

RATING REPORT

Atlas Solar Limited (Formerly: Zhenfa Pakistan New Energy Company Limited)

REPORT DATE:

December 26, 2023

RATING ANALYSTS:

Husnain Ali

husnain.ali@vis.com.pk

RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-2	A	A-2
Rating Date	December 26, 2023		December 27, 2022	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Upgrade	

COMPANY INFORMATION

Incorporated in 2014	External Auditors: M/s BDO Ebrahim & Co. Chartered Accountants
Public Limited Company	Chairman: Mr. Frahim Ali Khan
Key Shareholders (with stake 10% or more):	Chief Executive Officer: Mr. Maqsood A. Basraa
Atlas Power Limited – 80%	
Shirazi Investments (Private) Limited – 20%	

APPLICABLE METHODOLOGY

Applicable Rating Criteria:

Corporates (May 2023) <https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

Rating Scale & Definitions <https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Atlas Solar Limited (Formerly: Zhenfa Pakistan New Energy Company Limited)

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Atlas Solar Limited (ASL) was incorporated in September, 2014 under the repealed Companies Ordinance, 1984 (now Companies Act, 2017) with the object to construct, operate and own a 100MW solar power plant for generation and supply of electricity. The company's name was changed to 'Atlas Solar Limited' from 'Zhenfa Pakistan New Energy Company Limited' on January 11, 2023.

Chairman's Profile:

Mr. Frabim Ali Khan has over 50 years of experience in General Management, Finance, Investment and Taxation. He joined the Atlas Group in 1967 and has served in different positions. Currently he is director on the board of multiple group companies. Mr. Frabim Ali Khan is a Law graduate from Karachi University.

CEO's Profile:

Mr. Maqsood A. Basraa has been the Chief Executive Officer of ASL since October 2019 and has been the Group Director Business Development (GDBD) – Power, and Member Group Executive Committee (GEC) since April 2017. He is with the Atlas Group since 1989. Before joining Atlas Group, he served State Bank of Pakistan for ten years. He is the Fellow Member of Institute of Cost & Management Accountants of Pakistan.

The ratings assigned to ASL incorporate the company's association with 'Atlas Group' which is one the biggest and renowned conglomerates in the country with business interests in automobiles, batteries, insurance, asset management, trading and energy. The ratings take into account the company's low business risk profile underpinned by inking of energy purchase agreement (EPA) with the Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) with the inbuilt 'take or pay' provision for a period of 25 years.

The plant must run under no merit listings due to solar power being a renewable resource. The plant is located at District Layyah and the registered office is located at Lahore. The plant's installed capacity is 100MW. The ratings take into account sound operating metrics and significant growth in revenue since achieving commencing operations date (COD) on April 14, 2022

Company updates: During FY23, Atlas Power Limited (APL), the holding company, purchased 20% shares from Zhenfa Energy Group Co., Ltd. Subsequently, the company's name was changed to 'Atlas Solar Limited' from 'Zhenfa Pakistan New Energy Company Limited' on January 11, 2023.

Key Ratings Drivers

Energy Purchase Agreement (EPA) signed with CPPA-G for 25 years with take or pay provision: ASL signed the EPA with CPPA-G on January 29, 2021 for a period of 25 years. Generation license awarded by NEPRA (National Electric Power Regulatory Authority) is valid up to April 13, 2047.

O&M Contract: HydroChina International Engineering Company Limited (HIECL) is the O&M (operations and maintenance) contractor till Apr'24. HIECL is a subsidiary of 'PowerChina', one of the biggest construction groups in the power sector with engagement in over 100 countries. ASL's in-house team is expected to takeover O&M from HIECL following the end of the latter's contract term.

Tariff: NEPRA has determined the tariff for ASL for 25 years. Levelized tariff has been computed on 100% foreign financing. Currently, the billing of the company is being made on interim tariff; however, all components will be adjusted in true-up tariff. The application for finalization of tariff was sent to NEPRA in November 2022; the tariff is expected to be finalized during Jan'24.

Asset base mostly comprises operating fixed assets: Total asset base stood at Rs. 14.7b (FY23: Rs. 14.6b, FY22: Rs. 12.3b) at end-1QFY24. Operating fixed assets increased to Rs. 12.7b (FY22: Rs. 10.9b. Contract balances stood at Rs. 1.0b (FY23: Rs. 1.3b, FY22: Rs. 132.6m) at end-1QFY24. The aging of contract balances was as follows:

Aging in excess of billings			
(Rs. in m)	FY22	FY23	1QFY24
Due less than one year	132.6	1,136.7	967.30
One to two years	0	132.6	50.0

According to the management, major portion of contract balances were recovered subsequently (by way of interim relief). Trade debts, receivables from CPPA, are secured by sovereign guarantee, the same are under normal course of business and considered good, increased to Rs. 2.0b (FY23: Rs. 1.6b; FY22: Rs. 480m) by end-1QFY24 owing to delay in

receivables from the CPPA-G. Trade debts include delayed payment charges, carrying mark-up at the rate of three months KIBOR plus 2%.

Profitability: Given higher energy sold, net sales increased to Rs. 2.4b (FY22: Rs. 525.0m for 78 days of operations) during FY23. Decrease in gross margins (FY23: 69.4%, FY22: 74.9%) was on account of an increase in depreciation expense (FY23: Rs. 442.0m, FY22: Rs. 90.1m). Operating expenses increased to Rs. 438.2m (FY22: Rs. 385.3m) mainly due to higher salaries, wages and benefits. Finance cost increased considerably to Rs. 1.3b (FY22: Rs. 173.6m) due to higher average borrowings and significant increase in interest rates in FY23. Given higher sales, net profit increased to Rs. 242.3m (FY22: Rs. 218.8m) in FY23 despite lower net margins. Net profit of Rs. 142.8m was reported during 1QFY24.

