RATING REPORT

AJ Power (Private) Limited

REPORT DATE:
July 19, 2023

RATING ANALYSTS:

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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A	A-2	A	A-2
Rating Outlook	Stable		Stable	
Rating Date	*July 19, 2023*		*Mar 14, 2022*	

COMPANY INFORMATION	
Incorporated in 2014	**External auditors:** Riaz Ahmad, Saqib, Gohar & Co. Chartered Accountants
Private Limited Company	**Chairman/CEO:** Mr. Almas Hyder
Key Shareholders (with stake 5% or more):	
Ali Khan Tareen – 55% *Muhammad Rafique – 20%* *Almas Hyder – 19%* *Zia Hyder Naqi – 6%*	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (May 2023): **https://docs.vis.com.pk/docs/CorporateMethodology.pdf**

AJ Power (Private) Limited

OVERVIEW OF THE INSTITUTION

AJ Power (Private) Limited was incorporated as a private limited company 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. The 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.

RATING RATIONALE

AJ Power (Private) Limited ('AJ Power' or 'the company') was incorporated in 2014 and the company's head office is located in Kot Lakhpat, Lahore. The primary activity of the company is to build, operate and maintain a solar power plant which is located in Adhi Kot, District Khushab. The ratings draw comfort from low business risk profile underpinned by signing a 25-year long energy purchase agreement (EPA) with 'take or pay' provision with the Central Power Purchasing Agency (Guarantee) Limited (CPPA-G). Presence of long-term EPA with guaranteed capacity payments mitigates off-take risk as obligations of CPPA-G are backed by sovereign guarantee. Moreover, upholding operational performance in line with agreed performance levels would remain a key-rating driver. The ratings incorporate adequate liquidity cover that was maintained with stable internal cash flow generation. Going forward, the ratings will continue to remain dependent on profitability metrics that correlate with sustained efficiency levels.

<u>Key Rating Drivers</u>

Project Design & Statistics:

The solar farm is equipped with 325Wp polycrystalline module blocks that are arranged in fixed tilt blocks. High transmission tempered glass coated by anodized aluminum alloy frames protect the modules from abrasion. Accurate pre-calculation of the power producing facility significantly reduces the danger of any Performance Ratio (PR) deficiency. AJ Power has managed to achieve benchmark PR of 78.0% over the years (HY23: 78.2%; FY22:78.1%; FY21: 78.3%).

CSUN-Solar International Limited, a leading Chinese power engineering service provider, was awarded the engineering, procurement and construction (EPC) contract. AJPL 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. Required commercial operations date (COD) was eight months following financial close date of April 11, 2017. The project was finished on time hence no liquidated damages (LDs) were enforced. The plant's COD was achieved on December 13, 2017. National Electric Power Regulatory Authority (NEPRA) granted power generation license to the Company, valid up to 2041.

O&M Contract:

AJ Power signed an O&M contract with CSUN Power Pakistan (Private) Limited (CSUN Pakistan) in September 2016. CSUN Pakistan is a part of Chinese power generation firm, CSUN POWER Technology Company Limited having 500MWs of photovoltaic farms in more than 50 countries over the past 15 years. The O&M contract was renewed in January, 2022 till December, 2023 for fixed monthly payments of Rs. 2.35m. As per the O&M contract, fixed monthly payment becomes due and payable by the 30th day from the receipt of invoice by AJPL. The Company 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. 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.

CPPA-G is liable to pay AJPL the plant uptime and guaranteed PR LDs, as payment for damages and not as penalty for failure to meet Plant Uptime Warranty and guaranteed PR. All LDs are payable by O&M contractor bi-monthly from the issuance of invoice. Moreover, the performance risk is largely mitigated by required plant time and guaranteed PR given the significant experience of the O&M contractor.

Largely stable revenues and profitability profile:

During FY22, energy delivered was recorded at 18,845 MWh as compared to 18,591 MWh in the preceding year while net sales emanating from it amounted to Rs. 341.1m (FY21: Rs. 352.4m). The benchmark energy for the outgoing year was recorded at 17,556 MWh (FY21: 17,644 MWh); 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. The proportion of non-project missed volume (NPMV) has remained limited due to regular dispatches. During 1HY23, energy delivered amounted to 8,776 MWh (1HY22: 8,796 MWh) while net sales were recorded slightly higher at Rs. 194.1m (HY22: Rs. 158.1m).

Gross margins have remained range-bound at 68.2% (FY21: 70.1%) during FY22. Administrative expenses decreased mainly due to decline in remuneration paid to directors and CEO given the Board decided a dividend payout in the following year. Other income increased to Rs. 19.6m (FY21: Rs. 13.7m) which mainly constitutes markup income earned on investments. Finance cost remained largely stable at Rs. 68.7m (FY21: Rs. 71.0.m) due to principal repayments and given local financing was obtain at fixed subsidized rate. The profits of the Company derived from electricity power generation are exempt from tax as per the relevant clause of Income Tax Ordinance 2001, subject to the conditions and limitations provided therein. Additionally, according to the relevant clause of the Second Schedule on Income Tax Ordinance, 2021, the company is also exempt from levy of minimum turnover tax. However, full provision is made in statement of profit or loss on other income at current rate of tax after taking into account, tax credits, and rebates available, if any. As a result, net profit stood at Rs. 107.5m (FY22: Rs. 166.5m, FY21: Rs. 159.7m) at end-HY23.

Adequate liquidity coverages supported by steady internal cash flows generation:

The liquidity profile is underpinned by adequate cash flow coverages in relation to outstanding obligations. Funds from operations (FFO) remained largely stable (FY22: Rs. 263.7m, FY21: Rs. 241.0m) in line with sustained profitability. FFO to total and long-term debt have remained adequate. Debt servicing coverage has improved owing to some decrease in long-term repayments and finance cost paid during the outgoing year.

