RATING REPORT

Quaid-e-Azam Thermal Power (Private) Limited

REPORT DATE:
April 28, 2020

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 Date	*28 Apr'20*		*04 Jul '19*	
Rating Outlook	Stable		Stable	
Rating Action	Downgrade		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 – 99.99%	

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

Core equity: end-1HFY20: Rs. 30.7b; end-FY19: Rs. 27.6b; end-FY18: Rs. 21.0b

Net profit: 1HFY20: Rs. 3.1b; FY19: Rs. 3.3b; FY18: Rs. (1.2)b

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 1,163 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. The plant achieved single cycle commercial operation of Gas Turbines (1 & 2) on June17, 2017. Commercial Operation Date (COD) of combined cycle plant was achieved on May 20, 2018.

The assigned ratings also incorporate higher sales, strengthened financial profile as evident from improved profit margins and notable increase in cash flows generation. Albeit, finance cost increased considerably along with elevated exchange loss pertaining to off-shore payments to suppliers, bottom-line increased on the back of higher sales, gross margins and other income mainly related to interest income on delayed payments from CPPA-G. Capitalization indicators have remained stressed due to higher overall debt levels, despite augmentation in equity. Meanwhile, excluding the impact of exchange gain/loss, cash flows from operations have remained sufficient, leading to adequate debt service coverage. However, in case of potential contingent liability falling due going forward, currently at arbitration stage, the company may face stress on liquidity given low cushion available for meeting extra liquidity requirements amid fully utilized working credit lines. Corporate governance framework has strengthened given appointment of new independent directors and female representation on board.

In the wake of current pandemic scenario, demand compression for electricity has been observed due to closure of various industries across the country, electricity dispatch is getting impacted and will likely to persist with the continuation of prevailing lockdown for some time, however, capacity payments under PPA will manifest in sustaining company's profitability.

Ratings Drivers

Power Purchase Agreement (PPA): A 30-year PPA was signed between QATPL and Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) on July 22, 2016, on behalf of ex-WAPDA Distribution Companies ("the Power Purchaser") for the sale of its entire power generation. 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): The company has entered into a Gas Supply Agreement (GSA) with Sui Northern Gas Pipeline Limited (SNGPL) on 22 July 2016 for 15 years from Commercial Operations Date (COD). Under this contract, 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.

Sturdy revenue and profits growth on the back of higher electricity dispatch: QATPL delivered 6,147.9 GWh (FY18: 3,655.3 GWh) to the national grid, with average annual load factor of 70.50% (FY18 (since COD): 92.7%) during FY19. Net revenue was reported higher at Rs. 76.9b

(FY18: Rs. 10.4b) during FY19. Cost of sales increased to Rs. 64.4b (FY18: Rs. 8.2b); around 90% (FY18: 91%) of the total cost is due to consumption of RLNG. Operation & Maintenance expense accounted for 1.7% (FY18: 1.4%) of the total cost of sales. QATPL has appointed the joint venture of M/s Harbin Electric International Company Limited (HEI), China and M/s Habib Rafiq (Pvt.) Limited, (HR) Pakistan, as the Operation and Maintenance (O&M) contractor of the power plant (excluding gas turbines) for a period of 12 years. Further, 2.5% (FY18: 2.0%) of cost of sales pertained to Long Term Service Agreement (LTSA) fee (Variable & fixed), during FY19. The company has entered into LTSA with the consortium of General Electric International Company, Inc. (GEII), for twelve years for operation and maintenance of gas turbines, under which the company is committed to pay monthly fee to its LTSA contractor as per terms agreed in the contract. Depreciation charge increased to Rs. 2.2b (FY18: Rs. 369.3m) during FY19, meanwhile plant insurance expense increased to Rs. 1.5b (FY18: Rs. 144.7m). Further, salaries, wages and benefits increased to Rs. 94.5m (FY18: Rs. 5.3m) during the review period; as during FY18, the plant remained fully operational only for 42 days, salaries and wages of the technical staff were notably lower. With higher electricity deliveries and capacity payments, gross margins improved to 16.2% (FY18: 12.8%), resulting in higher gross profits reported by the company of Rs. 12.5b (FY18: Rs. 1.3b), during FY19. Net sales reported by QATPL during 1HFY20, amounted to Rs. 37.2b vis-à-vis Rs. 42.3b in the corresponding period last year, with 2,702 GWh (1HFY19: 3,370 GWh) energy dispatched by the plant and average annualized load factor of 54.3% (1HFY19: 73%). However, gross profit increased to Rs. 7.2b (FY18: Rs. 6.3b) on account of higher Capacity Purchase Price (CPP) component and lower cost of sales mainly resulting from lower RLNG consumed, during 1HFY20. Resultantly, gross margins improved to 19.3% during 1HFY19. Decline in load during 1HFY20 was due to outset of coal power plant--- Engro Powergen Thar Power (Pvt.) Limited (EPTL) in July'19, which is relatively higher positioned in merit list as compared to QATPL.

