

AJ POWER LIMITED

Chief Executive: Mr. Almas Hyder

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A+	A2	A+	A2
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Upgrade	
RATING DATE	September 12, 2025		August 19, 2024	

RATING RATIONALE

The assigned ratings of A+/A2 with a Stable Outlook have been reaffirmed, reflecting the Company's sustained operational performance and strong financial risk profile. Ratings draw comfort from the long-term energy purchase agreement with CPPA-G, backed by sovereign guarantee which provides assurance of energy payments. The company is insulated from circular debt accumulation since its PPA is executed with CPPA-G, in line with the framework applicable to other renewable IPPs. Operational risks are mitigated by the O&M agreement with an experienced contractor. The financial risk profile is underpinned by strong margins, improving leverage indicators, and adequate debt coverage, supported by indexed tariff inflows, a declining debt profile, and sound liquidity driven by profit retention and low capital expenditure requirements.

Analysts:

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APPLICABLE METHODOLOGY(IES):

VIS Entity Rating Criteria
Methodology – Industrial
Corporates
(<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>)

Rating Scale:

(<https://docs.vis.com.pk/docs/VISRatingScales.pdf>)

COMPANY 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.

The Project has been 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 at a total project cost of PKR 1.71 billion. The Commercial Operation Date was achieved on December 13, 2017, within stipulated time.

GOVERNANCE

The Board of Directors comprises four members, with no independent director or female representation. Meetings are held on a quarterly basis, during which audit committee functions are carried out. As a private limited company, the entity is not subject to the mandatory corporate governance framework applicable to listed entities; however, enhancement in governance practices, particularly through the inclusion of independent representation, remains an area for improvement.

INDUSTRY PROFILE & BUSINESS RISK

The business risk profile for Pakistan's renewable energy sector is assessed as low to medium by VIS. reflecting stable regulatory support through long-term contracts and fixed tariffs, however, certain risks emanate from changing regulatory dynamics. As of 2024, the country's total installed power generation capacity stands at approximately 42,000 MW, with renewable energy sources—comprising wind, solar, and biomass—accounting for nearly 6-9% of the energy mix.

Growth momentum has been aided by the Alternative and Renewable Energy Policy 2019 and the Indicative Generation Capacity Expansion Plan (IGCEP 2047), which prioritize renewables through competitive bidding and grid modernization. Pakistan's geographic and climatic conditions further support sector expansion, with wind potential of 50,000 MW in Sindh and Balochistan and an average solar irradiance of 5.3 kWh/m² per day. These fundamentals have attracted international investments and encouraged the development of large-scale wind corridors and solar parks.

Regulatory risk remains for renewable IPPs in Pakistan, with tariff revisions potentially emanating risks, however, it is mitigated as tariffs are fixed under long-term power purchase agreements, insulating projects from any major revision that may impact debt servicing capabilities. The sector is also not exposed to recurring capital expenditure once projects are commissioned, with any BMR requirements included in O&M contracts and embedded within the tariff. Moreover, IPPs with PPAs executed with CPPA-G are largely protected from circular debt accumulation. While receivable collections may extend beyond agreed credit periods, such delays represent the mechanism through which circular debt arises at the sector level. For IPPs, counterparty risk remains mitigated by sovereign guarantee coverage, which ensures eventual settlement of dues.

Technology-related risks persist in the form of rising consumer-level adoption of distributed solar, driven by improvements in panel efficiency, which is gradually impacting demand growth for grid-based supply. However, competition risk for established renewable IPPs remains limited. Long-term contracts, must-run status, lower generation costs relative to conventional sources, and high entry barriers insulate incumbent projects from substitution or demand-side risks. Given their must-run status and current contribution of around 6% to total generation, any potential fall in grid demand is unlikely to materially impact offtake.

Long-term 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.

Experienced O&M Contractor

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 January 2025 for a one-year term ending December 2025, with a fixed monthly payment structure. The contract is renewed on an annual basis. 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 as retention money. The aggregate of retention money for 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 the agreed rate. Moreover, performance risk is mitigated as the O&M contractor is contractually obligated to maintain minimum plant availability (required plant time) and guarantee a defined Performance Ratio (PR) with liquidated damages payable in case of non-compliance. The contractor's demonstrated experience provides additional assurance of compliance.

Product Profile & Capacity

The benchmark energy is determined based on a capacity factor of 17% as approved by NEPRA in its tariff determination dated July 8, 2019, along with the application of an annual degradation factor of 0.5%, as defined in the Energy Purchase Agreement (EPA). Variation in irradiation may occur due to various external factors such as environmental and weather patterns.

