RATING REPORT

Atlas Solar Limited

REPORT DATE:
January 7, 2025
RATING ANALYSTS:
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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A	A2	A	A2
Rating Outlook/Watch	Positive		Stable	
Rating Action	Maintained		Reaffirmed	
Rating Date	*Jan 07, 2025*		*Dec 26, 2023*	

COMPANY INFORMATION	
Incorporated in 2014	**External Auditors:** M/s BDO Ebrahim & Co.
Public Limited Company (Unlisted)	**Chairman of the Board:** 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(IES)

Applicable Rating Criteria: Corporates:
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

APPLICABLE RATING SCALE(S)

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

OVERVIEW OF THE INSTITUTION

Atlas Solar Limited (ASL) *was incorporated in September 2014 under the repealed Companies Ordinance, 1984 (now Companies Act, 2017) with the object to construct, operate and own a 100MW solar power plant for generation and supply of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.*

RATING RATIONALE

Corporate Profile

Atlas Solar Limited ("ASL" or "the Company") was incorporated in Pakistan in September 2014 with object to construct, operate and own a 100 MW solar power plant for generation and supply of electricity. As at FY24, Atlas Power Limited ("APL" or "the Holding Company") holds 80% shares of the Company. ASL is ultimately associated with the Atlas Group ("the Group").

In accordance with the Central Power Purchasing Agency (Guarantee) Limited ("CPPA-G") notification dated April 27, 2022, the Company achieved commercial operations date ("COD") on April 14, 2022. National Electric Power Regulatory Authority ("NEPRA") has granted generation license to the Company which is valid until April 13, 2047.

The registered office of the Company is in Lahore, Punjab while the facility is situated in District Layyah, Punjab.

The Group

The Group, established in 1962 as Shirazi Investments (Pvt.) Limited, operates as a diversified conglomerate in Pakistan. The Group comprises nineteen companies, with four publicly listed on Pakistan's stock exchanges. The Group conducts business across multiple sectors including engineering, energy generation, financial services, and trading. Its engineering division comprises of Atlas Honda Ltd., Atlas Battery Ltd., Atlas Engineering Ltd., Honda Atlas Cars (Pakistan) Ltd, Atlas Autos (Pvt.) Ltd, Atlas Hi-Tech (Pvt.) Ltd and Atlas GCI (Pvt.) Ltd, focusing on the manufacturing of motorcycles, automobiles and batteries. Atlas Solar Ltd and Atlas Energy Ltd are engaged in renewable energy generation. The financial services arm includes Atlas Insurance Ltd. and Atlas Asset Management Ltd., offering insurance and asset management solutions. The trading segment features Shirazi Trading Company (Pvt.) Ltd, Honda Atlas Power Product (Pvt.) Ltd, Atlas Venture Ltd, Atlas Worldwide and Atlas Gobal, dealing in trading of various products and services.

Operational Performance:

The plant has remained compliant with NEPRA's guidelines throughout FY23 and FY24, with full year of operations. In FY24, the capacity factor declined to 21.96% (FY23: 22.50%;) but remained above the benchmark level. Energy production was influenced by climatic changes, as noted by the management. An annual degradation factor of 0.5% applies to operations as defined in the power purchase agreement. The Company operates a 100 MWp solar PV plant in Layyah, Punjab, utilizing mono-crystalline half-cut technology, single-axis trackers, fixed tilt structures, and advanced central inverters for optimized performance.

Table 1 Capacity and Production

	FY23	FY24
Installed capacity-kWh	100,000	100,000
Annual benchmark energy-kW	188,241,668	187,300,460
Benchmark capacity factor	21.50%	21.50%
Actual energy delivered-kW	197,124,668	192,400,789
Actual capacity factor	22.50%	21.96%

Power Production Sector Overview:

In the fiscal year 2024 (FY24), Pakistan's power production sector experienced notable developments, particularly in the areas of energy generation capacity, financial performance, and the integration of renewable energy sources.

