RATING REPORT

Quaid-e-Azam Solar Power (Private) Limited

REPORT DATE:
March 08, 2019

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	04 *Mar'19*		*17 Nov'17*	
Rating Outlook	Positive		Rating Watch- Developing	
Rating Action	Maintained		Maintained	

COMPANY INFORMATION

Incorporated in 2013	External auditors: A.F Ferguson & Co. Chartered Accountants
Private Limited Company	Chairman: To be elected Acting CEO: Mr. Muhammad Badar ul Munir
Key Shareholders (with stake 5% or more):	
Government of Punjab – 100%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Industrial Corporates (May 2016)
https://www.vis.com.pk/kc-meth.aspx

Quaid-e-Azam Solar Power (Private) Limited

RATING RATIONALE

Quaid-e-Azam Solar Power (Pvt.) Limited (QASPL) is the owner of a 100 MW solar power generation facility, which has been operating commercially since July, 2015. Its power generation license is valid till 2039 and consummates with the expected useful life of Photo Voltaic (PV) panels. The assigned ratings take into account the ownership profile as QASPL is a wholly owned company of the Government of Punjab (GoPb). The privatization of QASPL has been shelved for the time being. The ratings also factor in sovereign guarantees on power purchaser's payment obligation and maintenance of current and debt service coverage ratios well-above the minimum required threshold.

Ratings Drivers

Slightly lower revenues and profits despite higher electricity deliveries

QASPL delivered 162,287 megawatt hour (MWh) to the national grid during FY18 (FY17: 159,875 MWh; FY16: 153,879 MWh), however, net revenues from the sale of electricity decreased to Rs. 2.9b (FY17: Rs. 3.1b; FY16: Rs. 3.0b). Subsequent to the year end, the company received an order from NEPRA wherein it has been stated that the quarterly indexation estimate related to the debt servicing component of the applicable tariff from October 2015 to March 2018 has been revised due to an inadvertent error by NEPRA in previous approvals. Due to this revision, the sales and related trade debts from CPPA, over the period is estimated to be reduced by Rs. 207.4m exclusive of sales tax. The company has filed a review petition with NEPRA against the order on grounds that the order has been issued without providing the company an opportunity of being heard and is retrospective in nature and previous quarterly indexation orders of NEPRA were in accordance with mechanism as defined at the time of COD. However, based on prudence principle, full amount has been adjusted in these financial statements against current year revenue and trade debts.

Cost of revenue was recorded at Rs. 894m during FY18 (FY17: Rs. 887m; FY16: Rs. 847m) as the impact of slightly lower O&M charges was offset by higher salaries & security expenses. As a result of lower revenue and increased costs, gross profits were reported at Rs. 2.0b during FY18 (FY17: Rs. 2.2b; FY16: Rs. 2.1b) with gross margins of 69.4% (FY17: 70.9%; FY16: 71.3%). In line with the higher salaries, wages & other benefits, operating expenses amounted to Rs. 134m (FY17: Rs. 115m; FY16: Rs. 202m). Other income decreased to Rs. 175m during FY18 (FY17: Rs. 351m; FY16: Rs. 174m) on account of lower income on bank deposits and liquidated damages from the contractor against short-fall in the Annual Performance Ratio (APR), partially offset by higher mark-up on delayed payment from the Central Power Purchase Agency (Guarantee) Limited (CPPA). Financial charges amounted to Rs. 893m (FY17: Rs. 958m; FY16: Rs. 1.0b) on account of lower average borrowings. The company posted a net profit of Rs. 1.1b during FY18 (FY17: 1.4b; FY16: 1.0b). Net revenue was recorded at Rs. 1.7b during 1HFY19, representing an increase of 11% from the corresponding period mainly on account of additional of 1.91 MW capacity and slightly higher tariff. With higher revenues and improved margins, net profits augmented to Rs. 778m during 1HFY19.

