VIS
Credit Rating Company Limited

QUAID-E-AZAM THERMAL POWER (PRIVATE) LIMITED

ANALYST:
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RATING DETAILS				
RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	LONG-TERM	SHORT-TERM	LONG-TERM	SHORT-TERM
ENTITY	AA+	A1+	AA+	A1+
RATING OUTLOOK	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	September 15, 2025		September 10, 2025	

SHAREHOLDING 5% OR MORE	OTHER INFORMATION
Government of Punjab – 99.99%	**Incorporated in** 2015
	Private Limited Company
	External Auditor: M/s KPMG Taseer Hadi & Co. Chartered Accountants
	Chief Executive Officer: Mr. Salman Zakaria

APPLICABLE RATING CRITERIA

VIS Entity Rating Criteria Methodology – Corporates
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

APPLICABLE RATING SCALE

https://docs.vis.com.pk/docs/VISRatingScales.pdf

RATING RATIONALE

The reaffirmation of Quaid-e-Azam Thermal Power (Private) Limited ('QATPL' or 'the Company') ratings reflects its strong credit profile, supported by its ownership by the Government of Punjab and the long-term contractual framework governing its operations. The Power Purchase Agreement (PPA) provides revenue visibility and protection for debt servicing through the capacity payment mechanism. The recent settlement agreements with the power purchaser and gas supplier have resolved key contractual disputes and improved the predictability of cash flows. QATPL continues to benefit from the plant's high thermal efficiency and favorable position in the economic merit order. However, operational performance was temporarily affected by the extended major inspection and technical issues at the plant, with full restoration of capacity dependent on completion of remedial works. The financial impact of the outage is partly mitigated through insurance coverage and designated maintenance and overhauling reserves. The Company's financial risk profile remains sound, supported by declining long-term debt, improving capitalization and an uninterrupted debt repayment track record. Liquidity is further supported by the capacity payment mechanism, debt service reserve arrangements and access to short-term funding facilities. Ratings are sensitive to the timely restoration and sustained reliable operation of the plant, continued support from the sponsor, effective implementation of revised contractual arrangements, and maintenance of adequate liquidity and debt servicing capacity.

COMPANY PROFILE

Quaid-e-Azam Thermal Power (Private) Limited ('QATPL' or 'the Company') was incorporated as a private limited company under the Companies Ordinance, 1984 (now the Companies Act, 2017) on March 25, 2015. QATPL is 100% owned by the Government of Punjab. The Company was established to set up and operate a 1,180-megawatt thermal power plant at Bhikki, Sheikhupura, and entered into Power Purchase Agreement (PPA) with Central Power Purchasing Agency (Guarantee) Limited (CPPA-G). The Company commenced its combined cycle commercial operations from May 20, 2018. Gas Supply Agreements ('GSAs') had been entered, with Sui Northern Gas Pipelines Limited ('SNGPL') on July 22, 2016 for the period of 15 years.

The Company entered into agreement for Operation and Maintenance (O&M) activities of the plant with a joint venture of Harbin Electric International and Habib Rafiq (Private) Limited ('HEI-HRL') for the period of 12 years. The Company also entered into Long Term Service Agreements ('LTSA') with GE Vernova International LLC (formerly known as General Electric International Inc.) ('GE') for the plant on October 18, 2016 for the period of 12 years.

During the year ended 30 June 2025, Federal Government constituted a National Task Force for implementing structural reforms in power sector for negotiation of PPAs including indexation mechanism in tariffs and, GSAs of the Company. For this purpose, several rounds of discussions were held with National Task Force.

Accordingly, the Cabinet Division, Government of Pakistan (GoP) approved the amendments in the PPAs and GSAs as proposed by the National Task Force through settlement agreements. The amendments in the PPA includes conversion of existing tariffs to 'Hybrid Take and Pay' model. On 21 March 2025, Board of Directors (BoDs) of the Company referred to the Government of Punjab for approval of the execution of settlement agreements with the GoP, the Power Purchaser and, the Gas Supplier to implement the proposed amendments with effect from 01 January 2025. On 03 June 2025, the Government of Punjab approved the execution of the settlement agreements. Negotiated settlement agreement (NSA) and settlement agreement with CPPA-G and SNGPL respectively were executed on 11 June 2025.

MANAGEMENT & GOVERNANCE

GOVERNANCE

QATPL is a wholly owned entity of the Government of Punjab, Energy Department. The Board of Directors consists of 10 directors all nominated by the Government of Punjab. Mr. Rana Abdul Jabbar Khan left QATPL on 19 August 2026, and Mr. Salman Zakaria has been given an additional charge as the Chief Executive Officer of the Company.

