



The Pakistan Credit Rating Agency Limited

Rating Report

Oursun Pakistan Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Feb-2022	A	A1	Stable	Maintain	-
26-Feb-2021	A	A1	Stable	Upgrade	-
28-Feb-2020	A-	A2	Stable	Maintain	-
30-Aug-2019	A-	A2	Stable	Maintain	-
01-Mar-2019	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Oursun Pakistan Limited (The Company), 50MWp – incorporated in June 2015, operates under the Renewable Energy Policy 2006. The company achieved financial close in June 2017. The rating incorporates commissioning of plant, achieved on 30th November 2018 and successful operations since its COD. 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. Given the healthy demand the plant operated at higher (20%) than required capacity (18%) in FY21, generation recorded to 90,872MWh. Performance of the plant also remained above the NEPRA laid performance parameters i.e. benchmark generation of 78,840MWh. Profitability was reported at PKR 800mln in FY 21 (FY20: PKR 1,066mln, FY19: PKR 148mln). Overall liquidity profile remains sound on the back of healthy cash flow generation. The company has availed both foreign and local loan to finance its debt component. Foreign loan is availed from United National Bank Limited (UK). Local loan is received from United Bank Limited (lead arranger), The Bank of Punjab and Askari Bank Limited. Leverage indicators depict improvement with the timely repayment of debt. Further, the Company is meeting its working capital requirements through internally generated cash flows and has not taken any facility for short term borrowings. The company is required to maintain DSRA equivalent to two quarterly debt repayments under financing documents; this requirement is being met by internally generated cash from operations.

Low business risk and improving financial profile as evident from healthy cash flow generation, sound debt coverage metrics and improvement in leverage indicators. Business risk profile draws support from O&M contract placed with well-reputed contractor, OMS Pvt Ltd, having extensive experience in renewable energy sector. Ratings also take into account the sound sponsors' profile having considerable experience in power sector. Further, energy purchase agreement of 25 years signed with K-Electric along with guaranteed payments through escrow mechanism mitigates off-take risk and continues to provide comfort to the ratings. Unlike other IPPs, where GoP has provided a sovereign guarantee against dues from CPPA-G, Oursun Pakistan as per EPA shall sell and deliver and the Purchaser shall accept all of the net delivered energy generated by the Complex and delivered to the Purchaser at the Interconnection Point, and the Purchaser shall pay. While on the other hand inflows are ensuing timely as well to enable the OPL to pay off its obligations.

Disclosure

Name of Rated Entity	Oursun Pakistan Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Power(Jan-21)
Rating Analysts	Muhammad Mubashir Nazir mubashir.nazir@pacra.com +92-42-35869504

The Pakistan Credit Rating Agency Limited

Profile

Plant Oursun Pakistan Limited (Oursun Pakistan), incorporated in May 2015, and operates under the Renewable Energy Policy 2006. Oursun Pakistan has set up 50 MW - Solar Power Plant at Gharo, District Thatta, Sindh, Pakistan. The total cost of the project stands at USD ~62mln which is financed by debt-to-equity ratio of 75:25.

Tariff Oursun Pakistan opted for the Upfront Tariff for Solar Power Projects by NEPRA. The Company has a levelized generation tariff of PKR 12.6396/KWh for 25 years from commercial operation date (COD). The tariff is revised quarterly. During July-Sep 2021, the tariff was PKR 18.9107/KWh (Oct-Dec 2021: PKR 19.8161/KWh.)

Return On Project The ROE of the project, as per upfront tariff issued by NEPRA is PKR 5.6430/KWh of the tariff awarded.

Ownership

Ownership Structure Oursun Pakistan's major sponsor is M/s Future Energy Partners (72.5%), Roomi Enterprises (Pvt.) Ltd (27.5%) and individuals (0.0003%).

Stability Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. The electricity generated will be sold to Karachi Electric Limited under a 25-year Energy Purchase Agreement (EPA).

Business Acumen The project sponsors having local and international experience with track record of financed and/or managed over 150 power plants of all commercially available technologies, as well as other energy sector assets.

Financial Strength Strong financial background of major sponsor will continue to provide comfort.

Governance

Board Structure Oursun Pakistan's Board of Directors (BoD) comprises five members, including the CEO/CFO/Chairman, Mr. Zain-ul-Abidin. Three board members are nominated by Future Energy Partners, and one by Roomi Enterprises Pvt. Ltd. Only the CEO is executive director while all other directors are non-executive.

Members' Profile The board members have diversified experience of setting up and running of power plants. All board members are highly qualified and competent enough for effective leadership. Previous two directors Mr. Jawad Ahmed and Mr. Khawaja Najam ud Din have resigned. Instead of that, Mr. Muhammad Anees has joined who is representative of Roomi Enterprises Pvt Ltd.

Board Effectiveness Board members meets quarterly or conduct regular board discussions on need basis. CEO/CFO/Chairman of the board exercises close oversight over the affairs of the company. However, there are no sub-committees. Board has been actively involved in providing strategic guidance to the company. There is no independent director on the board.

