The Pakistan Credit Rating Agency Limited

Rating Report

Harappa Solar (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
02-Apr-2018	A-	A1	Stable	Maintain	-
31-Aug-2017	A-	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Harappa Solar (Pvt.) Limited, 18MWp – Pakistan's first solar power plant with single axis sun tracking technology was set up under 2006 Renewable Energy Policy. The rating incorporates successful commissioning of the plant, achieved on 14th October 2017. The company opted for upfront tariff. Under the upfront tariff regime, any variability in solar energy is to be borne by the Company, due to which its cash flows may face seasonality. The rating takes comfort from plant's latest technology which gives it extra cushion of 2.1 percentage points over required plant factor – 17%, minimizing solar risk. The company has signed Energy Purchase Agreement with Central Power Purchasing Agency (CPPA-G) for a period of 25 years. The company has signed O&M contract with OMS (Pvt.) Limited for a period of three years. Going forward, the management is planning to move O&M function in-house. The Government of Pakistan has provided a sovereign guarantee against dues from CPPA-G. However, the Company's ability to manage contracted parameters over multiple solar cycles is yet to be seen. The company has availed both foreign and local loan to finance the debt. Foreign loan, covered through SBLC from local financial institutions, is availed from ECO Trade and Development Bank Turkey. Local loan is received from The Bank of Punjab, Pak Oman Investment Company and Askari Bank Limited. The company is required to maintain DSRA equivalent to two debt repayments under financing documents, this requirement is being met by SBLC from sponsors. Going forward, the company plans to fund DSRA from internal cashflows.

Upholding operational performance in line with agreed performance levels is important. Improving, indeed aligning, build-up of DSRA from internal sources, receipt pattern from power purchaser, debt repayment behavior and liquidity cushion would impact the directions of ratings. External factors such as any adverse changes in the regulatory framework and weakening of financial profile may impact negatively.

Disclosure	
Name of Rated Entity	Harappa Solar (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation between long-term and short-term rating scale(Jun-2017), Methodology | Criteria Modifiers(Jun-2017), Methodology | Independent Power Producers (IPP)(May-2017)
Related Research	Sector Study | Power Generation(Mar-2017)
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HARAPPA SOLAR (PRIVATE) LIMITED PROFILE	
Incorporated	2014
Major business lines	Independent Power Producer
Legal status	Private Limited
COD	2017
Plant Specifications	Single-Axis Tracking
No. of Transformers	12
Plant Location	Sahiwal, Punjab
Head Office	Lahore

INDUSTRY SNAPSHOT

- Pakistan total power generation is increasing on the back of new power projects under CPEC
- Pakistan's energy mix is shifting towards Gas/RLNG and coal from Furnace Oil and other expensive sources
- AEDB to ensure 5% of total national power generation by end 2030
- Going forward, cheap renewable electricity will be a challenge to viability of Gas based power plants.

OWNERSHIP

- HSPL is majorly owned by Rana Nasim Ahmed with 75% shareholding followed by Mr. Khaqan Babar Cheema & Wind force (Pvt.) Limited with 13% and 11.8% shareholding respectively.
- Mr. Rana Nasim Ahmed has been serving as the Chief Operating Officer of JDW Sugar Mills Limited (JDW) since 2001. While Mr. Khaqan Babar Cheema is the Managing Partner of Orient Cargo, a freight forwarding and logistics management company in Pakistan.
- Windforce is a Sri Lankan power generation company, is equity partner in Harappa Solar and has already commissioned 2 x 12.5 MW solar IPPs in Sri Lanka.

GOVERNANCE

- HSPL's Board of Directors (BoD) comprises eight members, including the CEO. Seven board members are currently nominated by main sponsor.
- Rana Nasim Ahmed is the chairman of the board. He has served as the COO/Resident Director of JDW Sugar Mills Limited (JDW) since 2001.
- The board members have diversified experience along with useful experience of setting up and running of power plants.

MANAGEMENT

- Rana Uzair Nasim is the Chief Executive Officer of the company
- Mr. Uzair, CEO has experience of development and operations of power projects. He has led HSPL from incorporation to completion. His previous experience of setting up renewable energy projects was key for smooth incorporation and finalization of all key agreements.
- Mr. Uzair is supported by a young, qualified and experienced management team.

OPERATIONAL & PERFORMANCE RISK

- The required COD as per the EPA is 22nd October, 2017. However, plant was successfully commissioned on 14th October, 2017.
- HSPL operates under the Renewable Energy Policy 2006
- The Energy Purchase Agreement is with Central Power Purchasing Agency (CPPA-G), and has a tenure of 25 years.
- HSPL opted for the Upfront Tariff for Solar Power Projects by NEPRA. The Company has a levelized generation tariff of 11.5327 US¢ per KWh for 25 years.
- HSPL is Pakistan's first solar power plant with single axis sun tracking technology.
- HSPL has negotiated an O&M contract with OMS (Pvt.) Limited for a period of three years.
- HSPL has installed PV modules with Single Axis Tracking Technology. Tracking system has given the company cushion to perform under agreed performance parameters (Plant Factor 17% under EPA) with NEPRA. Whereas HSPL has an average plant capacity factor of above 19%.
- Moreover, average performance ratio of the plant till Feb-2018 since COD is ~82.9% (Required: 77.2%).
- HSPL generated a total of net electricity output ~8,324 MWH of electricity during FY18 since its COD in October 2017.
- HSPL's average availability is ~99.9% (Required: 95.5%) till Feb-18 since its COD.
- HSPL revenues will be exposed to seasonality variation during the year.
- EPC contract also include some performance benchmarks to be met. In case actual performance ratio is lower than benchmark, EPC contractor will be liable to pay Liquidated Damages. However, HSPL took over the cleaning from EPC in December 2017.