AUDIT OPINION

KPMG Taseer Hadi & Co., Chartered Accountants, an ICAP QCR-rated firm categorized as 'Category A' on the SBP's Panel of Auditors, was appointed as the external auditor for FY25 following the mandatory rotation of A. F. Ferguson & Co., Chartered Accountants (PwC Pakistan) after completion of its tenure. The external auditor issued a qualified opinion on the financial statements for the year ended 30 June 2025. Basis of qualified opinion is as follows:

● **Non-Recognition of Deferred Taxation & Presentation of Current Tax:** The Company treated corporate income taxes on power generation income entirely as reimbursable pass-through items from the power purchaser (CPPA-G) and did not record deferred taxation. The auditor stated that QATPL is not a tax-exempt entity and was required under the financial reporting framework to account for temporary differences, which would have resulted in recognizing a net deferred tax liability of PKR 8,083.25 million as of June 30, 2025 (and PKR 13,394.91 million as of June 30, 2024). Additionally, current tax reimbursable from CPPA-G was not presented as a separate variable consideration revenue component in the statement of profit or loss.

The company argues that under its Implementation Agreement, The PPA and the Power Policy 2015, it is not subject to taxation in Pakistan on profits derived from electric power generation. Because corporate income tax is categorized as a pass-through item payable by the power purchaser (CPPA-G) per NEPRA's determination, the company maintains that recognizing deferred tax is unnecessary

● **Classification and Measurement of Initial Spare Parts (ISPs):** The Company reported PKR 1,981.14 million (FY 2024: PKR 957.42 million) as long-term advances paid to LTSA and O&M contractors for major spare parts and standby equipment. The auditor qualified this treatment on the grounds that these spares and standby equipment represent assets owned and controlled by the Company and should have been directly recognized, classified, and measured according to their nature rather than retained under advances.

The company contends that ISPs do not meet the Conceptual Framework's criteria to be classified as assets, as the contractors are contractually obligated to replace or replenish these parts under the Operations & Maintenance (O&M) and Long-Term Service (LTSA) agreements. Management also points to past precedence, highlighting that previous auditors issued unmodified opinions on the financial statements using this exact same accounting treatment.

BUSINESS RISK

INDUSTRY

Pakistan's power sector entered 2025 with a materially over-contracted generation base, high-capacity payments and a large circular-debt stock. During 2025 and YTD2026, the policy framework shifted decisively toward capacity rationalization, IPP restructuring, lower reliance on imported fuels, competitive procurement and tighter fiscal discipline.

The reduction in circular-debt stock achieved during FY2024-25 and the restructuring of approximately PKR 1.225 trillion of legacy obligations represent meaningful progress. However, the subsequent PKR 364 billion increase in FY2025-26 circular debt demonstrates that structural weaknesses in distribution, collections and tariff administration continue to offset these gains.

The FY2026-27 Federal Budget is broadly consistent with the reform trajectory: power subsidies are budgeted at PKR 830 billion, an explicit PKR 252 billion is allocated for IPP payments, and the previous dedicated circular-debt containment allocation has been removed.

Accordingly, the sector's medium-term trajectory is viewed as gradually improving but still highly exposed to execution and policy risks. Structural cost reduction is likely to favor efficient and indigenous-fuel generation assets, while older thermal IPPs with high fixed costs, weak dispatch prospects or expensive fuel structures will remain under pressure. The ultimate improvement in sector credit quality will depend less on further tariff increases and more on whether Pakistan can achieve sustained reductions in distribution losses, improve collections, prevent new over-contracting and transition successfully toward a competitive electricity market.

Indicator	FY2024-25 / 2025	YTD2026 / FY2025-26
Installed generation capacity	46,605 MW*	49,651 MW**
Thermal share of capacity	55.7%*	49.2%**
Total generation	90,145 GWh*	92,835 GWh**
Thermal share of generation	46.3%*	46.9%**
Thermal plant utilization	42.5%	–
Power purchase cost	PKR 2.94tr	–
Circular debt stock	PKR 1.61tr	FY26 flow +PKR 364bn
FY2026-27 power subsidy	–	PKR 830bn
FY2026-27 IPP payment allocation	–	PKR 252bn
Competitive procurement	–	Initial 800 MW
**** July–March FY2025.*** ***** As of March 2026, / July–March FY2026.***		

POWER PURCHASE AGREEMENT

The Company's 30-year PPA with the CPPA-G, backed by an Implementation Agreement (IA) and sovereign guarantee from the Government of Pakistan (GoP) for receivable payments, provides long-term revenue visibility.

