



The Pakistan Credit Rating Agency Limited

## Rating Report

### Harappa Solar (Pvt.) Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
09-Sep-2022	A	A1	Stable	Maintain	-
10-Sep-2021	A	A1	Stable	Maintain	-
11-Sep-2020	A	A1	Stable	Upgrade	-
08-Oct-2019	A-	A1	Stable	Maintain	-
30-Apr-2019	A-	A1	Stable	Maintain	-
30-Nov-2018	A-	A1	Stable	Maintain	-
02-Apr-2018	A-	A1	Stable	Maintain	-
31-Aug-2017	A-	A1	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Harappa Solar Private Limited an 18MWp Solar Power Plant – incorporated in September 2014, operates under the Renewable Energy Policy 2006. The Company opted for the 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 ratings, take into account sound profile of sponsors having considerable experience in establishing green-field projects in power and industrial sectors and also operating a portfolio of solar projects. A long-term energy purchase agreement of 25 years with CPPA-G, mitigating the underlying business and economical risk factors, along with sovereign guarantees on power purchaser’s payment obligation, also contribute positively towards the ratings. Ratings incorporate adherence to performance benchmarks through power generation, underpinned by healthy cash flows generation. Short-term borrowing levels also reflect a need to oversee the working capital management. 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. The 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, the Company is funding DSRA from SBLC. The Company has repaid ~37% of foreign loan and ~43% of local loan has been repaid, by which leveraging comes to 64%

Upgrading operational performance in line with agreed performance levels is important. Improvement in inflows and availability of unutilized credit limit remained congenial for the ratings.

#### Disclosure

<b>Name of Rated Entity</b>	Harappa Solar (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Independent Power Producer Rating(Jun-22)
<b>Related Research</b>	Sector Study   Power(Jan-22)
<b>Rating Analysts</b>	Anam Waqas Ghayour   anam.waqas@pacra.com   +92-42-35869504

## Profile

**Plant** Harappa Solar Private Limited (Harappa Solar) set up an 18 MWp Solar Power Plant near Harappa Bypass, Tehsil and District Sahiwal, Punjab. The Plant is Pakistan's first single axis technology based solar Plant and operates under the Renewable Energy Policy 2006.

**Tariff** Harappa Solar opted for the Upfront Tariff for Solar Power Projects by NEPRA. The Company has a levelized generation Tariff of 11.6972 US¢ per KWh for 25 years.

**Return On Project** The ROE of the Harappa Solar project, as agreed with NEPRA, is 17%.

## Ownership

**Ownership Structure** Harappa Solar is primarily sponsored by Rana Nasim Ahmed with 75% shareholding, other significant shareholders are Mr. Khaqan Babar Cheema (12%) and Windforce (Pvt.) Ltd (12.8%)

**Stability** Stability in the IPPs is drawn from the agreements signed between the Company and power purchaser. The term of the EPA is 25 years. Meanwhile, the Implementation Agreement provides a sovereign guarantee for cashflows, given adherence to agreed performance benchmarks.

**Business Acumen** The project sponsors include local and international players with a track record spanning of 300 MWp renewable projects across multiple countries with hands-on experience of commissioning and operating the power plants.

**Financial Strength** Strong financial background of sponsors and Windforce (Pvt.) Limited (foreign investor) will continue to provide comfort.

## Governance

**Board Structure** Harappa Solar's Board of Directors (BoD) comprises eight members, including the CEO. Seven Board members are currently nominated by the major sponsors. Only the CEO is executive director while all other directors are non-executive. Rana Nasim Ahmed is the chairman of the Board.

**Members' Profile** The Board members have diversified experience with limited but useful experience of setting up and running of power plants.

**Board Effectiveness** Board has not formed any Board committee to oversee the Company's affairs. The company maintains adequate Board meeting minutes.

**Financial Transparency** KPMG Taseer Hadi & Co. is the external auditor of the Company. The auditor gave an unqualified opinion on the Company's financial statements for the year ended June 30, 2020, while audit for FY21 is in process.

## Management

**Organizational Structure** IPPs are generally featured by a flat organizational structure, mainly comprising finance and technical staff, while the engineering, construction, and operations of the plant are outsourced.

