RATING REPORT

AJ Power (Private) Limited

REPORT DATE:
August 19, 2024

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/Rating Watch	Stable		Stable	
Rating Action	Upgrade		Reaffirmed	
Rating Date	*August 19, 2024*		*July 19, 2023*	

COMPANY INFORMATION	
Incorporated in 2014	**External auditors:** Riaz Ahmad, Saqib, Gohar & Co. Chartered Accountants
Private Limited Company	**Chairman:** Mr. Almas Hyder
Key Shareholders (with stake 5% or more):	**CEO:** Mr. Almas Hyder
Ali Khan Tareen – 55%	
Muhammad Rafique – 20%	
Almas Hyder – 18.75%	
Zia Hyder Naqi – 6.25%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Corporates
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

AJ Power (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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 at 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 has served on the Boards of many government, education, training, development and policy-making institutions including SMEDA, Engineering Development Board, Pakistan Industrial Development Corporation

Corporate Profile

AJ Power (Private) Limited ('AJPPL' or 'the Company') was incorporated in 2014 and the primary activity of the Company is to build, operate and maintain a solar power plant with a total capacity of 12 MW located in Adhi Kot, District Khushab. The head office of the Company is in Quaid-e-Azam Industrial Estate, Kot Lakhpat Lahore.

Project Brief

The Project has opted for Upfront Solar Tariff and granted a generation License from National Electric Power Regulatory Authority (NEPRA), valid up to 2042. The solar farm has an installed capacity of 12 MWp. It is equipped with polycrystalline PV modules and String Inverters, that are arranged in fixed tilt blocks. Accurate pre-calculation of the power producing facility significantly reduces the danger of any Performance Ratio (PR) deficiency.

CSUN-Solar International Limited, a leading Chinese power engineering service provider, was awarded the engineering, procurement and construction (EPC) contract. The project was funded through a debt-equity mix of 75:25, including syndicated foreign and local loans. Required commercial operations date (COD) was eight months from financial close date. The Commercial Operation Date has been achieved on December 13, 2017, within stipulated time.

O&M Contract

AJ Power signed an O&M contract with CSUN Power Pakistan (Private) Limited 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 Jan'24 till Dec'24 with a fixed monthly payment. As per the O&M contract, fixed monthly payment becomes due and payable by the 30th day from the receipt of invoice by AJPPL. The Company withholds an agreed amount on each O&M invoice of the contractor amount as retention money. The aggregate of retention money of each year is released upon the satisfactory evaluation of guaranteed parameters, including plant uptime warranty and guaranteed PR. In case of delayed payment, AJPPL is liable to pay late payment charges for the period of delay at a rate of agreed delay charges. Moreover, the performance risk is largely mitigated by required plant time and guaranteed PR given the significant experience of the O&M contractor.

Operational Performance

The Total Exported Energy of AJPPL is about 18,368 MWh during CY23 (CY22: 18,484 MWh); the same exceeds the benchmark energy requirement of 17,428 MWh (CY22: 17, 516 MWh). The 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. Moreover, the Company shares the benefit with Purchaser and ultimately with the public for producing electricity beyond the set benchmark energy by NEPRA. During 6MCY24, total Exported Energy amounted to 8,864 MWh which represents a 7.9% decline compared to SPLY. The difference is attributable mainly to environmental factors and expected panel degradation. As per management, AJPPL continued to meet its Annual Benchmark Energy as required by the Purchaser, as well as its operational performance parameters as set out in its O&M Agreement. The summary of operational performance is as follows:

MWh	CY22	CY23	6MCY24
Benchmark Energy	17,516	17,428	8,889
Total Exported Energy	18,484	18, 368	8,864

**Benchmark energy is based on COD*

(PIDC), Punjab Small Industries Corporation and Punjab Skill Development Fund.