Administrative expenses increased to Rs. 301.6m (FY18: Rs. 211.5m), primarily due to higher consultancy charges (to NESPAK and sub consultants) during FY19. Other expenses amounted to Rs. 2.5b (FY18: Rs. 616.4m), mainly pertained to higher exchange loss recorded of Rs. 2.3b (FY18: Rs. 616.4m) on payments to foreign suppliers (EPC contractor and payments under LTSA to GE) due to local currency depreciation. Meanwhile, other income mainly emanating from profit on deposit accounts and interest income on receivables from CPPA-G amounted to Rs. 2.3b (FY18: Rs. 250m), has provided impetus to the bottom-line during the review period. Finance cost stood higher at Rs. 8.7b (FY18: Rs. 2.0b), owing to higher long-term borrowings and markup rates during FY19. No charge for the review period tax has been recognized, since under relevant clause of Schedule of PPA, corporate income tax payable on generation, sale, exportation or supply of electricity are pass-through items and shall be claimable from CPPA. Based on minimum turnover tax, liability for taxation was Rs. 960.9m (FY18: Rs. 491.5m) for FY19, and the same has been recorded as claimable from CPPA-G under PPA. The company reported net profit of Rs. 3.3b (FY18: Rs. 1.2b) during FY19. Despite higher finance cost of Rs. 5.9b (1HFY19: Rs. 3.7b), net profits stood higher at Rs. 3.1b during 1HFY20 vis-à-vis Rs. 2.4b in 1HFY19. Increase in net profits mainly resulted from higher interest income on receivables from CPPA-G amounting Rs. 1.1b (1HFY19: Rs. 588.2m) and higher exchange gain of Rs. 484.3m (1HFY19: Nil) during 1HFY20. The exchange gain was booked on payments made under LTSA to EPC contractor on lower dollar exchange rate relative to that in June'19.

Growth in asset base mainly driven by increase in current assets: Asset base of the company augmented to Rs. 128.5b (FY18: Rs. 96.2m) by end-FY19, on back of significant increase in current assets. Fixed assets consisted of property, plant and equipment amounted Rs. 70.9b (FY18: Rs. 68.8b); the same represented 55% (FY19: 72%) of the total asset mix at end-FY19. PP&E also included stores held for capitalization amounted Rs. 2.2b (FY18: Rs. 2.0b) at end-FY19, these represent major spare parts and standby equipment held by the company's LTSA contractor and O&M contractor and will be handed over to the company as per arrangements at the end of the respective contract terms. Long-term deposits and prepayments increased to Rs. 4.3b (FY18: Rs. 302.6m) due to security deposits of Rs. 4.3b (FY18: Nil) maintained in escrow account with National Bank of Pakistan (NBP) as part of gas supply deposit under GSA with SNGPL; carrying an interest rate of 10.25% (FY18: 4%) per annum, recoverable semiannually.