The PPA contains protective mechanisms to insulate QATPL from fuel availability risks. Any interruption in Re-Liquefied Natural Gas (RLNG) supply from SNGPL that prevents the plant from declaring full available capacity is treated as a "gas non-supply event," during which capacity payments continue to accrue. Furthermore, under the PPA's suspension provisions, the Company is entitled to halt operations if invoices remain overdue beyond 60 days without forfeiting capacity payments.

Pursuant to the NSA executed on June 11, 2025 (effective January 1, 2025) and subsequently approved by NEPRA on November 18, 2025 (notified via S.R.O. 2467(I)/2025), the tariff and payment framework underwent key structural revisions:

- Hybrid Take-and-Pay ROE: Return on Equity (ROE) has been redetermined at a fixed 13% return at a fixed exchange rate of PKR 168/USD based on NEPRA's determined Quarterly indexation for the period Oct-Dec 2024 as revised reference. Under the Hybrid Take-and-Pay mechanism, QATPL receives 35% of the revised ROE and ROEDC through the Capacity Purchase Price (CPP) on standard terms; the remaining differential ROE is claimable only on Net Electrical Output (NEO) generated in excess of 35% of contract capacity.

- Debt Servicing & Indexation: Debt servicing components remain protected and pass-through in the tariff under PPA. In NEPRA's COD Review Decision dated June 15, 2026, debt servicing was aligned to a bi-annual principal repayment schedule with quarterly KIBOR resets, and regular monthly ROE disbursements by CPPA-G were reinstated.

- O&M & Insurance Caps: Local O&M indexation is capped at the lower of 5% per annum or the 12-month average N-CPI, while Foreign O&M indexation allows rupee depreciation only up to a maximum of 70% (with 100% of any rupee appreciation passed on to consumers). Insurance component of CPP shall be pass-through item subject to a maximum limit to be capped at 0.8% of sum insured.

- Efficiency Sharing & Reserves: Effective July 1, 2024, net fuel and O&M savings are shared between CPPA-G and QATPL in a 60:40 ratio. An Overhauling Reserve (capped at PKR 4.17 billion) was recognized to fund major non-LTSA/O&M maintenance over a 5-year cycle.
- Receivables & Surcharge Alignment: As part of the settlement, QATPL waived off PKR 7.355 billion in delayed payment interest billed up to December 31, 2024 (alongside write-offs of prior fuel/O&M and take-or-pay claims), while the ongoing Delayed Payment Rate was revised from 3-month KIBOR + 2% to 3-month KIBOR + 1%.

GAS SUPPLY AGREEMENT

Following disputes surrounding Take-or-Pay (ToP) gas invoices and the subsequent London Court of International Arbitration (LCIA) award, QATPL and SNGPL executed a comprehensive Settlement Agreement on June 11, 2025 (effective January 1, 2025), resolving outstanding litigation and restructuring contractual terms:

- ToP Dispute Resolution: QATPL settled the principal LCIA award amount of PKR 5.901 billion plus arbitration costs within the agreed 35-day window, with SNGPL mutually waiving the associated delayed payment markup. For post-LCIA ToP claims up to December 31, 2024, QATPL recorded a provision of PKR 13.93 billion, payable upon verification by SNGPL's independent external auditor. SNGPL subsequently withdrew its encashment claim against the expired PKR 11.5 billion Standby Letter of Credit (SBLC), allowing The Bank of Punjab to release the corresponding cash margin.
- Gas Supply Deposit (GSD): The mandatory Gas Supply Deposit was permanently revised and capped at a fixed amount of PKR 15.0 billion under Amendment No. 1 to the GSA. QATPL complies with this requirement through an Escrow Account balance maintained with the National Bank of Pakistan (NBP) supplemented by SBLC facilities.
- Operational Off-Take & Surcharge Terms: The Minimum Gas Order (MGO) threshold was reduced from 66% to 50% of the Maximum Gas Allocation. SNGPL's Late Payment Surcharge (LPS) was restructured to 3-month KIBOR + 1% without compounding (excluding Saturdays as business days). In addition, Net Proceed Differential (NPD) invoices resulting from forced outages are billable to CPPA-G up to 4,287,825 MMBTU per agreement year.
- Dispute Jurisdiction & Fuel True-Ups: The international LCIA arbitration clause in the GSA was substituted with local arbitration seated in Lahore/Islamabad. Furthermore, historical OGRA RLNG price actualizations (covering 2015–2022 and July 2022–March 2024) are being recovered in 24 monthly installments without LPS on a synchronized, back-to-back basis between SNGPL, QATPL, and CPPA-G.