In the past three years, the company has been able to operate above the benchmark capacity factor. During FY24, the energy dispatched by the Company amounted to 17,610 kWh, reflecting a 4% decrease compared to the corresponding period of the previous year. This decline was primarily attributed to a reduction in overall irradiation, particularly during November 2023 and January 2024. Despite this decline, the dispatched energy exceeded the benchmark energy requirement of 16,557 kWh.

In FY25, total exported energy increased by 2.4% to 18,030 kWh, driven by higher irradiation, despite a slight decrease in the availability factor.

	FY23	FY24	FY25
Installed Capacity – MWp	12	12	12
Annual Benchmark Capacity - MwA	17,428	16,557	15,729
Benchmark Capacity Factor (%)	17.00%	17.00%	17.00%
Actual Energy Delivered – MwA	18,368	17,610	18,030
Actual Capacity Factor (%)	17.92%	18.08%	19.49%
Availability Factor (%)	99.60%	99.85%	99.73%

* MWp - MegaWatt DC

** MwA - MegaWatt Annual

FINANCIAL RISK

Profitability

The Company's topline grew by 19.2% in FY24, primarily driven by periodic tariff adjustments linked to movements in the US Consumer Price Index (CPI), LIBOR/KIBOR, SOFR rates, and exchange rate fluctuations, despite a volumetric decline in energy dispatched. Tariff components are indexed to the US CPI for O&M, LIBOR/KIBOR/SOFR for debt servicing, and the exchange rate for foreign debt repayment. The lower volumes generated during the year were due to reduced irradiation.

The Company generally maintains healthy gross margins supported by the cost pass-through provisions embedded in the tariff structure. Movements in gross margin are influenced by production in excess of the benchmark capacity factor of 17%, whereby the return on equity (ROE) increases for every additional unit produced above the benchmark, albeit at a discounted tariff. In 3QFY25, a marginal decline in gross margin was recorded, primarily due to O&M expenses exceeding the fixed cost allowances incorporated within the approved tariff.

Operating margin for 3QFY24 declined to 80.65% (FY24: 83.79%), primarily due to lower interest income from treasury bills and savings accounts following a reduction in interest rates, though it remained above historical averages. Financial charges decreased in line with the reduction in debt and lower interest rates, while net margins were sustained at levels broadly comparable to the preceding year.

Capital Structure

The Company's capitalization profile has strengthened over time, supported by its renewable energy-based operational structure. The capital primarily comprises equity and long-term debt, given minimal working capital requirements. The equity base increased at an average annual growth rate of 16% over the past five years, driven mainly by internal equity generation through retained earnings.

Long-term debt consists of both foreign and local borrowings. The USD-denominated portion has remained stable in nominal terms but shows a declining trend due to scheduled repayments. The PKR equivalent of this debt increased slightly in FY23 as a result of currency depreciation.

Debt Coverage & Liquidity

The coverage profile improved in FY24 with a DSCR of 1.47x (FY23: 1.19x), supported by higher funds from operations (FFO) on account of tariff adjustments. In 3QFY25, the DSCR declined to 1.25x (FY24: 1.47x) due to lower FFO, reflecting reduced profitability from higher than budgeted O&M expenses which were not adjusted in the tariff. Despite the decline, DSCR remained above 1x, reflecting continued adequacy of debt servicing ability.

Liquidity remains sound, underpinned by the Company's operational model and the inherently liquid profile of its business. This is reflected in a current ratio of 1.54x (FY24: 1.46x; FY23: 1.29x). Liquidity is supported by limited capital expenditure requirements, as the renewable power sector structure does not necessitate capacity expansion, restricting the use of excess liquidity. Dividend distributions, which are standard in the sector, remain the primary outflow. Receivables are primarily due from CPPA-G, with counterparty risk assessed as low due to sovereign support.

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity	AJ Power 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				
	12-09-2025	A+	A2	Stable	Reaffirmed
	19-08-2024	A+	A2	Stable	Upgrade
	19-07-2023	A	A2	Stable	Reaffirmed
	29-03-2023				Suspended
	14-03-2022	A	A2	Stable	Upgrade
	23-02-2021	A-	A2	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 Meeting Conducted	Name		Designation		Date
	Mr. Khalil Ahmad Hashmi		CFO		7 th August 2025
	Mr. Muhammad Shahid		Director Operations		