Plant operational performance		
	FY22	FY23
Installed capacity (MWh)	187,200	876,000
Capacity Factor (%)	29.91	22.50
Energy exported (KWh)	56,005	197,124

FY22 covered generation for two and half months only i.e., the period from 14 April 2022 (COD) to 30 June 2022 which were the highest generation months resulting into high-capacity factor of 29.91% whereas FY23 covered 12 months period which has high as well as low generation months resulting into capacity factor of 22.50% against the target capacity factor of 21.51%.

Liquidity: FFO increased to Rs. 309.2m (FY23: Rs. 694.5m, FY22: Rs. 334.4m) during 1QFY24. FFO to total debt remained range bound. Debt servicing coverage ratio increased to 1.5x (FY23: 1.1x) on account of higher FFO during 1QFY24. DSCR is expected to improve with the implementation of true-up tariff. Current ratio remained at 0.9x (FY23: 0.8x; FY22: 0.8x) at end-1QFY24.

Capitalization: Equity base increased to Rs. 2.5b (FY23: Rs. 2.3b, FY22: Rs. 2.1b) by end-1QFY24 on account of profit retention. The long-term borrowings increased to Rs. 10.7b (FY22: Rs. 9.1b) by end-FY23 mainly on account of impact of devaluation translation of foreign currency loans. ASL obtained long-term facility from Habib Bank Limited (HBL) for construction of the plant carrying a rate of 3 months KIBOR + 1.75%, payable in 56 unequal quarterly installments started from June 30, 2022. The company's debt amounting to USD 28.0m (FY22: USD 27.5m) from British International Investment (formerly CDC Group Plc) for construction of the plant carrying a rate of 3 months LIBOR + 4.25% is payable in 56 unequal quarterly installments started from June 30, 2022. The company has also received a loan from the holding company to finance expenses incurred by MEPCO (Multan Electric Power Company) on grid interconnection at the plant site. The loan carries a rate of 3 months KIBOR + 0.5% and is repayable in 36 equal quarterly installments started from November 2023.

ASL's short-term borrowing increased to Rs. 1.4b (FY22: Rs. 417m) by end-FY23 mainly to finance contract assets. Despite increase in equity base, leverage indicators have remained elevated. Gearing is projected to decrease gradually with scheduled repayments of long-term borrowings.

Atlas Solar Limited (Formerly: Zhenfa Pakistan New Energy Company Limited) Annexure I

FINANCIAL SUMMARY (PKR. in m)				
BALANCE SHEET	FY21	FY22	FY23	1QFY24
Operating Fixed Assets	8,363.4	10,890.6	12,683.0	12,649.7
Long-Term Loan to MEPCO (inc. current portion)	133.4	133.4	103.7	133.4
Trade Debts	-	347.7	377.5	1,959.9
Contract Asset	-	132.6	1,269.3	-
Advances Deposits and Other Receivables	415.8	344.9	150.8	69.7
Cash And Bank Balances	1,731.9	465.7	30.7	5.4
Total Assets	10,644.4	12,314.9	14,644.7	14,725.4
Long-Term Borrowing (inc. current portion)	7,605.6	9,141.4	10,690.4	10,528.1
Short-Term Borrowing	142.3	417.2	1,392.7	1,366.7
Trade Payables	1,075.6	541.8	108.4	204.2
Accrued Markup	61.8	103.2	98.0	133.3
Provision For Taxation	-	3.5	5.0	-
Total Liabilities	8,885.2	10,207.0	12,294.5	12,232.4
Paid Up Capital	574.9	1,950.0	1,950.0	1,950.0
Total Equity	1,759.2	2,107.9	2,350.2	2,493.0
INCOME STATEMENT				
	FY21	FY22	FY23	1QFY24
Net Sales	-	525.0	2,402.6	832.1
Gross Profit	-	393.1	1,668.5	624.3
Operating Expenses	(55.9)	(4.9)	(92.2)	(22.4)
Other Income	-	3.7	12.4	-
Finance Cost	-	(173.6)	(1,342.7)	(459.1)
Profit Before Tax	(55.9)	218.3	245.9	142.8
Profit After Tax	(55.9)	213.8	242.3	142.8
RATIO ANALYSIS				
	FY21	FY22	FY23	1QFY24
Gross Margin	NA	74.9%	69.4%	75.0%
Net Margin	NA	40.7%	10.1%	17.2%
ROAA	NA	1.9%	1.8%	3.9%*
ROAE	NA	11.1%	10.9%	23.6%*
Current Ratio (x)	1.3	0.8	0.8	0.9
FFO	(55.9)	334.5	694.5	309.2
FFO to Total Debt (x)	(0.0)	0.0	0.1	0.1*
DSCR (x)	-	1.0	1.1	1.5 *
Gearing (x)	4.4	4.5	5.1	4.8
Leverage (x)	5.0	4.8	5.2	4.9

*Annualized

REGULATORY DISCLOSURES		Annexure-II			
Name of Rated Entity	Atlas Solar Limited (Formerly: Zhenfa Pakistan New Energy Company 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				
	26-12-2023	A	A-2	Stable	Reaffirmed
	27-12-2022	A	A-2	Stable	Reaffirmed
	03-12-2021	A-	A-2	Stable	Initial
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	Name	Designation	Date		
	1 Mr. Khalid Mahmood	CFO	28-Nov-23		
	2 Mr. Farrukh Munir	Manager Finance			