OPERATIONS

During FY25, the plant dispatched 6,098 GWh to the national grid, translating to a capacity utilization of 62.77% (FY24: 37.40%). Plant availability and reliability factors were maintained at 96.34% and 96.88%, respectively. The higher dispatch volume during the outgoing year was fundamentally driven by the facility's high thermal efficiency in combined-cycle mode, which positioned it favorably on the national economic merit order compared to alternative baseload peers. Fuel consumption for the year stood at 40.314 million MMBTU of RLNG, aligning with the generation output.

Conversely, operational metrics contracted during FY26 due to the execution of the plant's first scheduled Major Inspection (MI). This overhaul necessitated an extended outage from February to June 2026, causing the plant's availability factor to decline to 60.62% (FY25:96.3%) and capacity utilization to drop to 28.33%, with net generation dispatch receding to 2,752 GWh in 9MFY26. The extended timeline of the MI was tied to technical complications, notably a rotor drop incident on Gas Turbine 2 and identified structural degradation on the steam turbine's high-pressure rotor. Remedial actions, including OEM assessments and interim machining of components, were initiated based on GE's operational directives to safely restore capacity. Following the completion of the necessary rectification work, the Company resumed operations at 50% capacity in June 2026. Full restoration of the plant's operating capacity remains subject to completion of the ongoing remedial works.

The financial impact associated with physical damage and the loss of capacity revenue is absorbed by the Company's insurance coverage and dedicated reserves. Material Damage exposures are bound by deductibles of USD 1.5 million for the GT-2 incident and USD 0.75 million for the steam turbine, with Business Interruption deductibles of 60 days and 30 days, respectively. Capital requirements related to the overhaul are further cushioned by the PKR 3.541 billion overhauling reserve and PKR 4.170 billion maintenance reserve established under the NSA, thereby protecting the core balance sheet from unplanned cash outflows during the remediation phase.

PROFITABILITY

The Company's topline during FY25 increased to PKR 176.7bn (FY24: PKR 121.3bn), primarily a function of higher generation dispatch which elevated the Energy Purchase Price (EPP) revenue to PKR 149.6bn (FY24: PKR 88.9bn). The Capacity Purchase Price (CPP) revenue component was recorded at PKR 27.1bn (FY24: PKR 32.4bn), reflecting the revised tariff structure post-indexation. Cost of sales for the year stood at PKR 154.7bn (FY24: PKR 93.9bn), dominated by RLNG fuel consumption costs, alongside fixed and variable O&M expenses, depreciation, and insurance premiums. Gross margins remained adequate and aligned with the tariff parameters.

Despite stable core operations, the bottom line transitioned to a net loss of PKR 1.3bn in FY25, compared to a net profit of PKR 22.7bn in FY24. This contraction was driven by one-off accounting adjustments stemming from the execution of the NSA in June 2025. The settlement mandated the mutual waiver of specific historical claims, resulting in the write-off of PKR 17.1bn in receivables from the CPPA-G and the recognition of PKR 13.9bn in take-or-pay expenses related to SNGPL. These expenses were partially counterbalanced by other operating income of PKR 19.0bn (FY24: PKR 14.2bn), which included a PKR 12.5bn reversal of liabilities that were no longer payable. Adjusting for these singular NSA-related entries, normalized net profit after tax for FY25 would have been PKR 17.3bn.

During the 9MFY26, revenue is constrained by the extended MI outage. With EPP reduced significantly, the Company's revenue declined to PKR 75.4bn, (9MFY25: PKR 125.2bn) similarly RLNG cost also reduced with cost of sale reported at PKR 63.9bn (9MFY25: PKR 109.3bn). Despite the decline in absolute gross profit PKR 11.5bn (9MFY25: PKR 17.9bn), the gross profit margin improved to 15.3% (9MFY25: 14.2%). Operating expenses also remained lower during the period. Other expenses declined significantly to PKR 2.3bn (9MFY25: PKR 14.3bn). This substantial reduction in other expenses provided meaningful support to overall profitability. Profit before taxation increased sharply by to PKR 7.9bn (9MFY25: PKR 2.2bn). The improvement was further supported by decline in taxation. As a result, profit after taxation increased to PKR 7.3bn (9MFY25: PKR 1.3bn).

