant & equipment, and amounted to Rs. 71.1b (FY18: Rs. 68.8b; FY17: Rs. 61.9b), representing 62% of overall asset mix (FY18: 72%; FY17: 85%). The long-term deposits and prepayments increased to Rs. 4.3b (FY18: Rs. 0.3b; FY17: Rs. 5.6b) due to replenishment of escrow account according to the terms of GSA agreement. With the completion of plant construction, the capex requirements are expected to remain largely muted, going forward.

Current assets were recorded higher at Rs. 44.4b by end-9MFY19 (FY18: Rs. 27.3b; FY17: Rs. 10.7b) mainly on the back of increase in trade debt to Rs. 19.5b (FY18: Rs. 16.6b; FY17: Rs. 6.4b) and cash & bank balance to Rs. 13.7b (FY18: Rs. 1.3b; FY17: Rs. 0.1b). The increase in trade debts was due to a combination of higher electricity sales and some delays in clearance of bills. As per the management, CPPA on average clears the outstanding bills in 48 to 55 days as compared to the regulatory timeframe of 25 days, thereby QATPL earns an interest income on overdue amount at a rate of KIBOR plus 2% per annum. The increase in cash and bank balance was due to withdrawal of additional borrowings under the syndicated term finance facilities; the same will be used to settle the outstanding EPC contract bills once the issue of liquidated damages related to delay in COD is resolved. The proportion of trade debts in overall asset mix remained unchanged at 17% at end-9MFY19 (FY18: 17%; FY17: 9%).

Advances, deposits, prepayments, & other receivables increased to Rs. 9.2b by end-9MFY19 (FY18: Rs. 7.4b; FY17: Rs. 2.5b) as the company booked Rs. 1.1b (FY18: Rs. 43m) in receivables on account of amount withdrawn by the Federal Board of Revenue (FBR) against input PRA. (QATPL filed writ petition before Lahore High Court which was decided in favor of the Company and Company has consequently lodged the recovery claim to tax authorities) and amount relating to Punjab Thermal Power (Private) Limited (PTPPL) which is an expense incurred by QATPL on the behalf of its related party. The company also recorded Rs. 170m (FY18: nil) in receivables from CPPA against Workers' Profit Participation Fund (WPPF).

Receivables from Sui Northern Gas Pipelines Limited (SNGPL) amounted to Rs. 3.3b (FY18: Rs. 3.3b) and represented amount withdrawn from the escrow account by SNGPL in June 2018. For the period from May 2017 to June 2018. SNGPL raised total net invoices of Rs. 11.9b for take-or-pay gas for several months. These invoices were disputed by QATPL because, as per the GSA, take-or-pay is applicable on firm gas allocation pertaining to each month. Only for firm gas allocation, Annual Delivery Plan (ADP) was required to be shared with SNGPL. ADP was finalized and confirmed on August 20, 2017 for the period starting from 01 January 2018 to 31 December 2018. Accordingly, any claim of take-or-pay prior to 01 January 2018 was unjustified. As per the GSA, after COD of GT1, 'Gas' shall mean RLNG and not natural gas. According to QATPL, SNGPL did not confirm with evidence that RLNG was available to SNGPL for delivery in the period for which take-or-pay bill has been issued. Moreover, SNGPL has applied the average RLNG rate/mmbtu and average domestic rate/mmbtu for each month, whereas the actual rate was to be applied on any take-or-pay quantity. Pursuant to dispute mechanism, an expert has been appointed by the order of court to resolve the matter. As per the management, the demand raised by SNGPL through take-or-pay invoices is liable to be declared as contrary to the GSA and hence no liability has been recorded towards SNGPL. Meanwhile, security deposits held by the Bank of Punjab (BOP) against pending take-or-pay demand of SNGPL increased slightly to Rs. 683m (FY18: Rs. 650m).

Sales tax refundable amounted to Rs. 3.3b at end-9MFY19 (FY18: Rs. 3.4b) while interest accrued on savings account increased to Rs. 389m (FY18: Rs. 122m). Advance income tax stood higher at Rs. 339m (FY18: Rs. 241m).

Sales and Profits

QATPL reported net revenue of Rs. 53.2b during 9MFY19 (FY18: Rs. 10.4b; FY17: nil) with the delivery of 4,118 GWh electricity to the national grid. Cost of sales amounted to Rs. 44.0b (FY18: Rs. 9.0b; FY17: nil), out of which 89% (FY18: 91%) pertained to procurement of RLNG and 4% to operations & maintenance expense (FY18: 1%). QATPL has appointed the joint venture of Harbin Electric International Company Limited (HEI) and Habib Rafiq (Pvt.) Ltd (HRL) as the operation and maintenance (O&M) contractor of the power plant (excluding gas turbines) for a period of 12 years. The cost of O&M contract is US$ 133m. Depreciation expense stood at Rs. 1.7b (FY18: Rs. 396m), whereas plant insurance expense increased to Rs. 1.1b (FY18: Rs. 145m) subsequent to attainment of COD. Salaries, wages & other benefits amounted to Rs. 63m during 9MFY19 (FY18: Rs. 5m). With higher sales and improved gross margin of 17.3% (FY18: 12.8%), the company reported a higher gross profit of Rs. 9.2b (FY18: Rs. 1.3b).