Current assets were recorded higher at Rs. 57.6m (FY18: Rs. 27.4b) by end-FY19, mainly on back of higher cash and bank balances of Rs. 20.1b (FY18: Rs. 1.3b) and increase in trade receivables to Rs. 24.9b (FY18: Rs. 16.6m). Around 50% of trade debts fall due within 6 months' credit bracket. The increase was partly due to higher electricity sales and partly owing to some delays in clearance of bills. Meanwhile, the proportion of trade debts in overall asset mix increased to 19% (FY18: 17%). As per the management, CPPA on average clears the outstanding bills in 50 to 60 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 balances was due to LC margin account deposits amounting Rs. 13.1b and collection accounts deposits amounting Rs. 4.6b relating to withdrawal of additional borrowings under the STFF. Stock in trade, constituting High Speed Diesel (HSD) amounted to Rs. 1.6b (FY18: Rs. 1.7b) was to meet seven days buffer requirement, as outlined in PPA. Trade debts increased to Rs. 25.7b by end-1HFY20, proportion of the same in total asset mix has also increased to 22%. While cash and bank balances reduced to Rs. 8.8b after making payments to SNGPL and EPC contractor from LC margin account, and debt repayments during 1HFY20.

Further, advances, deposits, prepayments and other receivables increased to Rs. 11.0b (FY18: Rs. 7.6b). Sales tax receivable from Federal Board of Revenue (FBR) amounted Rs. 1.1b (FY18: Nil), relating to amount withdrawn by the Federal Board of Revenue (FBR) against input PRA *(QATPL filed writ petition before Lahore High Court (LHC) which was decided in favor of the company and company has consequently lodged the recovery claim to tax authorities. FBR then filed Intra Court Appeal (ICA) in LHC; the company filed an appeal before the Honorable Appellate Tribunal Inland Revenue (ATIR), which is pending adjudication).*
The company also booked receivable against corporate taxes of Rs. 1.5b (FY18: Rs. 129.7m) along with receivable against WPPF of Rs. 166.8m (FY18: Rs. Nil) from CPPA-G, at end-FY19. As per management, these receivables are now paid within 30 days, after submission of claim, under notification made by NEPRA in June, 2019. Sales tax refundable amounted to Rs. 3.5b (FY18: Rs. 3.4b) while interest accrued on savings account increased to Rs. 775.2m (FY18: Rs. 122.2m) at end-FY19.

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 2019, SNGPL raised total net invoices of Rs. 9.325b for take-or-pay (the TOP invoices) 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. The expert has given his recommendation in favor of SNGPL, which in the opinion of the company are contrary to facts and law, however, these recommendations are unbinding upon the parties. On October 11, 2019 the company, initiated arbitration proceedings by filing the request for arbitration with the London Court of International Arbitration (LCIA) being the next step under GSA; the outcome of the said arbitration will be final and binding upon the parties. Based on opinion of the legal advisor, the recommendations of the expert are contrary to law and facts and based on misreading and misinterpretation of the provisions of GSA. Accordingly, the company has not recorded a liability of Rs. 6.1b towards SNGPL and has recorded the remaining amount withdrawn by SNGPL from escrow account, as fully receivable. 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) by end-FY19. Advances, deposits, prepayments and other receivables further increased to Rs. 12.1b by end-1HFY20, mainly on account of increase in receivables from CPPA-G against corporate taxes, WWF and WPPF.

Improvement in cash flows underpinned by higher profitability: Funds from Operations (FFO) generated by the company increased to Rs. 9.6b (FY18: outflow of Rs. 2.4b), on back of higher profitability, non-cash expenses, adjustment of exchange loss and positive difference between incurred and paid finance cost, during the review period. Resultantly, despite considerably higher overall borrowings, FFO to total debt improved to 0.13x (FY18: N.M) in FY19. FFO to long-term debt also increased to 0.16x (FY18: N.M) in FY19. Debt service coverage ratio (DSCR) increased to 1.92x (FY18: 0.36x) by end-FY19. FFO amounted to Rs. 3.8b during 1HFY20, FFO to total debt on annualized basis decreased slightly to 0.11x, due to relatively lower FFO resulting from adjustment of exchange gain. Meanwhile, DSCR decreased to 0.91x due to escalated principal repayment during 1HFY20. Though overall liquidity has improved, in case of potential contingent liability falling due going forward, currently at arbitration stage, the company may face stress on liquidity given low cushion available for meeting extra liquidity requirements amid fully utilized working credit lines.