FINANCIAL RISK

CAPITAL STRUCTURE

The capitalization profile of the Company is supported by a paid-up capital of PKR 21.3bn, wholly injected by the Government of Punjab (GoPb). An additional advance against equity of PKR 4.4bn, which is in the process of conversion into a subordinated sponsor loan pending project lender approval. The total equity base expanded to PKR 93.7bn by the end of 9MFY26 (FY25: PKR 86.4bn; FY24: PKR 92.7bn), supported by internal capital generation and the creation of designated maintenance and overhauling reserves as mandated by the NSA. The temporary contraction in the equity base during FY25 was a direct consequence of one-off accounting write-offs related to the settlement, after which core capital accretion resumed.

Leverage indicators have trended steadily downwards in line with the progressive amortization of the project's long-term debt. Gearing improved to 0.2x at end-Jun'25 (Jun'24: 0.3x) and was maintained at 0.2x at end-Mar'26. Total leverage also registered a decline, moving to 0.4x at end-Jun'25 (Jun'24: 0.5x) and easing to 0.3x by end-Mar'26.

DEBT COVERAGE & LIQUIDITY

The liquidity profile is supported by the capacity payment mechanism under the PPA, which ring-fences the recovery of debt servicing obligations regardless of plant dispatch levels. Cash flow generation stabilized following the implementation of the NSA, which systematically reduced immediate liquidity demands on the balance sheet through the mutual waiver of delayed payment markup and the phased settlement of SNGPL arrears. Debt coverage indicators remain adequate, aided by a sequential contraction in finance costs from PKR 12.9bn in FY24 to PKR 7.6bn in FY25, and further to PKR 3.6bn during 9MFY26.

Project funding was originally structured on a 75:25 debt-to-equity ratio, utilizing a Syndicated Term Finance Facility (STFF). The Company has maintained an uninterrupted repayment schedule, with outstanding long-term principal amortizing to PKR 19.2bn by the end of FY25 (FY24: PKR 27.5bn), and further reducing to PKR 10.8bn by the end of June 2026. Debt servicing is further supported by a Debt Service Reserve Account (DSRA) fulfilled through a PKR 6.5bn Standby Letter of Credit (SBLC) arranged by the GoPb.

Working capital requirements are managed through short-term borrowing facilities with a sanctioned consortium limit of PKR 15.7bn. Utilization of these lines stood at PKR 15.7bn at end-FY25 and PKR 16.1bn at end-9MFY26, primarily utilized to bridge the funding gap between CPPA-G receipts and fuel payables. Pricing on these short-term facilities ranges from 3-month KIBOR plus 1.0% for Islamic lines to KIBOR plus 1.5% for conventional banking lines. Through active management of intra-month cash flows, funded short-term borrowings were brought down to nil by June 30, 2026.

<table>
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<tr><td>Name of Rated Entity</td><td>Quaid e Azam Thermal Power (Private) Limited</td></tr>
<tr><td>Sector</td><td>Non-Renewable Power</td></tr>
<tr><td>Type of Relationship</td><td>Solicited</td></tr>
<tr><td>Purpose of Rating</td><td>Entity Ratings</td></tr>
<tr><td>Rating History</td><td>
<table>
<tr><th>Rating Date</th><th>Medium to Long Term</th><th>Short Term</th><th>Rating Outlook</th><th>Rating Action</th></tr>
<tr><td colspan="5">RATING TYPE: ENTITY</td></tr>
<tr><td>15-Sep-2026</td><td>AA+</td><td>A1+</td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>10-Sep-2025</td><td>AA+</td><td>A1+</td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>23-Sep-2024</td><td>AA+</td><td>A1+</td><td>Stable</td><td>Upgrade</td></tr>
<tr><td>23-Aug-2023</td><td>AA</td><td>A1</td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>30-Jun-2022</td><td>AA</td><td>A1</td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>24-May-2021</td><td>AA</td><td>A1</td><td>Stable</td><td>Reaffirmed</td></tr>
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</td></tr>
<tr><td>Instrument Structure</td><td>N/A</td></tr>
<tr><td>Statement by the Rating Team</td><td>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.</td></tr>
<tr><td>Probability of Default</td><td>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.</td></tr>
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<tr><td>Due Diligence Meetings Conducted</td><td>
<table>
<tr><th>Name</th><th>Designation</th><th>Date</th></tr>
<tr><td>Mr. Salman Shahid</td><td>Deputy Chief Financial Officer</td><td rowspan="2">28 August 2026</td></tr>
<tr><td>Mr. Imran Farooq</td><td>Assistant Manager Finance</td></tr>
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