%	CY22	CY23	6MCY24
Performance Ratio	76.8	76.5	75.8
Availability	99.7	99.6	99.37

Qualitative Matters in the Audited Report

Key Factors from Audited Report	FY22A	FY23A
Name of Auditor	Riaz Ahmad, Saqib, Gohar & Co. Chartered Accountants	Riaz Ahmad, Saqib, Gohar & Co. Chartered Accountants
Auditor SBP Rating	B11	B11
QCR List	Yes	Yes
Auditor Opinion	Unqualified	Unqualified
Key Audit Matters	None	None
Changes in accounting policies	Some	Some
Reschedule, Reprofile or Restructured	No	No
Major Disclosure	No	No

Riaz Ahmad, Saqib, Gohar & Co. Chartered Accountants are the auditors of the Company. The auditors are rated B11 by the State Bank of Pakistan ('SBP') and appear on the QCR list of auditors. As per the auditor's assessment, the financial statements provide a true and fair view of the Company's financial position as of the conclusion of fiscal year FY23 and, therefore, maintain an Unqualified Opinion.

Changes in Accounting Policies
There were certain amendments to accounting and reporting standards which became effective for the Company for the period on or after January 01, 2023. The same are highlighted below:

- IAS 1 – Presentation of Financial Statements: amendments regarding disclosure of accounting policies
- IAS 8 – Accounting Policies, changes in Accounting Estimates and Errors: amendment regarding the definition of accounting estimates
- IAS 12 – Income Taxes: the amendments narrow the scope of the initial recognition exemption
- IFRS 4 – Insurance Contracts: amendments regarding the expiry date of the deferral approach

The auditors applied their requisite audit procedures on them and have not provided a separate opinion on these matters.

Key Rating Drivers

Business Risk Profile
VIS categorizes the business risk profile of the renewable energy sector as medium-to-low. The overall power demand is closely driven by population growth, urbanization rate, lifestyle preferences, and industrial activity. During 9MFY24, out of the 68,559 GWh of electricity consumed (9MFY23: 69,247 GWh, FY23: 112,891 GWh), about 49.2% (9MFY23: 48.1%, FY23: 47.4%) emanated from households followed by the industry at 26.3% (9MFY23: 28.3%, FY23: 27.5%). While deterioration in macroeconomic conditions and soaring tariff prices over the rating review period have impacted industrial activity, household demand is expected to remain stable given the inelastic nature of individual power consumption and the rising population.

Moreover, government support for the renewable energy sector is present to reduce reliance on costly thermal energy. The Alternative Renewable Energy (ARE) Policy 2019 aims for 30% of total generation capacity to come from renewable sources (excluding hydel power) by 2030, while the Integrated Generation Capacity and Expansion Plan 2022 (IGCEP) targets increasing the share of renewable energy (including hydel power) from 33% to 62% by 2031. Despite these targets, at end-March'24, the total installed electricity capacity stands at 42,131 MW, with only 6.8% from renewable sources, and just 4.3% of the 92,091 GWh generated coming from renewables. However, 232 MW of solar power projects are currently underway and are expected to be operational by 2024-26. Additionally, the government plans to set up three solar power projects with a combined capacity of 2,400 MW in Kot Addu, Jhang, and Layyah; albeit competitive bids from investors are still pending. Nonetheless, the industry faces significant barriers to entry due to stressed macroeconomic conditions, political uncertainty, highly regulated operating environment and significant capital investment required.

Energy Purchase Agreement (EPA)
AJPPL signed a 25-year energy purchase agreement (EPA) with the Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) on September 8, 2016, on a 'take or pay' basis. The agreement includes adequate insurance for force majeure events and ensures compensation from CPPA-G for Non-Project Missed Volumes (NPMV) due to Non-Project Events (NPE). This long-term EPA, coupled with NPMV coverage, provides comfort in terms of offtake risk and revenue stability.