Administration expenses, which mainly consisted of head office related salaries, wages & other and consultancy services, were recorded at Rs. 192m (FY18: Rs. 212m; FY17: Rs. 205m). The company also recorded an exchange loss of Rs. 1.1b (FY18: Rs. 616m; FY17: Rs. 1.0m) on payments to foreign suppliers due to rupee devaluation while the company recorded higher other income of Rs. 1.7b (FY18: Rs. 250m; FY17: Rs. 320m) which mainly emanated from increase in profit on deposit accounts. Finance cost increased to Rs. 6.2b (FY18: Rs. 2.0b; FY17: Rs. 545m) on account of higher utilization of debt financing during 9MFY19. Accounting for taxation, QATPL reported a net profit of Rs. 2.7b with net margin of 5.1% during 9MFY19

(FY18: net loss of Rs. 1.4b; FY17: net loss of Rs. 529m).

Liquidity and Cash Flows

QATPL has exhibited notable improvement in liquidity position since the attainment of COD. Underpinned by higher profits, the company generated Rs. 4.3b in funds from operations (FFO) during 9MFY19 (FY18: outflow of Rs. 2.4b; FY17: Rs. outflow of Rs. 235m). With a positive net working capital of Rs. 11.5b, the current ratio improved to 1.4x (FY18: 0.8x; FY17: 0.5x) mainly on the back of higher cash and bank balance. With considerably higher cash flows, FFO to total debt ratio improved 0.08x on an annualized basis in 9MFY19 (FY18: N.M) despite considerable increase in long-term borrowings. Moreover, the debt service coverage ratio also stood higher at 1.5x in 9MFY19 (FY18: 0.4x; FY17: 0.7x).

Capitalization and Funding

Equity base of the company augmented to Rs. 26.8b by end-9MFY19 (FY18: Rs. 20.9b; FY17: Rs. 22.3b) on the back of profits retention and increase in advance against issuance of shares to Rs. 4.4b (FY18: Rs. 1.3b; FY17: Rs. 1.3b) to balance out the project's required debt to equity mix. Advance against issuance of shares represented amount received from the GoPb – Energy Department in respect of contribution towards equity of the company. Total liabilities increased to Rs. 88.7b by end-9MFY19 (FY18: Rs. 75.2b; FY17: Rs. 50.3b) mainly on account of higher long-term borrowings of Rs. 55.8b (FY18: Rs. 41.7b; FY17: 28.5b) due to withdrawal of additional debt financing of Rs. 18.5b against remaining Syndicated Term Finance Facility (STFF). Long-term debt represented 63% of total liabilities at end-9MFY19 (FY18: 55%; FY17: 57%). The first and second installments of principal were paid on September 27, 2018 and February 6, 2019, and the remaining will be paid in 18 semi-annual installments. The facility carries a markup of 3-month KIBOR plus 3% which is payable semi-annually in arrears. The effective markup rate paid during the period on outstanding balance ranged from 9.92% to 13.55% per annum (FY18: 9.14% to 9.50%).

The utilization of short-term borrowings for working capital requirements decreased slightly to Rs. 10.2b by end-9MFY19 (FY18: Rs. 11.6b; FY17: Rs. 4.0b) owing to improvement in cash flows position. The sanction limit of short-term borrowings is Rs. 11.7b at a rate of KIBOR plus 1.5%, while the company is in process of mobilizing further standby limits worth Rs. 7.825b from a syndicate of banks. Accrued markup amounted to Rs. 2.4b (FY18: Rs. 1.4b; FY17: Rs. 0.8b) due to increase in total borrowings. The Standby Letter of Credit (SBLC) issued by BOP under the GSA agreement for SNGPL amounting to Rs. 11.5b has expired during the period under review. The management is working with syndicate of banks for arranging SBLC in favor of SNGPL and is expecting it to get issued by end-FY19. Trade & other payables stood lower at Rs. 15.6b by end-9MFY19 (FY18: Rs. 17.6b; FY17: Rs. 15.4b) mainly owing to reduction in trade creditors to Rs. 46m (FY18: Rs. 1.5b; FY17: Rs. 742m), accrued liabilities to Rs. 401m (FY18: Rs. 610m; FY17: Rs. 119m) and lower payables to suppliers.