**Management Team** Rana Uzair Nasim is the CEO of the Company. His previous experience of setting up renewable energy projects was the key for smooth incorporation and finalization of all key agreements. Mr. Uzair is supported by experienced, professional and efficient management team.

**Effectiveness** The management's role in an IPP is confined largely to financial matters and regulatory interaction. The management tier ensures effective delegation of functional responsibility across various departments, facilitating a smooth flow of operations.

**Control Environment** Harappa Solar takes advantage of advanced I.T. solutions to deliver comparatively better on many fronts.

## Operational Risk

**Power Purchase Agreement** The Energy Purchase Agreement (EPA) is with the Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) and has a tenure of 25 years. There will be only an energy payment in contrast to other thermal plants which includes energy and capacity payments.

**Operation And Maintenance** Harappa Solar has negotiated an O&M contract with OMS (Pvt.) Limited for a period of three years. In case of any equipment's malfunctioning O&M team will have a natural timeline of 12 hours of non-sunlight hours to fix the issue. This gives comfort to the O&M team to minimize plant downtime.

**Resource Risk** Solar Energy is dependent on mainly two things irradiation and temperature. Harappa Solar has employed single axis technology, which will help the plant to effectively utilize solar energy

**Insurance Cover** Insurance is attained for material damage, third party liability, and delay in startup affecting the profits. EPC contract also includes some performance benchmarks to be met. In the case of actual performance, the ratio is lower than the benchmark performance ratio EPC contractor will be liable to pay Liquidated damages.

## Performance Risk

**Industry Dynamics** After the introduction of Renewable Power Policy 2006, the inclination towards the renewable energy sources i.e. Hydro, Solar, Wind, Biogas, has been on rise. Till June FY2022, the total installed generation capacity of Pakistan has jumped to 41,557MW (FY21: 37,261MW), posting a growth of 11.5%. Out of which solar IPPs contribute around 1%. Biggest contributor remains to be thermal i.e. 62% followed by hydro i.e. 24%.

**Generation** The Annual Benchmark electricity generation for Harappa Solar based on 17% Capacity Factor is 26,806 MWh. The Company has generated 34,671 MW of electricity during FY22 (FY21: 37,557 MW).

**Performance Benchmark** The required availability for Harappa Solar under the EPA is 90%. During FY22, average plant availability has been maintained according to agreed parameter (99%).

## Financial Risk

**Financing Structure Analysis** Debt financing constitutes 75% of the total Harappa Solar's project cost i.e. USD 18mln. The FCY facility between the ECO Trade and Development and Harappa Solar is for USD 8.2mln with a tenure of 10 years with quarterly payments. The local debt facility is between The Bank of Punjab and Askari Bank, Pak Oman Investment Company and Harappa Solar for PKR 996mln. The equity portion of the project cost amounts to USD ~6mln. Harappa Solar has repaid seventeen installments of both local and foreign loan by end-March 22. 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 the Company from internal cash flows going forward. As per the agreement, any upward shift in US dollars is adjusted in the Company's tariff that is reflected in the top line of the company.

**Liquidity Profile** During 3QFY22, Harappa Solar total receivables stood at PKR 249mln. (FY21: PKR 320mln). As circular debt continues to be an issue for companies operating in power sector, consequently IPPs have to manage their liquidity requirements from short-term borrowings.

**Working Capital Financing** As at end March 22, total short term working capital lines i.e. ~PKR 325mln (FY21: ~PKR 325mln), remained ~69% utilized.

**Cash Flow Analysis** During 3QFY22, free cash flows from operations (FCFO) stood at PKR 309mln as compared to PKR 539mln in FY21. Coverages (FCFO pre WC / Gross Interest +CMLTB ) have increased due to sizable cash generation and reduced finance cost.

**Capitalization** The Company currently has leveraged capital structure comprises 64% debt during 3QFY22. During 3QFY22, STD (PKR 223mln) comprises 12% of total debt & LTD comprises 88% (PKR 1,593mln).