Equity base strengthened on back of profit retention: Equity base of QATPL enhanced to Rs. 27.6b (FY18: Rs. 21.0b) by end-FY19 on back of profit retention and increase in amount received from the Government of Punjab (GoPb)-Energy Department in respect of equity contribution amounting Rs. 4.4b (FY18: Rs. 1.3b), in order to balance out the project's required debt to equity mix *(75% local banks' debt and 25% equity by GoPb).* Total liabilities increased to Rs. 100.9b (FY18: Rs. 75.2b) at end-FY19, mainly due to increase in long-term financing (including current portion) to Rs. 60.5b (FY18: Rs. 44.6b), as the company has drawn additional amount of Rs. 18.5b against Syndicated Term Finance Facility (STFF) during FY19. Long-term debt represented 60% (FY18: 55%) of the total liabilities and 84% (FY18: 79%) of the total borrowing-mix at end-FY19. The company has obtained STFF facility under Common Terms and Accounts Agreement (CTAA) from the consortium of various banks. Principal is repayable in semi-annual installments and carries markup at rate of 3 months KIBOR plus 3%, payable semiannually in arrears; the loan facility will be completely paid-off by end-December 31, 2027. The effective markup rate paid during the review period on outstanding balance ranged from 9.92% to 13.55% per annum (FY18: 9.14% to 9.50%).

QATPL has available syndicated working capital facilities of Rs. 11.7b (FY18: Rs. 11.6b) from various banks, carrying markup at rate of 3 months KIBOR plus 1.5%. Accrued markup amounted to Rs. 4.6b (FY19: Rs. 1.4b) at end-FY19, owing to higher quantum of total borrowings and increase in interest rates. Trade and other payables increased to Rs. 24.2b (FY18: Rs. 17.6b) mainly due to higher trade creditors of Rs. 6.7b (FY18: Rs. 1.5b) and higher retention money payable of Rs. 4.1b (FY18: Rs. 3.2b) at end-FY19. The trade creditors included Rs. 6.6b payable to SNGPL on account of purchase of RLNG. The company is liable to pay markup at 1 month KIBOR plus 2% on delayed payment. While retention money payable represents money deducted from interim payments to EPC constructor as outlined in the EPC contract. Payables to suppliers stood at Rs. 12.4b (FY18: Rs. 12.3b), it includes Rs. 8.2b and Rs. 2.3b payable to EPC contractor against offshore and onshore contracts, respectively.

Gearing decreased slightly to 2.62x (FY18: 2.67x) owing to augmentation in equity, while debt leverage increased modestly to 3.66x (FY18: 3.57x) due to higher growth in total liabilities relative to growth in core equity, by end-FY19. Equity base further increased to Rs. 30.7b by end-1HFY20, on back of profit retention, meanwhile advances against equity contribution by GoPb continued to provide support to equity. Total borrowings amounted to Rs. 70.0b, at end-1HFY20; short-term borrowing remained at the same level i.e. Rs. 11.7b, long-term borrowings decreased to Rs. 58.3b, following repayments made. Gearing improved to 2.28x by end-1HFY20, on account of higher core equity and some decrease in total borrowings. Further, debt leverage also decreased to 2.86x due to decrease in total liabilities mainly resulting from notable reduction in trade creditors, retention money payable and payables to suppliers, at end-1HFY20.

The Deputy Commissioner Inland Revenue rejected the claim of input tax on construction and installation services and created an additional sales tax demand of Rs. 345.1m for the periods of February ,2017, April-June, 2017. The company has filed an appeal before ATIR which is pending adjudication. Further, the Additional Commissioner (CPRA) issued an order under relevant section of Punjab Sales Tax on Service Act, 2012 (PSTS Act), creating a demand of Rs. 4.9b, on the premise that the company has not properly withheld Punjab sales tax on services received during FY16 and FY17. The company preferred an appeal before the Commissioner (Appeals) PRA, who issued order rejecting the appeal. The Company, being aggrieved by the order, filed an appeal before ATIR (PRA) on November 26, 2019 which is pending adjudication. The company has not recorded any liability in respect of these aforementioned demands on basis of legal and factual grounds.

