# RATING REPORT

# Quaid-e-Azam Solar Power (Private) Limited

**REPORT DATE:**
June 24, 2021

**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** | 26 Jun'21 | | 13 *Mar'20* | |
| **Rating Outlook** | Stable | | Stable | |
| **Rating Action** | Reaffirm | | Upgrade | |

| COMPANY INFORMATION | |
|---|---|
| Incorporated in 2013 | **External auditors:** BDO Ibrahim Chartered Accountants |
| Private Limited Company | **Chairman:** Mr. Zaheer Ahmad Ghangroo<br>**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)**<br>*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 Limited was incorporated in September, 2013, as a private limited company under the repealed Companies Ordinance, 1984 (now Companies Act, 2017).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.

## RATING RATIONALE

Quaid-e-Azam Solar Power (Pvt.) Limited's (QASPL) core business is to operate a 100 MW solar power generation facility, commercial operations of which commenced in 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 during FY20, sound liquidity profile underpinned by healthy cash flows generation, continuous improvement in leverage indicators, and maintenance of current ratio and debt service coverage ratio above the minimum required thresholds.

**Key Rating Drivers**

**Healthy revenue and profits growth during FY20 led by higher electricity deliveries and higher interest income on delayed payments from CPPA (G)**

QASPL delivered 164.889 Gigawatt hour (GWh) of electricity to the national grid during FY20 (FY19: 164.34 GWh; FY18: 162.29 GWh). Consequently, net revenue increased by 20% to Rs. 4.3b during FY20 (FY19: Rs. 3.6b; FY18: Rs. 2.9b). Moreover, cost of sales increased to Rs. 901.4m (FY19: Rs. 888m; FY18: Rs. 894m), led by higher O&M charges. Resultantly, the company recorded higher gross profit Rs. 3.4b during the year (FY19: Rs. 2.7b; FY18: Rs. 2b) with the increase in gross margin to 79.2% (FY19: 75.5%; FY18: 69.4%). Overall profitability profile was supported by higher other income and lower foreign exchange loss on liabilities and payments made towards foreign contractor and consultants amounting Rs. 367.9m (FY19: Rs. 150.6m) and Rs. 1.57m (FY19: Rs. 12.4m), respectively. Other income increased on account of higher markup on delayed payment from the Central Power Purchase Agency (Guarantee) Limited (CPPA) amounting Rs. 263.6m (FY19: Rs. 97m; FY18: Rs. 67m), higher income of bank deposits amounting Rs. 80.7m (FY19: Rs. 48m; FY18: Rs. 44m), and greater quantum of liquidated damages from O&M pertaining to revision in calculations of Annual Performance Ratio (APR) based on high meter generation that was previously conducted on low voltage meter's data. During FY20, the company achieved APR of 76.8% vis-à-vis benchmark APR of 75.58% and produced excess electricity of 2,448 MWh units. Despite reduction in overall borrowing levels, financial charges increased to Rs. 1.2b (FY19: Rs. 1.1b; FY18: Rs. 893m) on account of increase in interest rate during the outgoing year. Accounting for tax expense of Rs. 16m, QASPL recorded higher net profit of Rs.2.5b (FY19: Rs. 1.8b; FY18: Rs. 1.1b) during FY20 with net margin of 56.9% (FY19: 49%; FY18: 39%).

Net revenue amounted lower at Rs. 2.7b during 9MFY21 (9MFY20: Rs. 3.1b), with 121 GWh electricity delivered to the national grid. Rationale for lower revenue base is attributable to a decline in tariff post reduction in ROE component implemented in Oct'20. Consequently, gross profit was recorded lower at Rs. 2.0b during the period. Other income stood higher at Rs. 271m mainly owing to higher mark-up on delayed payments from CPPA. Financial charges amounted to Rs. 544m. Net income was recorded at Rs. 1.7b during 9MFY21 with higher net margin of 63%.

**ROE Reduction expected to reduce profits, going forward**

In order to compare the returns of GoP owned IPPs and other GoP owned projects, NEPRA has reduced ROE component of the tariff from 17% to 12% but still allowing dollar indexation. The aforementioned has taken effect from October 6, 2020. In lieu of the same, the revised tariff is Rs. 17.6/KWh as compared to the initial tariff of Rs. 19.1/KWh. The higher tariff is on account of indexation. Actual impact on profitability can be ascertained after true up decision by NEPRA.