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Harappa Solar (Pvt.) Ltd. Power	Mar-22	Dec-21	Jun-21	Jun-20
	9M	6M	12M	12M

**A BALANCE SHEET**

1 Non-Current Assets	2,524	2,527	2,541	2,655
2 Investments	62	62	113	30
3 Related Party Exposure	-	-	-	-
4 Current Assets	344	359	460	478
<i>a Inventories</i>	-	-	-	-
<i>b Trade Receivables</i>	249	221	320	313
<b>5 Total Assets</b>	<b>2,930</b>	<b>2,949</b>	<b>3,114</b>	<b>3,163</b>
6 Current Liabilities	100	95	72	77
<i>a Trade Payables</i>	1	1	2	2
7 Borrowings	1,816	1,895	2,008	2,068
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	3	2	2
<b>10 Net Assets</b>	<b>1,015</b>	<b>955</b>	<b>1,032</b>	<b>1,016</b>
<b>11 Shareholders' Equity</b>	<b>1,014</b>	<b>955</b>	<b>1,032</b>	<b>1,016</b>

**B INCOME STATEMENT**

1 Sales	377	242	613	619
<i>a Cost of Good Sold</i>	(134)	(89)	(174)	(168)
<b>2 Gross Profit</b>	<b>244</b>	<b>152</b>	<b>440</b>	<b>451</b>
<i>a Operating Expenses</i>	(34)	(22)	(36)	(34)
<b>3 Operating Profit</b>	<b>210</b>	<b>130</b>	<b>404</b>	<b>417</b>
<i>a Non Operating Income or (Expense)</i>	15	10	24	35
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>225</b>	<b>139</b>	<b>428</b>	<b>452</b>
<i>a Total Finance Cost</i>	(85)	(58)	(118)	(154)
<i>b Taxation</i>	(0)	(0)	(1)	(1)
<b>6 Net Income Or (Loss)</b>	<b>139</b>	<b>81</b>	<b>309</b>	<b>297</b>

**C CASH FLOW STATEMENT**

<i>a Free Cash Flows from Operations (FCFO)</i>	309	198	535	564
<i>b Net Cash from Operating Activities before Working Capital</i>	225	140	425	424
<i>c Changes in Working Capital</i>	62	84	(13)	13
<b>1 Net Cash provided by Operating Activities</b>	<b>287</b>	<b>224</b>	<b>411</b>	<b>437</b>
<b>2 Net Cash (Used in) or Available From Investing Activities</b>	<b>57</b>	<b>54</b>	<b>(80)</b>	<b>(27)</b>
<b>3 Net Cash (Used in) or Available From Financing Activities</b>	<b>(415)</b>	<b>(310)</b>	<b>(363)</b>	<b>(332)</b>
<b>4 Net Cash generated or (Used) during the period</b>	<b>(72)</b>	<b>(32)</b>	<b>(31)</b>	<b>78</b>

**D RATIO ANALYSIS**

<b>1 Performance</b>				
<i>a Sales Growth (for the period)</i>	-17.9%	-21.2%	-1.0%	8.7%
<i>b Gross Profit Margin</i>	64.5%	63.0%	71.7%	72.8%
<i>c Net Profit Margin</i>	36.9%	33.5%	50.4%	48.0%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital / Net Profit Margin)</i>	98.4%	116.7%	85.1%	93.2%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * Equity Multiplier ]</i>	17.8%	16.5%	29.7%	29.7%
<b>2 Working Capital Management</b>				
<i>a Gross Working Capital (Average Days)</i>	207	204	188	188
<i>b Net Working Capital (Average Days)</i>	205	203	187	177
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	3.5	3.8	6.4	6.2
<b>3 Coverages</b>				
<i>a EBITDA / Finance Cost</i>	4.3	4.0	5.7	4.2
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.4	1.6	1.9	1.5
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Excess STB)</i>	5.0	5.5	3.9	4.4
<b>4 Capital Structure</b>				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	64.2%	66.5%	66.1%	67.1%
<i>b Interest or Markup Payable (Days)</i>	50.1	52.1	57.3	39.0
<i>c Entity Average Borrowing Rate</i>	5.0%	5.0%	4.7%	6.4%

**Credit Rating**

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

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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.
AA-	
A+	
A	<b>High credit quality.</b> 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.
A-	
BBB+	
BBB	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	<b>Moderate risk.</b> 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.
BB	
BB-	
B+	
B	<b>High credit risk.</b> 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.
B-	
CCC	<b>Very high credit risk.</b> Substantial 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.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
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.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*\*The correlation shown is indicative and, in certain cases, may not hold.*

**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/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’.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

**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, the rating should be considered withdrawn.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

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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(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)

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(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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