RATING REPORT

AJ Power (Private) Limited

REPORT DATE:
February 23, 2021

RATING ANALYSTS:
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RATING DETAILS		
	Initial Ratings	
Rating Category	Long-term	Short-term
Entity	A-	A-2
Rating Date	*February 18, 2021*	
Rating Outlook	Stable	
Rating Action	Initial	

COMPANY INFORMATION

Incorporated in 2014	External auditors: AF Ferguson & Co. Chartered Accountants.
Private Limited Company	Chairman/CEO: Mr. Almas Hyder
Key Shareholders (with stake 5% or more):	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (May 2019)
https://www.vis.com.pk/kc-meth.aspx

AJ Power (Private) Limited

OVERVIEW OF THE INSTITUTION

AJ Power (Private) Limited was incorporated as a private limited company under the repealed Companies Ordinance, 1984 (now Companies Act, 2017) in November, 2014. The principal activity of the company is to build, own, operate and maintain a solar plant having a total capacity of 12 MW in Adhi Kot, District Khushab. Head office of the company is located in Quaid-e-Azam Industrial Estate, Kot Lakhpat Lahore.

Profile of Chairman/CEO

Mr. Almas Hyder is an Engineering graduate from University of Engineering & Technology, Lahore, and has completed his OPM (Owner/President Management Program) from Harvard Business School. He is currently the CEO of SPEL, RT Power (Private) Limited, MST Power (Private) Limited and Entrepreneurship Development and Advisory Services (Private) Limited.

RATING RATIONALE

The principal activity of AJ Power (Pvt.) Limited (AJPL) is to build, own, operate and maintain a solar plant having a total capacity of 12 MW in District Khushab. The assigned ratings take into account low business risk profile of the company underpinned by inking an energy purchase agreement (EPA) with the Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) for a period of 25 years and sound shareholders profile. The plant started commercial operations in December 2017.

O&M operator is liable to pay AJPL the plant uptime and guaranteed Performance Ratio (PR) LDs, as compensation for damages and not as penalty, for failure to meet the Plant Uptime Warranty and guaranteed PR. The ratings also factor in moderate financial risk profile of the company with manageable coverages and improving leverage indicators. Given no plans for further borrowings over the ratings horizon, the leverage indicators are expected to improve, going forward.

Key Rating Drivers

Project completion within timeline

The photovoltaic solar farm is equipped with blocks of 305Wp polycrystalline modules with fixed tilt arrangement. The modules are protected by high transmission tempered glass covered with anodized aluminum alloy frames to avoid abrasion. The risk of any shortfall in Performance Ratio (PR) is mainly curtailed by precise pre-calculation of power generation facility. AJPL achieved the guaranteed PR of 78.86% (FY19: 78.33%; FY18: 79.32%) in FY20 vis-à-vis the benchmark of 78.0%.

Engineering, procurement and construction (EPC) contract was awarded to CSUN-Solar International Limited, a leading Chinese power engineering service provider. AJPL also signed an energy purchase agreement (EPA) with the Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) on September 8, 2016 for a period of 25 years on 'take or pay' basis for a levelized tariff of Rs. 11.99 per kWh. The required commercial operations date (COD) was eight months following the financial close date of April 11, 2017. No liquidated damages were enforced as the project was completed within stipulated time. The plant started commercial operations on December 13, 2017.

Project financing comprised debt to equity mix of 75:25

Project cost outlay of Rs. 1.71b was funded with a debt to equity mix of 75:25. The debt financing was arranged through local and foreign currency syndicated loan facilities from the BoP and MCB while the equity was injected by four individual investors. However, the project was completed for a sum of Rs. 1.55b.

The aggregate amount of local currency loan facility of Rs. 673m was available; subsequent to the disbursement, loan amounting Rs. 623m was converted into long-term financing (LTF) facility (termed as syndicated term finance loan II) on March 13, 2018, under the SBP's renewable energy financing scheme at a fixed rate of 6% per annum. With a grace period of 8 months, the local currency loan is repayable in 40 equal quarterly installments ending in December 2027.

The aggregate amount of foreign currency loan facility was US$ 5.75m that was obtained from a consortium of banks comprising MCB Dubai branch and MCB Bahrain branch. The loan carries markup rate of 3-month LIBOR plus 0.45% per annum and a grace period of 8 months from the first drawdown. The actual utilization of foreign currency loan amounted to

US$ 5.4m that is repayable in 17 quarterly installments ending in June 2022.

As at December 31, 2020, a refinance facility of Rs. 391m from MCB Pakistan was available to the company with the purpose to retire the final installment of foreign currency loan amounting to US$ 3.55m due on June 13, 2022. However, amount of refinance facility actually availed will be determined on the prevailing exchange rate on June 13, 2020. The refinance facility will carry markup of 3-month KIBOR plus 3% per annum and will be repaid in 20 equal quarterly installments starting from September 13, 2022 and ending on June 13, 2027. AJPL can drawdown this facility till the final repayment date of foreign currency loan i.e. June 13, 2022. As of date, the facility remains unutilized.

According to the terms of loan agreement, the company is required to deposit Rs. 15m annually for 5 years on each anniversary of COD into Asset Replacement Fund (AFP) account formed for this purpose or issue an irrevocable Standby Letter of Credit (SBLC) of an equal amount. For that purpose, the BoP has issued an irrevocable SBLC in favor of AJPL of Rs. 210m valid till January 31, 2021. Now as per management, AJPL is negotiating with the consortium of banks to maintain an AFP of just Rs. 10m instead of full Rs. 75m.