Profitability
During FY23, the Company's revenue grew by 32.3% despite a slight decline in energy output, driven by upward adjustments in tariff rates. Revenue composition remained largely unchanged, with energy purchases accounting for 97.4% (FY22: 98%), delayed markup payments at 2.2% (FY22: 1.7%), and NPMV at 0.5% (FY22: 0.2%). However, given that topline growth outpaced the increase in cost of revenue, gross margins improved to 73.3% (FY22: 68.8%). The improvement in margins is largely due to a 31% increase in energy purchase price mainly from tariff adjustments for CPI, exchange rates and higher debt servicing during the year. The bottom-line was supported by uptick in other income generated on short-term investments due to elevated local interest rate; however, finance costs rose as well due to rise in international benchmark rates despite subsidized local financing. Nonetheless, net margins grew to 53.6% (FY22: 48.8%).

During 9MFY24, the topline continued to be driven by tariff adjustments resulting in further improvement in gross and net margins to 76.4% and 61.1%, respectively. Going forward, profitability performance is expected to remain sound provided sustained offtake and tariff revisions.

Capitalization
The Company's equity base expanded over the rating review period in line with partial profit retention amidst the growing bottom-line; however, a further uptick in the same was restricted by cash dividend payments.

AJPPL's debt profile constitutes exclusively of long-term borrowings as working capital requirements are met through internal capital, removing the need for short-term debt. About three-quarters of long-term borrowings pertain to a syndicated foreign-currency term finance facility; however, the associated currency and interest rate risks are passed on through tariff adjustments. During July'22 the Company entered into an agreement with its foreign lenders to extend the maturity date of the associated loan from Jul'22 to Dec'27, repayable in 20 equal quarterly installments. The remaining portion of long-term borrowings comprises of a local syndicated facility under the SBP's financing scheme for renewable energy which carries a subsidized markup rate.

As a result of timely debt repayments and sustained growth in the equity base, the Company's gearing and leverage indicators have improved on a timeline basis, standing at 0.67x and 0.70x, respectively, at end-March'24 (FY23: 0.93x, 0.98x; FY22: 1.02x, 1.09x). Going forward, further enhancement in capitalization levels is expected provided continual internal capital generation and no additional debt drawdown.

Liquidity
The liquidity profile is considered adequate with a three-year average current ratio of 1.67x. Moreover, trade debts are receivables from the CPPA-G which are secured by sovereign guarantee, providing comfort in terms of credit risk. Also, a delayed payment mark-up is charged in case the amounts are not paid within due dates. Excess liquidity was channeled into short-term investments which comprised primarily of T-Bills to generate markup income given the high policy rate environment; the associated liquidity and market risk is considered nominal. Furthermore, the Company has maintained a minimal cash conversion cycle historically which allows for working capital requirements to be met internally rather than through external short-term financing.

Coverages

The Company's Funds from Operations (FFO) have exhibited an uptick on an annualized basis over the rating review period, driven by enhanced profitability. Consequently, cash flow coverages have trended upwards with FFO to total-debt and the debt-servicing coverage ratio (DSCR) rising to 0.47x and 1.50x, respectively, during 9MFY24 (FY23: 0.28x, 1.19x; FY22: 0.23x, 1.11x).

Considerations for Future Reviews

Going forward, key business and financial risk indicators include the Company's ability to sustain its sound topline performance and profitability metrics through continued energy offtake and tariff adjustments. Additionally, maintenance of the liquidity position as well as capitalization levels will be important from a rating's perspective as well.

AJ Power (Private) Limited — Annexure I

REGULATORY DISCLOSURES	Annexure I
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 Watch	Rating Action
RATING TYPE: ENTITY				
19-08-2024	**A+**	**A-2**	**Stable**	**Upgrade**
19-07-2023	A	A-2	Stable	Reaffirmed
29-03-2023				Suspended
14-03-2022	A	A-2	Stable	Upgrade
23-02-2021	A-	A-2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Khalil Hashmi	CFO	August 06, 2024
Muhammad Shahid	Director Operations	
Muhammad Asif	Finance Manager	