Payables to suppliers decreased to Rs. 11.4b (FY18: Rs. 12.3b; FY17: Rs. 11.7b) due to clearance of bills. Payables to suppliers included Rs. 7.6b (FY18: Rs. 7.3b) and Rs. 2.3b (FY18: Rs.2.3b) payable to EPC contractor against offshore and onshore contracts, respectively. QATPL has charged liquidated damages to its EPC contractor amounting to US$ 53.9m due to delay in COD. The EPC contactor has offered an arrangement whereby security has been offered equal to the amount of liquidated damages till the matter is resolved. Consequently, QATPL has reduced the amount of Letter of Credit (LC) opened in favor of EPC by US$ 53.9m. However, since the recoverability of liquidated damages is not certain pending resolution of the matter, the company has not recorded the receivable from EPC contractor. Retention money stood slightly higher at Rs. 3.6b by end-9MFY19 (FY18: Rs. 3.2b; FY17: Rs. 7.8b) and represents amount deducted from interim payments to the EPC contractor as per the terms contained in the EPC contract. The whole amount will be settled upon the completion of punch list process.

Total borrowings increased to Rs. 70.1b by end-9MFY19 (FY18: Rs. 56.2b; FY17: Rs. 34.1b) owing to complete drawdown of STFF. Despite that, gearing and debt leverage improved slightly to 2.63x (FY18: 2.69x; FY17: 1.53x) and 3.31x (FY18: 3.59x; FY17: 2.26x) on the back of augmentation of equity. The company has no plan to mobilize long-term borrowings while utilization of short-term borrowings may fluctuate with change in working capital requirements. However, the continued retention of profits and scheduled repayments of long-term borrowings will positively impact leverage indicators, going forward.

Corporate Governance and IT

The Board of Directors (BoD) at QATPL consists of 5 members who are senior GoPb officials and experienced professionals from the private sector. The management team is spearheaded by Mr. Akhtar Hussain Mayo who is a mechanical engineer by profession and has over 36 years of experience. Previously he had served as GM/Head of Power Plants & Mechanical Section at NESPAK. The financial statements of the company for FY18 were audited by KPMG Taseer & Hadi Co., Chartered Accountants who have been reappointed for FY19.

QATPL has four key application in its management information system, including Oracle Fusion Cloud Financials, Oracle Fusion Cloud Supply Chain, Billing Solution, and Payroll Solution. Oracle Fusion Cloud Financials has five integrated modules, namely General Ledger, Fixed Assets, Cash Management, Payables, and Receivables, whereas Oracle Fusion Cloud Supply Chain has two modules, namely procurement and inventory. Backup of Oracle on-premises server is performed on every business night automatically using scheduled process while off-site backup is performed on a weekly basis.

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

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**FY17**	**FY18**	**9MFY19**
PP&E	56,318	68,502	66,834
Other Non-Current Assets	5,621	308	4,314
Stock in Trade	171	1,658	1,631
Trade Debts	6,357	16,644	19,475
Advances, Deposits, Prepayments & Other Receivables	2,491	7,446	9,191
Advance Income Tax	-	241	339
Short-term Investment	1,545	-	-
Cash & Bank Balance	98	1,286	13,741
Total Assets	**72,601**	**96,084**	**115,526**
Trade & Other Payables	15,401	17,598	15,619
Accrued Finance Cost	761	1,350	2,413
Other liabilities	51	8	9
Short-term Borrowings	4,043	11,625	10,222
Long-Term Borrowings *(Inc. current matur)*	30,069	44,585	60,432
Total Liabilities	50,325	75,166	88,695
Tier-1 & Total Equity	**22,276**	**20,917**	**26,831**
INCOME STATEMENT	**FY17**	**FY18**	**9MFY19**
Net Sales	-	10,369	53,238
Gross Profit	-	1,330	9,197
Operating Profit	(206)	502	7,941
Profit After Tax	(529)	(1,355)	2,739
FFO	(235)	(2,432)	4,292
RATIO ANALYSIS	**FY17**	**FY18**	**9MFY19**
Gross Margin (%)	-	12.8	17.3
Net Working Capital	(11,107)	(6,228)	11,530
FFO to Long-Term Debt	n.m	n.m	0.09*
FFO to Total Debt	n.m	n.m	0.08*
Debt Servicing Coverage Ratio (x)	0.71	0.36	1.49
ROAA (%)	n.m	n.m	3.5*
ROAE (%)	n.m	n.m	15.3*
Gearing (x)	1.53	2.69	2.63
Debt Leverage (x)	2.26	3.59	3.31
Current Ratio	0.49	0.81	1.35
Inventory + Receivables to Short-term Borrowings	1.61	1.57	2.06

**Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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				
04/07/2019	AA	A-1+	Stable	Reaffirmed
04/07/2018	AA	A-1+	Stable	Reaffirmed
19/04/2016	AA	A-1+	Stable	Initial

Statement by the Rating Team	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	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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