RATING REPORT

Quaid-e-Azam Solar Power (Private) Limited

REPORT DATE:
March 13, 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	13 Mar'20		04 *Mar'19*	
Rating Outlook	Stable		Positive	
Rating Action	Upgrade		Maintained	

COMPANY INFORMATION	
Incorporated in 2013	External auditors: A.F Ferguson & Co. Chartered Accountants
Private Limited Company	Chairman: Mr. Zaheer Ahmad Ghangroo 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: Corporates (May 2019) *https://www.vis.com.pk/kc-meth.aspx*

Quaid-e-Azam Solar Power (Private) Limited

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 Limited was incorporated in September, 2013, as a private limited company under the repealed Companies Ordinance, 1984 (now Companies Act, 2017).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 previous CEO in July, 2018, Mr. Munir has been given an additional charge for the position of CEO. He is a chartered accountant by profession and was previously associated with Punjab Skills Development Fund.

Financial Snapshot

Tier-I Equity: end-1QFY20: Rs. 7.4b; end-FY19: Rs. 6.8b; end-FY18: Rs. 5.0b.

Assets: end-1QFY20: Rs. 16.3b; end-FY19: Rs. 15.7b; end-FY18: Rs 15.6b.

Profit After Tax: 1QFY20: Rs. 614m; FY19: Rs. 1.8b; FY18: Rs. 1.1b.

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 a sub-sovereign – the Government of Punjab (GoPb). The ratings draw comfort from sovereign guarantees on power purchaser's payment obligation. The ratings also factor in notable growth in revenue and profits on account of higher electricity deliveries, sound liquidity profile underpinned by healthy cash flows generation, continuous improvement in leverage indicators, and maintenance of current ratio and debt service coverage ratio well-above the minimum required thresholds.

Key Rating Drivers

Healthy revenue and profits growth led by higher electricity deliveries

QASPL delivered 164.34 Gigawatt hour (GWh) of electricity to the national grid during FY19 (FY18: 162.29 GWh; FY17: 159.88 GWh), with installation of additional 1.91 MW solar panels by the operations and maintenance (O&M) contractor in May 2018 as a part of settlement of previous year. Thereby, net revenue increased by 24% to Rs. 3.6b during FY19 (FY18: Rs. 2.9b; FY17: Rs. 3.1b). However, cost of revenue decreased marginally to Rs. 888m (FY18: Rs. 894m; FY17: Rs. 887m), as the impact of higher O&M charges was offset by lower insurance and consultancy fees. Resultantly, the company recorded higher gross profit Rs. 2.7b during the year (FY18: Rs. 2b; FY17: Rs. 2.2b) with the increase in gross margin to 75.5% (FY18: 69.4%; FY17: 70.9%). Total operational expenses decreased to Rs. 92m (FY18: Rs. 134m; FY17: Rs. 115m) mainly due to lower staff salaries & other benefits, an outcome of lower number of staff and the absence of CEO, lower professional and legal charges that was partially offset by some increase in net foreign exchange loss on liabilities and payments made towards foreign contractor and consultants.

Other income decreased to Rs. 151m (FY18: Rs. 175m; FY17: Rs. 351m) on account of nominal liquidated damages charged to O&M contractor during the year, partially offset by higher markup on delayed payment from the Central Power Purchase Agency (Guarantee) Limited (CPPA) amounting Rs. 97m (FY18: Rs. 67m) and income of bank deposits amounting Rs. 48m (FY18: Rs. 44m). Liquidated damages charged to O&M contactor amounted to Rs. 64m in FY18 owing to below target Annual Performance Ratio (APR). However, with the installation of additional 1.91 MW of solar panels, the company achieved APR of 76.51% during FY19 vis-à-vis benchmark APR of 76.24% and produced excess electricity of 559.7 MWh units. Despite reduction in overall borrowing levels, financial charges increased to Rs. 1.1b (FY18: Rs. 893m; FY17: Rs. 958m) on account of increase in interest rate during the year. Accounting for tax income of Rs. 58m, QASPL recorded higher net profit of Rs. 1.8b during FY19 (FY18: Rs. 1.1b; FY17: Rs. 1.4b) with net margin of 49.3% (FY18: 39%; FY17: 45.5%).

Net revenue amounted to Rs. 1.1b during 1QFY20, with 43.36 GWh electricity delivered to the national grid. Gross profit was recorded higher at Rs. 880m during the period on account of increased revenue and improved gross margin of 80.2%. Total operational expenses remained on the lower side at Rs. 18m while other income stood at Rs. 78m mainly owing to increased benchmark rate and higher mark-up on delayed payments from CPPA. Financial charges amounted to Rs. 323m. Net income was recorded at Rs. 614m during 1QFY20 with higher net margin of 56%.

Increasing share of current assets

Total assets stood higher at Rs. 16.3b by end-1QFY20 (FY19: Rs. 15.7b; FY18: Rs. 15.6b) mainly on account of continued increase in trade debts. Fixed assets decreased marginally to Rs. 11.5b (FY19: 11.6b; FY18: Rs. 12.2b) in the absence of any capex and depreciation of plant and machinery. The facility has attained its targeted capacity utilization and is likely to degrade by about 0.7% per annum over its lifespan. The proportion of current assets in overall mix increased to 30% (FY19: 26%;

FY18: 22%) on account of increase in trade debt which amounted to Rs. 2.8b at end-1QFY20 (FY19: Rs. 2.2b; FY18: Rs. 1.4b). 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. Receivables aging profile shows that 43% of total outstanding were past due 120 days, as of December 31, 2019. As per the management, QASPL received Rs. 1b from CPPA in January 2020 against the outstanding dues.