O&M Contact

The O&M contract was signed with CSUNPower Pakistan (Private) Limited (CSUN Pakistan) in September 2016. CSUN Pakistan is a part of China-based CSUNPOWER Technology Company Limited having commissioned 500MWs of solar farms in more than 50 countries over the past 15 years. The O&M contract was renewed on January 01, 2020 for a period of two years ending on December 31, 2021, for fixed monthly payments of Rs. 2.35m in the first year and Rs. 2.47m in the second year. As per the O&M contract, fixed monthly payment becomes due and payable by the 30th day from the receipt of invoice by AJPL. AJPL withholds 5% of invoiced amount as retention money. The aggregate of retention money for the first year is released upon the satisfactory evaluation of guaranteed parameters, including plant uptime warranty, guaranteed PR and liquidated damages. The aggregate of retention money for the second year is released upon the issuance of the operating period expiry certificate. In case of delayed payment, AJPL is liable to pay late payment charges for the period of delay at a rate of KIBOR plus 2% per annum.

CSUN is liable to pay AJPL the plant uptime and guaranteed PR LDs, as compensation for damages and not as penalty, for failure to meet the Plant Uptime Warranty and guaranteed PR. All LDs are payable by O&M contactor within 14 days from the issuance of invoice. Performance risk in terms of meeting the required plant time and guaranteed PR is largely mitigated by considerable experience of O&M contractor.

Revenue and profitability

AJPL reported higher net revenue during FY20, as the company delivered 18,121 megawatt-hour (MWh) (FY19: 18,700 MWh; FY18: 10,270 MWh) of electricity to the national grid. Benchmark energy is calculated using the capacity factor of 17% as determined by NEPRA in its decision for determination of COD tariff dated July 8, 2019, and an annual degradation factor of 0.5% on each anniversary of COD as defined in the EPA. Growth in net revenue was a function of increase in average tariff rate during FY20 and impact of indexation of reference tariff for the previously delivered electricity. Approval of quarterly indexation of tariff from the COD till June 30, 2019 was received from NEPRA by order dated February 3, 2020, thereby, incremental revenue relating to the differential amount of sales due to adjustment of tariff was recognized during FY20.

As per the EPA, CPPA-G is required to pay invoice amount on or before 30th day following the day the invoice is received. In case of delay, the CPPA-G is also liable to pay markup at the rate of KIBOR plus 2% on prorated basis for the delayed period. Direct cost mainly pertained to operations & maintenance (O&M) fees, staff salaries, and deprecation charge. In line with the higher revenue, the company reported higher gross profit and improved gross margin of 73.7% (FY19: 61.2%; FY18: 64.0%) during FY20.

Other income comprised profit on saving accounts and markup on delayed payment from CPPA-G of Rs. 6m (FY19: Rs. 5m; FY18: 0.7m). Operating expenses amounted to Rs. 24m (FY19: Rs. 15m; FY18: Rs. 8m) mainly due to increase in salaries, wages and staff benefits. AJPL incurred finance cost of Rs. 94m (FY19: Rs. 101m; FY18: Rs. 58m), and give no tax liability, the company reported increased after tax profit during FY20.

Adequate coverages supported by internal cash flows generation, though there is room for improvement
AJPL generated funds from operations (FFO) of Rs. 106m (FY20: Rs. 279m; FY19: Rs. 137m) during HY21. FFO was higher during FY20 due to incremental inflows pertaining to indexation of tariff. The debt service coverage ratio stood at 1.0x (FY20: 1.6x; FY19: 1.1x) while FFO-to-total debt ratio decreased to 0.20x (FY20: 0.31x; FY19: 0.11x) on account of lower annualized cash flows during the period.

Improving leverage indicators
Paid up capital of the company remained unchanged at Rs. 428m. Equity base augmented to Rs. 772m (FY20: Rs. 701m; FY19: Rs. 494m) on account of retention of profits. Three Directors have also provided interest-free loan of Rs. 10m (FY20: Rs. 10m; FY19: nil) that is payable in full on demand of directors. Total liabilities amounted to Rs. 1.1b (FY20: Rs. 1.2b; FY19: Rs. 1.3b) which mainly comprised bank borrowings. With the scheduled debt repayment and equity accumulation, gearing and debt leverage improved to 1.35x (FY20: 1.70x; FY19: 2.64x) and 1.40x (FY20: 1.77x; FY19: 2.71x) respectively by end-HY21. Given no plans for further borrowings in the foreseeable future, the leverage indicators are expected to improve, going forward.

AJ Power (Private) Limited — Annexure I

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**HY21**
Total Assets	**1,648**	**1,833**	**1,944**	**1,855**
Total Liabilities	1,212	1,339	1,244	1,082
Tier-1 & Total Equity	**437**	**494**	**701**	**772**
Paid-up Capital	428	428	428	428
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**HY21**
Net Revenue	144	273	417	175
Profit Before Tax	25	58	198	71
Profit After Tax	25	57	197	71
FFO	57	137	279	106
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**HY21**
Gross Margin (%)	64.0	61.2	73.7	62.3
Current Ratio (x)	0.71	0.74	1.57	n.m
FFO to Long-Term Debt (x)	0.05	0.11	0.23	0.20*
FFO to Total Debt (x)	0.05	0.11	0.23	0.20*
Debt Servicing Coverage Ratio (x)	0.72	1.06	1.64	0.97
Gearing (x)	2.75	2.64	1.70	1.35
Debt Leverage (x)	2.78	2.71	1.77	1.40

**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	AJ 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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
18-02-2021	A-	A-2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Kamran Farooq	Finance Manager	January 19, 2021
Mr. Faisal Abbas	Finance Executive	January 19, 2021