

## RATING REPORT

### Quaid-e-Azam Solar Power (Private) Limited (QASPL)

**REPORT DATE:**

November 23, 2017

**RATING ANALYSTS:**

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#### RATING DETAILS

Rating Category	Latest Rating		Initial Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AA-	A-1	AA-	A-1
Rating Outlook	Rating Watch- Developing		Stable	
Outlook Date	17 Nov'17		17 Nov'16	

#### COMPANY INFORMATION

Incorporated in 2013	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. Muhammad Amjad
Government of Punjab – 100%	

#### APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporate (May 2016)*  
<http://www.jcrvis.com.pk/home2.aspx>

## Quaid-e-Azam Solar Power (Pvt.) Limited

### OVERVIEW OF THE INSTITUTION

Quaid-e-Azam Solar Power (Private) Limited was incorporated as a private limited company under the company's ordinance, 1984 on September 16, 2013. The principal activity of the company is to build, own, operate and maintain a solar plant having a total capacity of 100 MW.

#### Profile of Chairman

The board is chaired by Mr. Arif Saeed. He has been the Chairman of All Pakistan Textile Mills Association and the Chairman of Lahore Stock Exchange. Mr. Saeed is also the Chairman of Quaid-e-Azam Thermal Power (Pvt.) Limited (QATPL) and National Power Parks Management Company (Pvt.) Limited (NPPMCL). He also sits on the Board of Servis Group.

#### Profile of CEO

Mr. Muhammad Amjad brings over twenty-five years of engineering, business development and executive management experience in energy and power sector. He is an Engineer by profession.

#### Financial Highlight

**Sales** FY17: Rs. 3.1b & FY16: Rs. 3.0b

**PAT:** FY17: Rs. 1.3b & FY16: Rs. 1.0b

**Total Assets:** FY17: Rs. 15.4b & FY16: Rs. 16.7b

**Equity:** FY17: Rs. 4.4b & FY16: Rs. 4.4b

### RATING RATIONALE

The ratings take into account ownership structure of the company: QASPL is a wholly owned subsidiary of the Government of Punjab (GoPb). The energy is purchased by Central Power Purchasing Agency (Guarantee) Limited under the Energy Purchase Agreement. The ratings also incorporate sovereign guarantee on payment obligations by the power purchaser. The experience of the Operations and Maintenance contractor largely mitigates risks associated with the company's operations.

#### Rating Drivers

**Project Profile & Capital Structure:** QASPL is part of GoPb initiative to establish a 1,000 MW solar park in Bahawalpur. The company has secured a power generation license from NEPRA for 25 years, lasting till December, 2039. The plant operated at 18.25% (FY16: 18.28%) capacity with annual production of 159.9 GWh (FY16: 160.1 GWh) during FY17. The capacity factor of the plant is subject to 0.7% annual degradation. As per the agreement, QASPL is required to maintain a minimum Debt Service Coverage Ratio (DSCR) of 1.25x and minimum current ratio of 1.0. At end-FY17.

**Profitability:** During FY17, sale of electricity remained largely the same in comparison to last year; it is likely to remain around the same level on the whole in future, considering optimum capacity utilization of the plant. While sales and gross margins remained largely stagnant, net profit stood higher on the back of lower financial charges and higher other income. Despite lower income on bank deposits, other income increased mainly on account of higher quantum of liquidation damages received from EPC contractor for not fulfilling the agreed terms of efficiency of the plant mentioned in the EPC contract. Accounting for taxation, net income was reported higher at Rs. 1.3b (FY16: Rs. 1.0b).

**Capitalization and Funding:** With nominal profit retention, modest increase was witnessed in total equity, which amounted at Rs. 4.43b (FY16: Rs. 4.41b) by end-FY17. The company has paid cash dividend amounting Rs. 1.3b during the year. ROAE increased over the year to 29.9% (FY16: 25.0%). In line with the decrease in the long term financing, leverage indicators have improved by end-FY17: gearing will continue to improve with declining debt levels in foreseeable future.

**Liquidity and cash flows:** Current assets constitute trade debts, advances and cash bank balances. Excess cash was placed in savings account with the banks. Trade debts have witnessed an increase owing to sector related mounting intercorporate debt; delayed payment in this regard results in imposition of mark-up on the overdue amount. Funds from operations increased primarily on account of higher profit before tax. FFO to total debt stood higher at 0.21x (FY16: 0.15x); the ratio is expected to gradually improve with declining balance of total debt, going forward. As per the agreement, QASPL is required to maintain a minimum Debt Service Coverage Ratio (DSCR) of 1.25x and minimum current ratio of 1.0. At end-FY17, DSCR was reported 2.80x while current ratio stood at 1.37.

**Privatization Process:** The privatization of QASPL is under process and it is planned to be completed through bidding process till end-December 2017. GoPb intends to offload all of its stake through the said process.

## JCR-VIS Credit Rating Company Limited

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

### Quaid-e-Azam Solar Power (Private) Limited (QASPL)

### Annexure-1

FINANCIAL SUMMARY		(Amounts in PKR Millions)		
<b><u>BALANCE SHEET</u></b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>	
Fixed Assets (Property, plant and equipment)	12,640	13,272	12,507	
Long term Deposits & Prepayments	1,447	1,497	-	
Cash & Bank Balances	1,595	2,438	1,579	
Total Assets	15,366	16,743	14,339	
Trade and Other Payables	577	1,459	3,903	
Total Equity	4,436	4,416	3,701	
<b><u>INCOME STATEMENT</u></b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>	
Revenue	3,053	2,956	-	
Gross Profit	2,172	2,109	-	
Operating Profit	2,318	2,080	-14.37	
Profit Before Tax	1,361	1,043	-14.49	
Profit After Tax	1,322	1,015	-92.87	
<b><u>RATIO ANALYSIS</u></b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>	
Gross Margin (%)	71.1%	71.3%	*	
Profit Before Tax Margin (%)	44.6%	35.3%	*	
Net Working Capital	688	832	-2,714	
FFO to Total Debt (x)	0.2	0.2	0.01	
FFO to Long Term Debt (x)	0.2	0.2	0.01	
Debt Servicing Coverage Ratio (x)	2.8	2.8	n.m	
Gearing (x)	2.2	2.4	1.7	
Debt Leverage (x)	2.4	2.8	2.9	
ROAA (%)	8.2%	6.5%	-0.6%	
ROAE (%)	29.9%	25.0%	-2.5%	

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Annexure-1

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.

REGULATORY DISCLOSURES		Annexure-3			
<b>Name of Rated Entity</b>	Quaid-e-Azam Solar 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>RATING TYPE: ENTITY</b>				
	17/11/2017	AA-	A-1	Rating Watch-Developing	Maintained
17/11/2016	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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