

## RATING REPORT

# Quaid-e-Azam Thermal Power (Private) Limited (QATPL)

### REPORT DATE:

5<sup>th</sup>/April/2017

### RATING ANALYSTS:

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### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
<b>Entity</b>	AA	A-1+	AA	A-1+
<b>Rating Date</b>	April 4, 2017		April 19, 2016	
<b>Rating Outlook</b>	Stable		Stable	
<b>Outlook Date</b>	April 4, 2017		April 19, 2016	

### COMPANY INFORMATION

Incorporated in 2015	External auditors: A.F. Ferguson & Co. Chartered Accountants.
Private Limited Company	Chairman: Mr. Arif Saeed
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Ahad Khan Cheema
Government of Punjab – 100%	

### APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporate (May, 2016)*  
<http://www.jcrvis.com.pk/images/IndustrialCorp.pdf>

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Quaid-e-Azam Thermal Power (Private) Limited (QATPL) was incorporated on 25 March, 2015 under the companies’ ordinance, 1984. It is a wholly owned company of Government of Punjab (GoPb). The company is establishing a 1,180 MW Combined Cycle Gas Turbine (CCGT) power plant at Bhikki, District Sheikhpura, Punjab under the power generation policy 2015.

**Profile of Chairman**

Mr. Arif Saeed is serving on the Boards of various public and private sector. He carries vast experience across various industries and holds a Bachelor’s Degree in philosophy, politics and economics from University of Oxford.

**Profile of CEO**

Mr. Ahad Khan Cheema is a civil servant and has more than 14 years of experience in various positions including Secretary to GoPB, District Coordination Officer (DCO), Lahore and Director General, Lahore Development Authority.

**Financial Snapshot**

Net equity: 1HFY17 – Rs.22.8b, FY16 – Rs.22.8b

Net profit: 1HFY17 – Rs32m; FY16: Rs. 330.4m

The ratings assigned to Quaid-e-Azam Thermal Power Limited (QATPL) takes into account its strong ownership profile with the company being wholly owned by Government of Punjab (GoPb). QATPL is in the process of setting up a 1,180 MW Re-liquefied Natural Gas (RLNG) based Combined Cycle Gas Turbine (CCGT) power plant at Bhikki, Punjab. The ratings draw comfort from the presence of a non-supply event in the Power Purchase Agreement (PPA) which insulates the project from the risk of gas non supply; the company shall continue to receive capacity payments during the non-supply period. In addition, the “Suspension” clause in the PPA entitles the Company to suspend its plant operations in case the receivable amount from Central Power Purchase Agency (Guarantee) Limited (CPPA) at any point of time remains outstanding for 60 days or more, while continue to receive capacity payments during the suspension period. This provision further insulates the Company from circular debt risk.

**Material Contracts**

The project is being established under the Power Generation Policy, 2015 which offers a guaranteed equity Internal Rate of Return (IRR), cost indexation and pass-through structure in line with other IPPs projects in Pakistan.

The Engineering, Procurement & Construction (EPC) carries satisfactory track record and the obligations of EPC contractor are adequately covered through a performance guarantee. Moreover, liquidation damages will be imposed on the EPC contractor in the event performance benchmarks are not met pertaining to net power output and net heat rate.

PPA was executed on 22<sup>nd</sup> July, 2016 between QATPL and CPPA; the obligations of CPPA are guaranteed by the Government of Pakistan (GoP) under the Implementation Agreement. Gas Supply Agreement has been signed with SNGPL which will arrange RLNG at the plant site. RLNG fuel price shall be determined by OGRA on a periodical basis and any change in the fuel price is a pass-through item under the PPA. The power generation license was awarded on 2<sup>nd</sup> June, 2016. Moreover, NEPRA has announced final tariff for QATPL to allow it to proceed on a fast track basis.

**Project Progress**

The plant has achieved satisfactory progress with actual cumulative progress of 81.57% at end-Dec, 16 against the planned progress of 80.26%. The testing of simple cycle unit was completed in February, 2017; GT-1 & GT-2 is expected to be operational during March, 2017. The combined cycle operations are projected to be achieved by December, 2017. A project delay exceeding 180 days will generate negative cash flows for the company.