As of March 2024, the country's total installed electricity capacity stood at 42,131 megawatts (MW). The composition of this capacity included 25.4% from hydropower, 8.4% from nuclear energy, 6.8% from renewable sources, and the remaining from thermal power plants.

During FY24, power generation decreased by 1.9% year-over-year, totaling 127,167 gigawatt-hours (GWh), compared to 129,591 GWh in the previous fiscal year. This decline was attributed to various factors, including reduced industrial activity and energy conservation measures including solarization trends at households and commercial activity

The financial landscape of the power sector faced growing challenges in FY24, with circular debt reaching a record high of PKR 2.393 trillion by year-end. The rise was primarily driven by inefficiencies in billing collection from both public and private sector customers, resulting in payment delays from power distributors to power suppliers. This, in turn, impacted power producers' ability to settle dues with their gas and oil suppliers. A significant component in power tariff to customers comprises of capacity payments to IPPs which, due to devaluation of currency, high interest rates and heavy levies and taxes, raises the power tariff and reduces the customer ability to pay thus increasing the receivables from them and attracting more subsidies adding up to the circular debt.

In the renewable energy sub-sector, efforts were made to enhance the share of renewables in the energy mix. K-Electric, a major utility company, announced plans to increase its renewable energy capacity between FY24 and FY30, aiming to integrate up to 2,200 MW from renewable and indigenous sources. Additionally, the World Bank approved a USD 1 billion loan for the Dasu hydropower project, expected to contribute significantly to the country's renewable energy capacity upon completion.

Despite these initiatives, the overall contribution of renewable energy remained modest. The government's target to achieve a 20% share by 2030 of renewable energy excluding hydel in the national energy mix faced challenges, including financial constraints and infrastructural limitations.

Key Rating Drivers

Business Risk Profile

Sector Risk; Renewable Energy: Medium to low

The renewable energy sector's business risk profile is categorized as medium to low given limited exposure to economic cyclicality, low competitive intensity due to regulated market structures or long-term contractual arrangements through EPA reduced sensitivity to energy demand fluctuations. Technology risks are viewed as moderate. However, the sector faces challenges stemming from its capital-intensive nature and a strict regulatory framework governing the renewable energy sector. Moreover, the environmental pattern risk is borne by the Company, with the primary implication being lower production, resulting in reduced efficiency. However, independent studies have indicated that this risk is mitigated on average over the years.

Demand in the sector is supported by long-term EPAs with CPPA-G, which ensure predictable and stable revenue streams. Dependence on natural renewable resources as the primary input for energy generation mitigates risks associated with raw material availability and dependency.

Sponsor Profile

Ratings are supported by the strong financial profile and diversified business interests of its sponsor, which enhances the group's capacity to successfully ride through various economic cycles. The sponsor's broad presence in diversified sectors provides ASL operational synergies and resources backing, contributing positively to the Company's overall risk profile.

Demand risk is mitigated through the presence of long-term Energy Purchase Agreement with CPPA-G with Must Run Status

ASL's EPA guarantees an offtake within defined parameters, this along with lower tariff due to its renewable energy status places it in the 'must run' category in the merit dispatch order. Lower tariff as compared to other conventional power producers is a function of lower Engineering Procurement and Construction (EPC) cost, and higher efficiency of renewable plants.

Financial Risk Profile

Profitability Profile

In FY24, ASL reported an increase in net sales supported by tariff adjustments during the year. The Company also managed to improve its gross margins to 72.16% (FY23: 69.45%) in FY24 with further improvement to 76.57% in 1QFY25.

Capitalization Profile

The capitalization profile of the Company reflects a high level of debt, predominantly denominated in foreign currency. This exposure contributes to elevated gearing and leverage ratios, reported at 3.28x (FY24: 3.75x, FY23: 5.14x) and 3.35x (FY24: 3.83x, FY23: 5.23x), respectively in 1QFY25. These metrics are projected to improve through the scheduled repayment of existing debt obligations and ongoing equity growth, supported by consistent profit retention.

During the year, the Company achieved a reduction in short-term debt utilization. This was primarily attributed to adequate internal cash generation and reduced working capital requirements, aided by a decline in the accumulation of contract assets. These developments positively contributed to the capitalization profile of the Company.

