



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
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 (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 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 rating takes comfort from plant’s latest technology which gives it an extra cushion of 2.1 percentage points over required plant factor – 17%, minimizing solar risk. The company has signed the Energy Purchase Agreement with Central Power Purchasing Agency (CPPA-G) for a period of 25 years. The company has signed an 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. 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; this requirement is being met by SBLC from sponsors. Going forward, the company plans to fund DSRA from internal cash flows. The total outstanding foreign and local debt of Harappa Solar stood at ~ USD 7.4mln and ~PKR 871mln respectively. The company has repaid five 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

<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   IPP (Jun-18)
<b>Related Research</b>	Sector Study   Power(Jan-19)
<b>Rating Analysts</b>	Hamza Ghalib   hamza.ghalib@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 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 MW 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. 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 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, 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 the 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 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** 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 the viability of Gas based power plants.

**Generation** During 6MFY19, the company has generated 15,095,671 kWh of electricity in comparison to 4,292,304 kWh generated in the same period last year (SPLY), with an average performance ratio of ~81.77%. The company started its commercial operations in Oct-17.

**Performance Benchmark** The required availability for Harappa Solar under the PPA is 90%. During 6MFY19, the plant was available for ~99.99% of the time. Harappa Solar's bottom line stood at ~PKR 98mln (FY18: ~PKR 145mln, FY17: ~PKR -17mln).

## 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 ~6 mln. The outstanding balance of FCY and local debt as of Dec-18 stood at ~USD 7.5mln (Sep-18: ~USD 7.7mln) and ~PKR 896mln (Sep-18: ~PKR 921mln). Harappa Solar has repaid four installments of both local and foreign loan by end-Dec18. 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. During 6MFY19, rupee depreciation has resulted into increase in foreign-long-term debt and fixed assets proportionately. 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 6MFY19, total receivables of the company stood at PKR 179mln (Jun18: PKR 170mln). Circular debt continues to be an issue for companies operating in the power sector. Consequently, IPPs have to manage their liquidity requirements through short-term borrowings.

**Working Capital Financing** During Dec-18, total available working capital lines are ~PKR 85mln of which ~100% has been utilized. Resultantly, remaining cushion in the available working capital facilities is nil currently. However, the company has the cash of ~PKR 156mln on its balance sheet which could be a source of liquidity when needed. Company's debtor days stood at ~128 days (Jun-18: 181 days) resulting in the cash cycle of 132 days (Jun-18: 186 days).

**Cash Flow Analysis** During 6MFY19 the company has generated free cash flow from operations (FCFO) of PKR 221mln (FY18: PKR 284mln). These cash flows are enough to meet its debt obligations including principal repayment (~PKR 88mln) and interest cost (~PKR 70mln). Though the Free cash flow that is being generated has increased, however, the interest cost has enlarged with the greater proportion owing to the increasing interest rate environment. This has culminated into declining coverages [Interest coverage: 6MFY19: 3.1x, FY18: 3.7x].

**Capitalization** The Company currently has leveraged capital structure comprises of ~71% during 6MFY19 (FY18: ~73%).



Harappa Solar (Private) Limited

BALANCE SHEET	30-Dec-18 6M	30-Jun-18 FY18	30-Jun-17 FY17	30-Jun-16 FY16	30-Jun-15 FY15
<b>Non-Current Assets</b>	2,536	2,441	1,939	20	11
<b>Current Assets</b>	355	271	216	1	8
Inventory	-	-	-	-	-
Trade Receivables	179	170	-	-	-
Other Current Assets	20	35	34	0	2
Cash & Bank Balances	156	66	181	1	6
<b>Total Assets</b>	<b>2,890</b>	<b>2,713</b>	<b>2,154</b>	<b>21</b>	<b>19</b>
<b>Debt</b>	2,015	1,938	1,016	-	-
Short-term	85	58	-	-	-
Long-term (Incl. Current Maturity of long-term debt)	1,930	1,880	1,016	-	-
Other Short term liabilities (inclusive of trade payables)	45	42	672	16	22
Other Long term Liabilities	-	-	-	-	-
<b>Shareholder's Equity</b>	<b>830</b>	<b>733</b>	<b>466</b>	<b>5</b>	<b>(3)</b>
<b>Total Liabilities &amp; Equity</b>	<b>2,890</b>	<b>2,713</b>	<b>2,154</b>	<b>21</b>	<b>19</b>

INCOME STATEMENT

<b>Turnover</b>	254.2	343.7	-	-	-
Gross Profit	175.9	241.9	-	-	-
Other Income	4.1	3.1	1.8	-	-
Admin Expenses	(8.7)	(21.7)	(11.6)	(10.2)	(3.4)
Financial Charges	(72.4)	(77.5)	(1.1)	(0.1)	(0.1)
<b>Net Income</b>	<b>97.6</b>	<b>145.3</b>	<b>(17.4)</b>	<b>(10.4)</b>	<b>(3.5)</b>

Cashflow Statement

Free Cashflow from Operations (FCFO)	220.9	283.6	(9.8)	(10.2)	(3.443464)
Net Cash changes in Working Capital	8.2	(807.0)	621.3	(4.2)	20.5
Net Cash from Operating Activities	159.5	(630.5)	610.5	(14.6)	17.0
Net Cash from Investing Activities	(8.7)	(387.9)	(1,917.7)	(8.6)	(11.2)
Net Cash from Financing Activities	(60.8)	902.9	1,487.5	18.5	0.0
Net Cash generated during the period	90.0	(115.5)	180.3	(4.7)	5.8

Ratio Analysis

<b>Performance</b>					
Gross Margin	69.2%	70.4%	n.a	n.a	n.a
Net Margin	38.4%	42.3%	na	na	na
ROE	23.5%	19.8%	n.a	n.a	n.a
<b>Coverages</b>					
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTI	1.3	1.2	-0.2	-76.2	n.a
Interest Coverage (X) (FCFO/Gross Interest)	3.1	3.7	n.a	n.a	n.a
FCFO Pre-WC/Gross interest+CMLTD+Uncovered STB	1.3	1.2	0.0	-1.9	-1.5
FCFO Post-WC/Gross interest+CMLTD+Uncovered STB	1.4	-2.2	0.9	-2.7	7.5
<b>Liquidity</b>					
Short Term Borrowings Coverage (Adjusted Quick Asset	2.1	2.5	n.a.	n.a.	n.a.
Net Cash Cycle (Inventory Days + Receivable Days - Pay	132.1	186.3	n.a	n.a	n.a
<b>Capital Structure</b>					
Net Debt/Net Debt+Equity	71%	73%	69%	0%	0%

Harappa Solar (Private) Limited

## 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	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<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.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<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.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<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.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<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.	<b>B</b>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>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>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<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.		
<b>D</b>	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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