Asset base ameliorated by current-assets

Total assets of the company stood higher at Rs. 15.8b by end-1HFY19 (FY18: Rs. 15.6b; FY17: Rs. 15.4b) mainly on account of continued increase in trade and other receivables. Fixed assets decreased marginally to Rs. 11.9b (FY18: 12.2b; FY17: Rs. 12.7b) owing to the depreciation of operating assets. In May 2018, the O&M contractor installed an additional 1.91 MW solar panels as a part of settlement of previous year APR test to avoid liquidated damages in future due to recurring non-achievement of APR. The facility has attained its targeted capacity utilization and will degrade by about 0.7% per annum over its lifespan. Net trade receivables stood higher at Rs. 1.8b by end-1HFY19 (FY18: Rs. 1.4b; FY17: Rs. 1.1b) due to increase in receivables from the CPPA. The amounts owed by CPPA are secured by a sovereign guarantee, however, a delayed payment markup of 3-month KIBOR plus 2% is applicable if the due amounts are not cleared within 90 days. As per the management, CPPA is clearing on average 87% of the company's total outstanding dues within 100 - 105 days. Advances, deposits, prepayments, & other receivables amounted to Rs. 1.5b at end-

OVERVIEW OF THE INSTITUTION

Quaid-e-Azam Solar Power (Pvt.) Limited was incorporated in September, 2013, as a private limited company under the repealed Companies Ordinance, 1984 (now Companies Act, 2017). The company owns and operates a solar power plant of 100 MW generation capacity.

Profile of CEO

Mr. Muhammad Badar ul Munir has been serving as the Chief Financial Officer (CFO) of the company since December, 2013. Subsequent to the expiration of the employment contract of Mr. Muhammad Amjad in July, 2018, Mr. Munir has been given an additional charge for the position of the Chief Executive Officer (CEO). He is a chartered accountant by profession and was previously associated with Punjab Skills Development Fund.

Financial Snapshot

Tier-I Equity: end-1HFY19: Rs. 5.8b; end-FY18: Rs. 5.0b; end-FY17: Rs. 4.5b.

Assets: end-1HFY19: Rs. 15.8b; end-FY18: Rs. 15.6b; end-FY17: Rs 15.4b.

Profit After Tax: 1HFY19: Rs. 778m; FY18: Rs. 1.1b; FY17: Rs. 1.4b.

1HFY19 (FY18: Rs. 1.1b; FY17: Rs. 0.5b) on account of higher pass-through income tax of Rs. 739m (FY18: Rs. 611m; FY17: Rs. 341m). Other receivables also include Rs. 230m paid in advance to the Punjab Revenue Authority (PRA) against sales tax liability, though has been challenged by QASPL in the court.

Higher cash flows generation underpins liquidity position and debt coverage
During 1HFY19, liquidity and cash flows position of QASPL improved on account of higher sales and profits, as depicted by increased funds from operations (FFO) of Rs. 2.2b on an annualized basis (FY18: Rs. 1.6b; FY17: Rs. 2.0b). The decline in FFO during FY18 was due to higher tax payments. During FY18, the Additional Commissioner Inland Revenues (ACIR) imposed tax liability of Rs. 177m and Rs. 246m for the tax years 2016 and 2017 respectively by disallowing tax credits claimed by QASPL in the tax filing. QASPL paid 25% of these tax liabilities and filed an appeal before the Commissioner Inland Revenue. The ACIR also imposed super tax of Rs. 46m relating to the tax year 2017, which QASPL paid during FY18 under protest and filed a writ position before the Honorable Lahore High Court. With the reduction in long-term debt and improved cash flows, FFO to total debt was recorded higher at 0.26x (FY18: 0.18x; FY17: 0.21x). Current ratio improved further to 1.70x during 1HFY19 (FY18: 1.36x; FY17: 1.33x), well-above the minimum requirement of 1.0x, while net working capital was reported higher at Rs. 1.6b (FY18: Rs. 0.9b; FY17: Rs. 0.7b). With mounting receivables, cash & bank balances decreased to Rs. 525m by end-1HFY19 (FY18: Rs. 971m; FY17: Rs. 1.2b) on account of debt repayments and dividend payments. QASPL is required to maintain a minimum debt service coverage ratio of 1.25x. The said ratio improved notably to 1.80x by end-1HFY19 (FY18: 1.42x; FY17: 1.72x), driven largely by higher cash flows generation during the period.