**Project Cost and Funding**

The project cost is estimated at USD 769.9m with a debt to equity ratio of 75:25. Equity amounting to Rs. 22.5b has already been received from GoPB. A project finance facility of up to Rs. 63.8b has been arranged and is repayable in 20 semiannual payments over a period of 13 years including a grace period of 3 years. Various financial covenants are required to be maintained including Debt Service Coverage Ratio (DSCR), Loan Life Coverage Ratio (LLCR) and Current Ratio. Revenues of the company are expected to sustain owing to fix tariff. Going forward, Funds from Operations (FFO) are projected to remain stable while the same are expected to be adequate for timely debt repayment.

**Management Team**

The project management team comprises seasoned professionals having extensive experience. The management team is headed by Mr. Ahad Khan Cheema, a civil servant, carrying track record of successful completion of various projects of the GoPb. Board of Directors comprises senior GoPb officials and experienced professionals from the private sector.

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Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

### Quaid-e-Azam Thermal Power (Private) Limited (QATPL)

### Appendix 5

Projections (All figures in USD billion)												
<u>BALANCE SHEET</u>	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	F26	FY27	FY28
Equity	192	225	239	257	279	305	337	373	416	465	521	489
Short term loan	-	111	111	111	111	111	111	111	111	111	111	111
Long term loan	437	559	520	478	431	380	325	263	196	123	43	0
	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	F25	FY26	FY27
<u>INCOME STATEMENT</u>												
Revenues	-		348	597	597	597	597	597	597	597	597	597
Gross Profit	-		69	118	118	118	118	118	118	118	118	118
Financial Charges	-		36	60	56	52	48	43	37	31	25	18
Profit After Tax	-	32	57	61	65	70	75	80	86	92	99	54
	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	F25	FY26	FY27
<u>RATIO ANALYSIS</u>												
Gross Margin (%)	-	-	19.8	19.8	19.8	19.8	19.8	19.8	19.8	19.8	19.8	19.8
Gearing (x)	0.13	2.3	3.0	2.6	2.3	1.9	1.6	1.3	1.0	0.74	0.51	0.30
Leverage(x)	0.19	2.4	3.0	2.6	2.3	2.0	1.6	1.3	1.0	0.75	0.51	0.31
FFO	-	-	47.2	82.3	86	90.1	94.6	99.5	104.9	110.8	117.2	124.3
FFO to Total	-	-	0.07	0.13	0.15	0.17	0.19	0.22	0.28	0.36	0.5	0.8

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Debt (x)												
FFO to Long Term Debt (x)	-	-	0.08	0.16	0.08	0.21	0.25	0.31	0.40	0.56	0.95	2.89
Debt Servicing Coverage Ratio (x)	-	-	2.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
ROAE (%)	-	-	15.7	24.8	24.8	24.4	24.0	23.3	22.6	21.8	21.0	20.2

**Medium to Long-Term**

**AAA**

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

**AA+, AA, AA-**

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

**A+, A, A-**

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

**BBB+, BBB, BBB-**

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

**BB+, BB, BB-**

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

**B+, B, B-**

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

**CCC**

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

**CC**

A high default risk

**C**

A very high default risk

**D**

Defaulted obligations

**Short-Term**

**A-1+**

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

**A-1**

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

**A-2**

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

**A-3**

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

**B**

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

**C**

Capacity for timely payment of obligations is doubtful.

**Rating Watch:** JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. [www.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.com.pk/images/criteria_watch.pdf)

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. [www.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.com.pk/images/criteria_outlook.pdf)

**(SO) Rating:** A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. [www.jcrvis.com.pk/images/policy\\_ratings.pdf](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

## JCR-VIS Credit Rating Company Limited

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REGULATORY DISCLOSURES		Appendix 7			
<b>Name of Rated Entity</b>	Quaid-e-Azam Thermal Power Private Limited				
<b>Sector</b>	Power				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
<b><u>RATING TYPE: ENTITY</u></b>					
	April 4, 2017	AA	A-1+	Stable	Reaffirmed
	April 19,2016	AA	A-1+	Stable	Initial
<b>Statement by the Rating Team</b>	JCR-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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