Liquidity and Coverage Profiles

Supported by sufficient internal cash generation, both liquidity and coverage profiles reported improvement during FY24 and 1QFY25. However, while the current ratio remained below 1.00x in FY24 at 0.93x (FY23: 0.80x) it has improved to 1.02x as per the latest management accounts of 1QFY25. Meanwhile, the debt service coverage ratio (DSCR) has continued to improve to 1.29x (FY24: 1.13x, FY23: 1.1x) in 1QFY25. The long-term EPA captures the debt servicing component in the tariff determination along with fixed operational cost coverages and return on equity thus mitigating the financial risk. The Company's cash conversion cycle is relatively better placed than other IPPs thus reducing its exposure to circular debt.

Financial Summary Appendix I

Balance Sheet (PKR Millions)	FY22A	FY23A	FY24A	1QFY25M
Property, plant and equipment	10,886.90	12,680.72	11,971.50	11,858.58
Intangible Assets	3.67	2.28	0.89	0.00
Trade debts	347.72	377.54	853.30	974.12
Cash & Bank Balances	465.72	30.74	2.48	4.89
Other Assets	610.89	1,553.45	678.45	203.80
Total Assets	12,314.90	14,644.73	13,506.62	13,041.39
Creditors	541.85	108.45	192.17	161.29
Long-term Debt (incl. current portion)	9,141.14	10,689.06	9,786.54	9,615.04
Short-Term Borrowings	417.16	1,392.73	685.00	221.00
Total Debt	9,558.30	12,081.79	10,471.54	9,836.04
Other Liabilities	106.90	104.29	48.03	48.85
Total Liabilities	10,207.05	12,294.53	10,711.74	10,046.19
Paid up Capital	1,950.00	1,950.00	1,950.00	1,950.00
Revenue Reserve	157.89	400.20	844.88	1,045.20
Equity (excl. Revaluation Surplus)	2,107.89	2,350.20	2,794.88	2,995.20

Income Statement (PKR Millions)	FY22A	FY23A	FY24A	1QFY25M
Net Sales	525.00	2,402.56	3,076.87	759.20
Gross Profit	393.09	1,668.46	2,220.22	581.31
Operating Profit	391.88	1,588.63	2,098.76	555.84
Finance Costs	173.59	1,342.74	1,656.90	355.52
Profit Before Tax	218.29	245.89	441.86	200.32
Profit After Tax	213.79	242.29	444.69	200.32

Ratio Analysis	FY22A	FY23A	FY24A	1QFY25M
Gross Margin (%)	74.87%	69.45%	72.16%	76.57%
Operating Margin (%)	74.64%	66.12%	68.21%	73.21%
Net Margin (%)	40.72%	10.08%	14.45%	26.39%
Funds from Operation (FFO) (PKR Millions)	334.45	694.57	910.22	325.37
FFO to Total Debt* (%)	3.50%	5.75%	8.69%	13.23%
FFO to Long Term Debt* (%)	3.66%	6.50%	9.30%	13.54%
Gearing (x)	4.53	5.14	3.75	3.28
Leverage (x)	4.84	5.23	3.83	3.35
Debt Servicing Coverage Ratio* (x)	1.0	1.1	1.13	1.29
Current Ratio (x)	0.79	0.80	0.93	1.02
(Stock in trade + trade debts) / STD (x)	0.83	0.27	1.25	4.42
Return on Average Assets* (%)	1.86%	1.80%	3.16%	6.04%
Return on Average Equity* (%)	11.06%	10.87%	17.29%	27.68%
Cash Conversion Cycle (days)	-2,116.84	-106.58	49.90	109.82

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Atlas Solar Limited
Sector	Power
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
		Rating Type: Entity		
07-01-2025	A	A2	Positive	Maintained
26-12-2023	A	A2	Stable	Reaffirmed
27-12-2022	A	A2	Stable	Upgrade
03-12-2021	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. Khalid Mahmood	CFO	31-Dec-2024
Mr. Waqar Ali	Manager Finance	