Leverage indicators continue to improve with the augmentation of equity and scheduled repayments
Equity base of QASPL enhanced to Rs. 5.8b by end-1HFY19 (FY18: Rs. 5.0b; FY17: Rs. 4.5b) on the back of profit retention. The debt profile comprises long-term financing only, as the company continues to hold sufficient liquid assets to meet working capital requirements. The outstanding balance of long-term borrowings decreased to Rs. 8.5b by end-1HFY19 (FY18: Rs. 8.9b; FY17: Rs. 9.7b) on account of scheduled repayments during the year. With the augmentation of equity and decline in borrowings, the gearing and debt leverage indicators improved to 1.45x and 1.71x by end-1HFY19 (FY18: 1.76x and 2.09x; FY17: 2.15x and 2.43x) respectively. Given no plan to mobilize new debt financing, the expected increase in equity base will positively impact the leverage indicators, going forward.

Directors appointment from the private sector is subject to the government discretion
The Board of Directors (BoD) of the company consisted of thirteen members at end-FY18, though seven of them resigned from the directorship in July 2018. The BoD currently comprises five members with no chairman, all of whom are government officials, while the appointment of remaining members from the private sector is subject to the government discretion. During the FY18, four board meetings were convened, covering matters pertaining to financial review, budget and audit plan, reappointment of legal and technical advisors, and dividend payments. The pending appointment of directors from the private sector in the board of directors is expected in March'19. Last Board meeting was scheduled in December 2018. List of BoD members is tabulated below:

Name	Position	Designation
Mr. Habib Ur Rehman Gillani	Non-Executive	Chairman Planning & Development (GOP)
Dr. Syed Pervaiz Abbas	Non-Executive	Additional Chief Secretary , Energy Department (GOP)
Mr. Nadeem Ur Rehman	Non-Executive	Secretary - IC & ID GOP)
Mr. Hamid Yaqood Sheikh	Non-Executive	Secretary Finance - (GOP)
Sardar Tanveer Ilyas Khan	Non-Executive	Chairman - PBIT (GOP)

Quaid-e-Azam Solar Power (Private) Limited — Annexure I

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**FY17**	**FY18**	**1HFY19**
Non-Current Assets	12,718	12,165	11,881
Trade Debts	1,062	1,388	1,821
Advances, Deposits, Prepayments & Other Receivables	508	1,070	1,534
Cash & Bank Balance	1,156	971	525
Total Assets	**15,443**	**15,594**	**15,760**
Trade & Other Payables	272	291	368
Accrued Finance Cost	187	177	217
Provision for Taxation	442	535	620
Unpaid Dividends	300	600	200
Other Liabilities	36	58	69
Long-Term Borrowings *(Inc. current matur)*	9,702	8,891	8,465
Total Liabilities	10,939	10,552	9,939
Tier-1 & Total Equity	**4,504**	**5,043**	**5,821**
INCOME STATEMENT	**FY17**	**FY18**	**1HFY19**
Net Sales	3,053	2,920	1,670
Gross Profit	2,166	2,026	1,226
Operating Profit	2,051	1,893	1,182
Profit After Tax	1,390	1,139	778
FFO	2,009	1,562	1,112
RATIO ANALYSIS	**FY17**	**FY18**	**1HFY19**
Gross Margin (%)	70.9	69.4	73.4
Net Working Capital	682	914	1,593
FFO to Long-Term Debt	0.21	0.18	0.26*
FFO to Total Debt	0.21	0.18	0.26*
Debt Servicing Coverage Ratio (x)	1.72	1.42	1.80
ROAA (%)	8.6	7.3	9.9
ROAE (%)	31.2	23.9	28.7
Gearing (x)	2.15	1.76	1.45
Debt Leverage (x)	2.43	2.09	1.71

**Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure 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 — Annexure III

Name of Rated Entity	Quaid-e-Azam Solar 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				
04/03/2019	AA-	A-1	Positive	Maintained
17/11/2017	AA-	A-1	Rating Watch-Developing	Maintained
17/11/2016	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.
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