**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. 2.6b (FY19: Rs. 1.7b) during FY20 despite significant increase in outflow against tax payment and finance cost during the year. FFO generation during 9MFY21 amounted to Rs. 1.74b. Due to higher cash flows generation and reduction in borrowings, the company's FFO to total-debt ratio improved to 0.36x (FY19: 0.21x; FY18: 0.18x) at end-Mar'21. Debt service coverage ratio (DSCR) of the company was reported at 1.7x (FY20: 1.8x) at end-Mar'21 which is well above the required DSCR of 1.25x. Moreover, current ratio improved further to 4.18x (FY20: 3.41x; FY19: 2.54x; FY18: 1.36x), well-above the minimum requirement of 1.0x. Liquidity profile is constrained with mounting trade debts to the tune of Rs. 4.4b (FY20: Rs. 3.5b; FY19: Rs. 2.15b) at end-Mar'21. 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 49.7% of total outstanding were past due 90 days, as of June 30, 2020. Furthermore, 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.

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

Equity base of QASPL augmented to Rs. 10.9b by end-Mar'21 (FY20: Rs. 9.3b; FY19: Rs. 6.8b; FY18: Rs. 5b) on account of retention of profits. Total liabilities amounted to Rs. 7.2b at end-Mar'21 (FY20: Rs. 8.25b; 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. 6.5b by end-Mar'21 (FY20: Rs. 7.25b; 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 0.59x (FY20: 0.78x; FY19: 1.18x; FY18: 1.76x) and 0.66x (FY20: 0.89x; FY19: 1.30x; FY18: 2.09x), respectively, by end-Mar'21. Given no plan to mobilize new debt financing, the projected 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. BoD meeting cover 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** | **FY18** | **FY19** | **FY20** | **9MFY21** |
| PP&E | 12,163 | 11,596 | 11,057 | 10,649 |
| Long-Term Deposits | 1 | 1.347 | 0 | 0 |
| Trade Debts | 1,388 | 2,154 | 3,501 | 4,413 |
| Other receivables | 1,070 | 1,219 | 1,459 | 1,702 |
| Cash & Bank Balance | 971 | 717 | 1,516 | 1,410 |
| Other Assets | 1 | 38 | 17 | 1 |
| Total Assets | **15,594** | **15,725** | **17,552** | **18,176** |
| Trade & Other Payables | 291 | 431 | 621 | 419 |
| Accrued Markup | 177 | 240 | 207 | 138 |
| Short-term Borrowings | 0 | 0 | 0 | 0 |
| Long-Term Borrowings *(Inc. current maturity)* | 8,891 | 8,062 | 7,251 | 6,462 |
| Total Debt | 8,891 | 8,062 | 7,251 | 6,462 |
| Other Liabilities | 1,193 | 164 | 174 | 180 |
| Total Liabilities | 10,551 | 8,897 | 8,253 | 7,199 |
| Paid Up Capital | 3,810 | 3,810 | 3,810 | 3,810 |
| Total Equity | **5,043** | **6,829** | **9,298** | **10,976** |
| | | | | |
| **INCOME STATEMENT** | **FY18** | **FY19** | **FY20** | **9MFY21** |
| Net Sales | 2,920 | 3,623 | 4,335 | 2,669 |
| Gross Profit | 2,026 | 2,735 | 3,434 | 2,014 |
| Profit Before Tax | 1,174 | 1,728 | 2,484 | 1,687 |
| Profit After Tax | 1,138 | 1,786 | 2,467 | 1,678 |
| FFO | 1,562 | 1,686 | 2,598 | 1,737 |
| | | | | |
| **RATIO ANALYSIS** | **FY18** | **FY19** | **FY20** | **9MFY21** |
| Gross Margin (%) | 69% | 75% | 79.2% | 75.5% |
| Net Margin (%) | 39% | 49% | 56.9% | 62.9% |
| Net Working Capital (Rs. millions) | 9,651 | 9,972 | 9,153 | 8,852 |
| FFO to Long-Term Debt (x) | 18% | 21% | 36% | 36% |
| FFO to Total Debt (x) | 18% | 21% | 36% | 36% |
| Debt Servicing Coverage Ratio (x) | | 1.41 | 1.81 | 1.70 |
| ROAA (%) | | 11% | 15% | 12% |
| ROAE (%) | | 30% | 31% | 22% |
| Gearing (x) | 1.76 | 1.18 | 0.78 | 0.59 |
| Debt Leverage (x) | 2.09 | 1.30 | 0.89 | 0.66 |
| Current Ratio (x) | 1.36 | 2.54 | 3.41 | 4.18 |
| Inventory + Receivables to Short-term Borrowings (x) | NA | NA | NA | NA |

## 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** | |

| Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
|---|---|---|---|---|
| **RATING TYPE: ENTITY** | | | | |
| **24/06/2021** | AA | A-1+ | Stable | Reaffirmed |
| 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 |

| | |
|---|---|
| **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 |
|---|---|---|
| Ms. Aasima | Manager Finance | June 02, 2021 |
| Ms. Maryam | Assistant Manager Finance | June 02, 2021 |