



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
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 (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 may extend the O&M contract or move this function in-house. The Government of Pakistan has provided a sovereign guarantee against dues from CPPA-G. Current borrowings mainly short-term reflect the need to bridge the working capital requirements and maintenance of projects. Because of the increasing receivables and consequent funding thereof the company is in process of arranging additional credit lines from the financial institutions. 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 7.26mln and ~PKR 847mln respectively. The company has repaid six 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	PACRA_Methodology_IPP_FY19(Jun-19),PACRA_Criteria_LT ST Relationship_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study Power(Jan-19)
Rating Analysts	Taimoor Ahmad taimoor.ahmad@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 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 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 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 Pakistan power generation is increasing on back of new power projects under CPEC. During July - March FY2019, installed capacity of electricity reached 34,282MW, which was 33,433MW in corresponding period last year, growth of 2.5 percent. Although electricity generation varies due to availability of inputs and other constraints, the generation increased from 82,011GWh to 84,680GWh, growth of 2.1 percent during the period under discussion

Generation The company has generated 31,770 MWh of electricity during FY19 as compared to 22,220 MWh of electricity during FY18 (Oct-17-Jun18) . The company started its commercial operations in Oct-17.

Performance Benchmark The required availability for Harappa Solar under the PPA is 90%. During FY19, average plant availability has been maintained according to agreed parameter (99%). During FY19 the topline of the company stood at PKR 570mln as compared to PKR 344mln during FY18 (Oct 17-Jun18).

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 total outstanding foreign debt of Harappa Solar stood at ~ USD 7.3mln as at end-June19 and the outstanding amount of local debt as of June-19 stood at ~PKR 847mln. Harappa Solar has repaid six installments of both local and foreign loan by end-June19. 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 FY19, 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 FY19, Harappa Solar total receivables stood at PKR 326mln at end June-19 (FY18: PKR 170mln). 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. However, the government efforts in cutting distribution losses and the issue of Pakistan Energy Sukuk-II worth Rs200bln reiterates the government commitment to overcome the crisis.

Working Capital Financing As at end Jun-19, total available working capital lines are ~PKR 85mln of which ~100% has been utilized. Because of the increasing receivables and consequent funding thereof the company has arranged additional credit lines from the financial institutions. Company's debtor days increased to ~209 days at at end Jun-19 (Jun-18: 181 days) as a result of delay in payments from power purchaser.

Cash Flow Analysis During FY19, free cash flows from operations (FCFO) stood at PKR 495mln as compared to PKR 284mln in FY17(Oct 2017-June2018). Coverages (FCFO pre WC / Gross Interest +CMLTD) have been increasing [FY19: 1.38x, FY18: 1.20x] due to sizeable cash generation.

Capitalization The Company currently has leveraged capital structure comprises 70% debt during FY19 in comparison with the corresponding period (FY18: 73%). During FY19, STD (PKR 85mln) comprises 14% of total debt & LTD comprises 86% (PKR 2,022mln).



Harappa Solar (Private) Limited

BALANCE SHEET	30-Jun-19	30-Jun-18	30-Jun-17	30-Jun-16
	FY19	FY18	FY17	FY16
Non-Current Assets	2,679	2,441	1,939	20
Current Assets	385	271	216	1
Inventory	-	-	-	-
Trade Receivables	326	170	-	-
Other Current Assets	23	35	34	0
Cash & Bank Balances	36	66	181	1
Total Assets	3,064	2,713	2,154	21
Debt	2,107	1,938	1,016	-
Short-term	85	58	-	-
Long-term (Incl. Current Maturity of long-term debt)	2,022	1,880	1,016	-
Other Short term liabilities (inclusive of trade payables)	53	42	672	16
Other Long term Liabilities	-	-	-	-
Shareholder's Equity	904	733	466	5
Total Liabilities & Equity	3,064	2,713	2,154	21

INCOME STATEMENT

Turnover	570	344	-	-
Gross Profit	414	242	-	-
Other Income	5	3	2	-
Admin Expenses	(19)	(22)	(12)	(10)
Financial Charges	(149)	(78)	(1)	(0)
Net Income	251	145	(17)	(10)

Cashflow Statement

Free Cashflow from Operations (FCFO)	495	284	(10)	(10)
Net Cash changes in Working Capital	(105)	(807)	621	(4)
Net Cash from Operating Activities	246	(631)	610	(15)
Net Cash from Investing Activities	(9)	(388)	(1,918)	(9)
Net Cash from Financing Activities	(267)	903	1,487	19
Net Cash generated during the period	(30)	(115)	180	(5)

Ratio Analysis

Performance				
Gross Margin	72.7%	70.4%	N/A	n.a
Net Margin	44.1%	42.3%	na	na
ROE	27.8%	19.8%	n.a	n.a
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.4	1.2	-0.2	-76.2
Interest Coverage (X) (FCFO/Gross Interest)	3.3	3.7	n.a	n.a
FCFO Pre-WC/Gross interest+CMLTD+Uncovered STB	1.4	1.2	0.0	-1.9
FCFO Post-WC/Gross interest+CMLTD+Uncovered STB	1.1	-2.2	0.9	-2.7
Liquidity				
Short Term Borrowings Coverage (Adjusted Quick Assets/Short Term Borrowings)	3.2	2.5	n.a.	n.a.
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	124.2	175.8	n.a	n.a
Capital Structure				
Net Debt/Net Debt+Equity	70%	73%	69%	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	
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)
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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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