Corporate Governance: The Board of Directors (BoD) at QATPL consisted of 6 independent members, reappointed/newly appointed on July 8, 2019. As per corporate governance best practices, present board structure has one female independent director representation. All independent members are experienced professionals from private sector. Four Ex-Officio members *(nominee personnel of GoPb)* included Chairman Planning & Development (P&D) Board GoPb, Secretary Finance GoPb, Additional Chief Secretary (ACS) Energy GoPb and Secretary Energy GoPb; all were appointed vide GoPb notification dated 29th November, 2019. The financial statements of the company for FY19 were audited by KPMG Taseer & Hadi Co., Chartered Accountants who have been reappointed for FY20. New composition of BoD is tabulated below:

Directors	**Status**
Mr. Abdul Basit	Chairman/Independent Director
Ms. Aasia Saail Khan	Independent Director
Mr. Khurram Saleem	Independent Director
Mr. Naweed Akhtar Sharif	Independent Director
Mr. Tariq Mehmood	Independent Director
Mr. Zafar Masud	Independent Director
Muhammad Abdullah Khan Sumbal	Ex-Officio Director
Mr. Hamed Yaqoob Sheikh	Ex-Officio Director
Ms. Irum Bukhari	Ex-Officio Director
Captain (Retd.) Saqib Zafar	Ex-Officio Director

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

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	FY17	FY18	FY19	1HFY20
PP&E	56,318	68,502	66,544	65,907
Long-Term Deposits & Prepayments	5,621	303	4,310	4,310
Stock in Trade	171	1,658	1,631	1,631
Trade Debts	6,357	16,644	24,911	25,702
Advances, Deposits, Prepayments & Other Receivables	2,491	7,575	10,999	12,120
Cash & Bank Balance	98	1,286	20,092	8,760
Other Assets	1,546	246	9	8
Total Assets	**72,601**	**96,213**	**128,496**	**118,438**
Trade & Other Payables	15,401	17,598	24,159	12,263
Accrued Markup	761	1,350	4,571	5,398
Short-term Borrowings	4,043	11,625	11,675	11,675
Long-Term Borrowings *(Inc. current maturity)*	30,069	44,585	60,466	58,404
Other Liabilities	51	8	69	25
Total Liabilities	50,325	75,166	100,940	87,765
Tier-1 & Total Equity	**22,276**	**21,047**	**27,556**	**30,672**
Paid-Up Capital	21,250	21,250	21,250	21,250

INCOME STATEMENT	FY17	FY18	FY19	1HFY20
Net Sales	-	10,369	76,868	37,233
Gross Profit	-	1,330	12,459	7,197
Operating Profit	(206)	502	9,695	6,888
Profit Before Tax	(430)	(1,225)	3,338	3,116
Profit After Tax	(430)	(1,225)	3,338	3,116
FFO	(235)	(2,432)	9,564	3,774

RATIO ANALYSIS	FY17	FY18	FY19	1HFY20
Gross Margin (%)	-	12.8	16.2	19.3
Net Margin (%)	-	-11.8	4.3	8.4
Net Working Capital (Rs. millions)	(11,107)	(6,228)	10,118	11,460
FFO to Long-Term Debt (x)	n.m	n.m	0.16	0.13*
FFO to Total Debt (x)	n.m	n.m	0.13	0.11*
Debt Servicing Coverage Ratio (x)	0.71	0.36	1.92	0.91
ROAA (%)	n.m	n.m	2.97	5.05*
ROAE (%)	n.m	n.m	13.77	21.41*
Gearing (x)	1.53	2.69	2.62	2.28
Debt Leverage (x)	2.26	3.59	3.66	2.86
Current Ratio (x)	0.49	0.81	1.21	1.31
Inventory + Receivables to Short-term Borrowings (x)	1.61	1.57	2.27	2.34

**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				
28/04/2020	AA	A-1	Stable	Downgrade
04/07/2019	AA	A-1+	Stable	Reaffirmed
04/07/2018	AA	A-1+	Stable	Reaffirmed
19/04/2016	AA	A-1+	Stable	Initial

Instrument Structure	N/A
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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Due Diligence Meetings Conducted	

	Name	Designation	Date
1	Mr. Salman Shahid	Deputy CFO	April 4, 2020
2	Mr. Imran Farooq	AM Finance	April 4, 2020