Advances, deposits, prepayments, & other receivables increased to Rs. 1.4b by end-1QFY20 (FY19: Rs. 1.3b; FY18: Rs. 1.1b) mainly on account of higher pass-through income tax and WPPF. Other receivables also included Rs. 230m paid in advance to the Punjab Revenue Authority (PRA) against sales tax liability, though has been challenged by QASPL in the court. Cash and bank balance stood at Rs. 594m at end-1QFY20 (FY19: Rs. 717m; FY18: Rs. 971m).

Sound liquidity profile supported by healthy cash flows generation

Sound liquidity profile of the company is supported by healthy cash flows generation. In line with the higher profits, funds from operations increased to Rs. 1.7b during FY19 (FY18: Rs. 1.6b; FY17: Rs. 2b) despite significant increase in outflow against tax payment and finance cost during the year. FFO generation during 1QFY20 amounted to Rs. 761m. Due to higher cash flows generation and reduction in borrowings, the company's FFO to total-debt ratio improved to 0.39x (FY19: 0.21x; FY18: 0.18x) and debt service coverage ratio (DSCR) improved to 2.14x during 1QFY20 (FY19: 1.45 x; FY18: 1.42x). QASPL is required to maintain a minimum DSCR of 1.25x. Moreover, current ratio improved further to 2.79x (FY19: 2.54x; FY18: 1.36x), well-above the minimum requirement of 1.0x. *Current ratio excluding trade debts stood at 1.14x at end-1QFY20 (FY19: 1.21x; FY18: 0.81x).*

Leverage indicators continue to improve with augmentation of equity and scheduled repayments

Equity base of QASPL augmented to Rs. 7.4b by end-1QFY20 (FY19: Rs. 6.8b; FY18: Rs. 5b) on account of retention of profits. Total liabilities amounted to Rs. 8.8b at end-1QFY20 (FY19: Rs. 8.9b; FY18: Rs. 10.6b). 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. 7.9b by end-1QFY20 (FY19: Rs. 8.1b; FY18: Rs. 9.7b) with the scheduled repayments. The repayments are scheduled to end in July, 2025. With the augmentation of equity and decline in borrowing levels, the gearing and debt leverage indicators improved to 1.06x (FY19: 1.18x; FY18: 1.76x) and 1.18x (FY19: 1.30x; FY18: 2.09x), respectively, by end-1QFY20. Given no plan to mobilize new debt financing, the expected increase in equity base will positively impact leverage indicators, going forward.

Directors appointment from the private sector is subject to the government discretion

There are thirteen (13) members on the Board of Directors (BoD) of the company, of which six (6) are from public sector and seven (7) from private sector. Eight (8) new BoD members were elected on July 11, 2019. Mr. Zaheer Ahmad Ghangroo, CEO, Halmore Power Generation Company Ltd., has been appointed as the chairman while Mr. Badar ul Munir is continuing as the acting CEO. Three (3) BoD meetings were convened during FY19 and two (2) during 1HFY20, covering matters pertaining to financial review, budget and audit plan, and reappointment of legal and technical advisor. For effective oversight, the company has formed six BoD committees, namely Audit Committee, HR Committee, Finance & Procurement Committee, Nomination Committee, Risk Management Committee, and Grievance Redressal Committee.

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

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY17**	**FY18**	**FY19**	**1QFY20**
Non-Current Assets	12,718	12,165	11,598	11,456
Trade Debts	1,062	1,388	2,154	2,846
Advances, Deposits, Prepayments & Other Receivables	508	1,070	1,256	1,356
Cash & Bank Balance	1,156	971	717	594
Total Assets	**15,443**	**15,594**	**15,725**	**16,251**
Trade & Other Payables	272	291	431	469
Accrued Finance Cost	187	177	240	269
Provision for Taxation	442	535	76	117
Other Liabilities	336	658	88	94
Short-Term Borrowings	-	-	-	-
Long-Term Borrowings *(Inc. current matur)*	9,702	8,891	8,062	7,860
Total Liabilities	10,939	10,552	8,897	8,808
Tier-1 & Total Equity	**4,504**	**5,043**	**6,829**	**7,443**
Paid-up Capital	3,810	3,810	3,810	3,810
INCOME STATEMENT	**FY17**	**FY18**	**FY19**	**1QFY20**
Net Sales	3,053	2,920	3,623	1,098
Gross Profit	2,166	2,026	2,735	880
Profit Before Tax	1,444	1,174	1,728	617
Profit After Tax	1,390	1,139	1,786	614
FFO	2,009	1,562	1,686	761
RATIO ANALYSIS	**FY17**	**FY18**	**FY19**	**1QFY20**
Gross Margin (%)	70.9	69.4	75.5	80.2
Net Margin (%)	45.5	39.0	49.3	56.0
Net Working Capital	682	914	2,502	3,079
Current Ratio (x)	1.33	1.36	2.54	2.79
FFO to Long-Term Debt (x)	0.21	0.18	0.21	0.39*
FFO to Total Debt (x)	0.21	0.18	0.21	0.39*
Debt Servicing Coverage Ratio (x)	1.72	1.42	1.45	2.14
ROAA (%)	8.6	7.3	11.4	15.4*
ROAE (%)	31.2	23.9	30.1	34.4*
Gearing (x)	2.15	1.76	1.18	1.06
Debt Leverage (x)	2.43	2.09	1.3	1.18

**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 Ratings
Rating History	see table below
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	see table below

Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
13/03/2020	AA	A-1+	Stable	Upgrade
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

Due Diligence Meetings Conducted:

Name	Designation	Date
Mr. Badar ul Munir	Acting CEO/CFO	February 10, 2020