FINANCIAL RISK

- Debt financing constitutes 75% of the project cost i.e. USD 18mln. The USD facility between the ECO Trade and Development Bank Turkey and HSPL is for USD 8.2mln at LIBOR plus 4.7% p.a. (inclusive of USD denominated SBLC covering whole FCY facility).
- The local debt facility is between The Bank of Punjab and Askari Bank, Pak Oman Investment Company and HSPL for PKR 996mln at 6% p.a. under SBP refinance facility or KIBOR + 3% for any amount not yet refinanced by SBP.
- The tenor is of 10 years with Quarterly debt repayments starting from end Mar18.
- The company provided its first invoice to CPPA-G on 4th November, 2017.
- Receivables amounting to PKR 50.4mln owing to turnover of PKR 73.7mln at 1HFY18.
- HSPL projects to generate USD ~4mln FCFO yearly which will be enough to meet its debt obligations.
- HSPL would have to make quarterly principal payment of USD ~0.385mln which includes USD ~0.159mln foreign component and USD 0.226mln local component. HSPL projects to maintain minimum coverage of 1.2x at all times.
- The company is required to maintain DSRA equivalent to two debt repayments under financing documents, this requirement is being met by SBLC from sponsors and is planned to be funded by company from internal cashflows going forward.

Harappa Solar (Private) Limited *PKR Mln*

BALANCE SHEET	**31-Dec-17**	**30-Jun-17**	**30-Jun-16**	**30-Jun-15**
	6M	**Annual**	**Annual**	**Annual**
Non-Current Assets	**2,202**	**1,926**	**20**	**11**
Current Assets	**572**	**216**	**1**	**8**
Inventory	-	-	-	-
Trade Receivables	50	-	-	-
Other Current Assets	48	34	0	2
Cash & Bank Balances	473	181	1	6
Total Assets	**2,773**	**2,142**	**21**	**19**
Debt	**1,828**	**1,016**	**-**	**-**
Short-term	-	-	-	-
Long-term (Inlc. Current Maturity of long-term debt)	1,828	1,016	-	-
Other Short term liabilities (inclusive of trade payables)	362	672	16	22
Other Long term Liabilities	-	-	-	-
Shareholder's Equity	**584**	**453**	**5**	**(3)**
Total Liabilities & Equity	**2,773**	**2,142**	**21**	**19**
INCOME STATEMENT				
Turnover	**73.7**	**-**	**-**	**-**
Gross Profit	73.7	-	-	-
Other Income	1.2	1.8	-	-
Admin Expenses	(46.8)	(16.5)	(10.2)	(3.4)
Financial Charges	(21.3)	(1.1)	(0.1)	(0.1)
Net Income	**6.8**	**(22.3)**	**(10.4)**	**(3.5)**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	49.2	(14.6)	(10.2)	(3.443464)
Net Cash changes in Working Capital	(374.4)	621.3	(4.2)	20.5
Net Cash from Operating Activities	(346.5)	605.6	(14.6)	17.0
Net Cash from InvestingActivities	(296.6)	(1,912.8)	(8.6)	(11.2)
Net Cash from Financing Activities	934.9	1,487.5	18.5	0.0
Net Cash generated during the period	291.8	180.3	(4.7)	5.8
Ratio Analysis				
Performance				
Gross Margin	100.0%	n.a	n.a	n.a
Net Margin	9.2%	n.a	n.a	n.a
ROE	3.5%	n.a	n.a	n.a
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	0.5	-0.3	-76.2	n.a
Interest Coverage (X) (FCFO/Gross Interest)	2.3	n.a	n.a	n.a
FCFO Pre-WC/Gross interest+CMLTD+Uncovered STB	0.3	0.0	-1.9	-1.5
FCFO Post-WC/Gross interest+CMLTD+Uncovered STB	-1.7	0.8	-2.7	7.5
Liquidity				
Short Term Borrowings Coverage (Adjusted Quick Assets/Short Te	n.a.	n.a.	n.a.	n.a.
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days	62.4	n.a	n.a	n.a
Capital Structure				
Net Debt/Net Debt+Equity	76%	69%	0%	0%

ENTITY CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.
AA+ **AA** **AA-**	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ **A** **A-**	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ **BBB** **BBB-**	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.
BB+ **BB** **BB-**	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ **B** **B-**	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business, and economic environment.
CCC **CC** **C**	**Very high credit risk.** "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short Term Ratings

A1+: The highest capacity for timely repayment.

A1:. A strong capacity for timely repayment.

A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.

A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

Outlook (Stable, Positive, Negative, Developing)
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business or financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Suspension
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, a suspended rating should be considered withdrawn.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

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iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

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(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
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Conduct of Business
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(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
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(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
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