



The Pakistan Credit Rating Agency Limited

Rating Report

Harappa Solar (Pvt.) Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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 (Harappa Solar), 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. The total outstanding foreign and local debt of Harappa Solar stood at ~USD 7.7mln and ~PKR 921mln respectively. The company has repaid three installments up to date.

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 Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18),Methodology IPP (Jun-18)
Related Research	Sector Study Power(Apr-18)
Rating Analysts	Faizan Arif faizan.sufi@pacra.com +92-42-35869504

Profile

Plant Harappa Solar Private Limited (Harappa Solar) set up an 18 MWp Solar Power Plant near Harappa Bypass, Teshil 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's major sponsor is Rana Nasim Ahmed with 75% shareholding followed by Mr. Khaqan Babar Cheema (13%) and Wind Force (Pvt.) Limited (~12%).

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

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

Financial Strength Strong financial background of major sponsor 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. He has served as the COO/Resident Director of JDW Sugar Mills Limited (JDW) since 2001.

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 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, 2018.

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 key for smooth incorporation and finalization of all key agreements. Mr. Uzair is supported by a young, 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 take advantage of advanced I.T. solutions 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.

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 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 include some performance benchmarks to be met. In case actual performance ratio is lower than benchmark performance ratio EPC contractor will be liable to pay Liquidated damages.

Performance Risk

Industry Dynamics 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.

Generation Electricity generated by Harappa Solar during FY18 is 22,220MWh resulted in 82.9% performance ratio during the respective time period. The actual energy delivered during FY18 is from 14 October 2017 (COD) till 30 June 2018. Whereas the installed capacity is annualized and based on benchmark 17% capacity utilization as mentioned in Energy Purchase Agreement (EPA).

Performance Benchmark The required availability for Harappa Solar under the PPA is 90%. During FY18, the Plant was available for ~99% of the time. During FY18, the Company has made an operating profit of ~PKR 424mln (FY17: PKR -12mln), as turnover during FY18 stood at PKR 343mln in comparison to the last year since COD. Harappa Solar's bottom line has recovered from a loss of PKR 17mln during FY17 to a profit of PKR 146mln in FY18.

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. Equity portion of the project cost amounts to USD ~6 mln. The outstanding balance of FCY and local debt as of Sept-18 stands at ~USD 7.7mln and ~PKR 921mln. Harappa Solar has repaid three installments of both local and foreign loan by end-Sept18. 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.

Liquidity Profile During FY18, total receivables of the company stood at PKR 170mln. While the company has debtor's days of 181 resulting in cash cycle of 186 days. Consequently, IPPs have to manage their liquidity requirements from short-term borrowings.

Working Capital Financing The company has arranged working capital lines of PKR 85mln to cover its working capital requirement out of which PKR 58mln (68%) were utilized during FY18. Nevertheless, the company adheres to satisfactory financial discipline and has been meeting its cash requirements via a combination of internal cash flows and short term borrowing (STB).

Cash Flow Analysis Harappa Solar projects to generate USD ~4mln FCFO yearly which will be enough to meet its debt obligations. Company would have to make quarterly principal payment of USD ~0.45mln which includes USD ~0.200mln foreign component and USD 0.253mln local component. During FY18, the company has generated sizeable free cash flows (FY18: PKR 284mln, FY17: PKR -10mln) due to which company's coverage has remained satisfactory at 1.2x (FCFO post WC / Gross Interest + CMLTD + Uncovered STB), despite the delay in payments by CPPA-G.

Capitalization The Company currently has leveraged capital structure comprises 73% debt during FY18 in comparison with the corresponding period (FY17: 69%).



The Pakistan Credit Rating Agency Limited

Harappa Solar (Private) Limited

PKR Mln

BALANCE SHEET	30-Jun-18	30-Jun-17	30-Jun-16
	Annual	Annual	Annual
Non-Current Assets	2,441	1,939	20
Current Assets	271	216	1
Inventory	-	-	-
Trade Receivables	170	-	-
Other Current Assets	35	34	0
Cash & Bank Balances	66	181	1
Total Assets	2,713	2,154	21
Debt	1,938	1,016	-
Short-term	58	-	-
Long-term (Incl. Current Maturity of long-term debt)	1,880	1,016	-
Other Short term liabilities (inclusive of trade payables)	42	672	16
Other Long term Liabilities	-	-	-
Shareholder's Equity	733	466	5
Total Liabilities & Equity	2,713	2,154	21

INCOME STATEMENT

Turnover	343.7	-	-
Gross Profit	241.9	-	-
Other Income	3.1	1.8	-
Admin Expenses	(21.7)	(11.6)	(10.2)
Financial Charges	(77.5)	(1.1)	(0.1)
Net Income	146.1	(17.4)	(10.4)

Cashflow Statement

Free Cashflow from Operations (FCFO)	283.6	(9.8)	(10.2)
Net Cash changes in Working Capital	(807.0)	621.3	(4.2)
Net Cash from Operating Activities	(630.5)	610.5	(14.6)
Net Cash from Investing Activities	(387.9)	(1,917.7)	(8.6)
Net Cash from Financing Activities	902.9	1,487.5	18.5
Net Cash generated during the period	(115.5)	180.3	(4.7)

Ratio Analysis

Performance			
Gross Margin	70.4%	n.a	n.a
Net Margin	42.3%	n.a	n.a
ROE	19.8%	n.a	n.a
Coverages			
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.2	-0.2	-76.2
Interest Coverage (X) (FCFO/Gross Interest)	3.7	n.a	n.a
FCFO Pre-WC/Gross interest+CMLTD+Uncovered STB	1.2	0.0	-1.9
FCFO Post-WC/Gross interest+CMLTD+Uncovered STB	-2.2	0.9	-2.7
Liquidity			
Short Term Borrowings Coverage (Adjusted Quick Assets/Short Term)	2.5	n.a.	n.a.
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	186.3	n.a	n.a
Capital Structure			
Net Debt/Net Debt+Equity	73%	69%	0%

Harappa Solar (Private) Limited

Nov-18

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Credit Rating Scale & Definitions

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.

Long Term Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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 and in economic conditions are more likely to impair this capacity.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	Very high credit risk. 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.		
D	Obligations are currently in default.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) 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.

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Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- 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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- (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)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (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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- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (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)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (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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