Trade debts are receivables from CPPA are secured by sovereign guarantee under IA; the same are under normal course of business and considered good. The receivables are interest-free; however, a delayed payment mark-up of 3M KIBOR plus 2% per annum is charged in case the amounts are not paid within due dates. The rate of delayed payment mark-up charged during FY22 on outstanding amounts ranged from 9.4% to 17.0% (FY21: 8.8% to 10.1%) per annum. The long-term investments pertained to the second tranche payment received in lieu of amendment to the EPA where an amount of Rs. 40.2m (FY21: Rs. 26.8m) was received in FY22, out of which, Rs. 26.8m (FY21: Nil) comprised of Pakistan Investment Bonds (PIBs) and Government Ijara Sukuk (GIS), having maturity date up to 18th June, 2030. The profit on these instruments ranges from 8.27% and 12.08%. These long-term investments under lien with a bank being the inter-creditor agent. The Company also held short-term investments comprising T-Bills worth Rs. 213.3m (FY21: nil) by end-FY22, out of which half of the T-bills were under lien with a bank. Advances, deposits and prepayments mainly included recoverable from CPPA-G treated as pass through items. Timely recovery of receivables has boded well in managing working capital requirements.

Steady improvement in leverage indicators on the back of equity growth and scheduled repayments of long-term loan:

Project was funded through debt to equity mix of 75:25. The debt financing was arranged through a mix of local and foreign currency syndicated loan facilities from the BoP and MCB while the equity was injected by four individual investors. The company obtained long-term loan from consortium of local banks to the tune of Rs. 673.0m for project financing. Subsequent to the disbursement, loan amounting Rs. 622.8m 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 while the remaining unconverted loan amounting Rs. 50m (termed as the syndicated term finance loan I) carried markup rate of 3-month KIBOR plus 3% per annum. With a grace period of 8 months, the local currency loan (both term loan I and II) was repayable in 40 equal quarterly installments ending in December 2027 out of which half of the installments were paid by HY23.

The aggregate amount of foreign currency loan facility was $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 4.5% per annum and a grace period of 8 months from the first drawdown. Due to over-estimation of project cost outlay, the actual utilization of foreign currency loan amounted to $5.4m that was repayable in 4 unequal quarterly installments ending in June 2022. Meanwhile, subsequent to the year end, maturity period of the loan was extended to December 13, 2027. The company entered into an agreement with its foreign lenders in respect of extension of its foreign currency syndicated term finance loan with the same terms as mentioned in Common Term and Accounts Agreements (CTAA). Thus, a refinance facility secured by the Company to pay off the final installment of foreign financing has not been withdrawn.

Paid-up capital remained unchanged over the reporting period. The equity base stood higher at Rs. 1,015m (FY21: Rs. 849m) due to internal capital generation in FY22. In HY23 there was a payment of dividend to the tune of Rs. 117.6m (FY22: nil) leading to some decrease in equity. Financial risk profile draws strength from improvement depicted in gearing and debt leverage on a timeline basis backed by growth in equity and scheduled long-term repayments.

AJ Power (Private) Limited Annexure I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**FY20**	**FY21**	**FY22**	**HY23**
Non-Current Assets	1,649	1,533	1,664	1,664
Trade Receivables	222	125	126	110
Advances, Deposits & Prepayments	33	39	50	62
Short-Term Investment	-	-	213	159
Cash and Bank Balance	40	171	67	28
Total Assets	**1,944**	**1,869**	**2,121**	**2,023**
Trade & Other Payables	46	43	60	43
Short-Term Borrowings	-	-	-	-
Long-Term Borrowings *(inc. current matur)*	1,192	972	1,031	969
Total Liabilities	1,244	1,020	1,106	1,017
Paid-up Capital	428	428	428	428
Total Equity	**701**	**849**	**1,015**	**1,007**
INCOME STATEMENT	**FY20**	**FY21**	**FY22**	**HY23**
Net Revenue	417	352	341	194
Gross Profit	307	247	233	137
Operating Expenses	24	30	16	50
Finance Cost	94	71	69	33
Profit Before Tax	198	160	168	76
Profit After Tax	197	158	167	74
FFO	279	240	262	151
RATIO ANALYSIS	**FY20**	**FY21**	**FY22**	**HY23**
Gross Margin (%)	73.7	70.1	68.2	70.3
Net Margin (%)	47.3	44.7	48.8	38.2
Net Working Capital (Rs. in m)	107	179	171	314
Current Ratio (x)	1.57	2.13	1.60	7.82
FFO to Long-Term Debt (x)	0.23	0.25	0.25	0.31
FFO to Total Debt (x)	0.23	0.25	0.25	0.31
Debt Servicing Coverage Ratio (x)	1.64	1.23	1.78	1.10
Gearing (x)	1.70	1.15	1.02	0.96
Debt Leverage (x)	1.77	1.20	1.09	1.01
ROAA (%)*	10.4	8.3	8.3	7.2
ROAE (%)*	33.0	20.3	17.9	14.7

**Annualized*

REGULATORY DISCLOSURES	**Annexure II**
Name of Rated Entity	AJ 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		
19-07-2023	A	A-2	Stable	Reaffirmed
14-02-2022	A	A-2	Stable	Upgrade
23-02-2021	A-	A-2	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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Due Diligence Meetings Conducted	**Name**	**Designation**	**Date**
	Mr. Khalil Ahad Hashmi	CFO	13-06-2023