Financial Transparency KPMG Taseer Hadi & Co Chartered Accountants 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, 2021.

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 Zain-ul-Abidin is the CEO of the company. He has an extensive experience in leading the whole process from incorporation to completion of the project. He is the member of Institute of Chartered Accountants of Pakistan and qualified Chartered Accountant since 1987. Mr. Zain is supported by a young 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 The company takes advantage of Global Business Management Solution Software to deliver comparatively better on many fronts. Moreover, Oursun Pakistan's quality of the I.T. infrastructure and the breadth and depth of activities performed has remained well satisfactory.

Operational Risk

Power Purchase Agreement The electricity generated will be sold to Karachi Electric Limited under a 25-year Energy Purchase Agreement (EPA).

Operation And Maintenance Oursun Pakistan has negotiated an O&M contract with OMS (Pvt.) Limited for a period of two 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 Oursun Pakistan is located at Gharo, District Thatta, Sindh, which is located at a site where solar irradiation are good. Solar Energy is dependent on mainly two things irradiation and temperature. However, revenue (electricity generation) would be exposed to seasonality variation during the year.

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 Owing to newly installed plants, Pakistan's energy mix is shifting towards Solar/Gas/and coal from Furnace Oil and other expensive sources. As on June-20, installed capacity of electricity reached 38,719 MW, which was 38,995 MW at end June-19, decline of 0.7%. (276MW) in FY20, due to the expunge of 784MW of GTPS-Kotri (144MW) and TPS Guddu (640MW). There was an increase of 508MW new power projects including CPEC from coal and renewable sources and this will increase further in coming years. Although electricity generation varies due to availability of inputs and other constraints, generation decreased from 136,532 GWh to 134,745 GWh, posting a decline of 1.3% in FY20 as compared to FY19.

Generation Oursun Pakistan energy output for FY21 was 90,872 MWh as compared to 88,495 MWh in FY20.

Performance Benchmark Annual benchmark energy is expected to be 78,840 MWh with the benchmark capacity factor of plant as per tariff is at 18%. The average capacity factor during FY21 remain 20.8% above the benchmark of 18% but during 1QFY22, the average capacity factor was 17.5%.

Financial Risk

Financing Structure Analysis Debt financing constitutes 75% of the project cost i.e. USD 46mln. The FCY facility between the United National Bank Ltd (UK) and Oursun Pakistan Limited for USD 13mln, priced at 3M LIBOR plus 4.7%-4.81% in 2021. The local debt facility is between the Bank of Punjab, United Bank Limited, Askari Bank Limited and Oursun Pakistan Limited for PKR 3,600mln (USD 21mln) at 3M KIBOR plus 3% in 2021, as per SBP REFF. The tenor is of 10 years with Quarterly debt repayments. The total outstanding debt at 31 Sep 2021 is PKR 2,435mln from local banks and USD 9.31mln from foreign bank. The company has paid 12 installments each for local and foreign loan.

Liquidity Profile As at end-Sep'21, total receivables of the company stood at ~PKR 330mln (FY21: ~PKR 383mln). OSPL has an escrow account agreement with KE to secure the receivables.

Working Capital Financing Company has not availed any working capital facilities until now. The company is required to maintain DSRA equivalent to two quarterly debt repayments under financing documents; this requirement is being met by internally generated cash from operations.

Cash Flow Analysis FCFO (1QFY22: PKR 317mln, FY21: PKR 1,572mln) of the company decreased by -57% owing to decrease in EBITDA, which, in turn, has decreased the coverages of the company [Interest coverage: 1QFY22: 2.9x; FY21: 3.4x].

Capitalization Total cost of the project stands at USD 62mln which is financed by debt-to-equity ratio of 75:25. Leveraging at end Sep'21 is at 55% (FY21: 57%).



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Oursun Pakistan Limited	Sep-21	Jun-21	Jun-20	Jun-19
Power	3M	12M	12M	12M

A BALANCE SHEET

1 Non-Current Assets	6,704	6,739	6,968	7,178
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,277	1,585	1,621	1,144
<i>a Inventories</i>	-	-	-	-
<i>b Trade Receivables</i>	330	383	1,287	279
5 Total Assets	7,980	8,323	8,590	8,322
6 Current Liabilities	562	673	739	1,253
<i>a Trade Payables</i>	11	12	19	706
7 Borrowings	4,371	4,485	5,033	5,318
8 Related Party Exposure	-	-	3	3
9 Non-Current Liabilities	3	3	1	1
10 Net Assets	3,045	3,163	2,814	1,747
11 Shareholders' Equity	3,045	3,163	2,814	1,747

B INCOME STATEMENT

1 Sales	371	1,748	2,247	757
<i>a Cost of Good Sold</i>	(134)	(499)	(460)	(244)
2 Gross Profit	236	1,249	1,787	513
<i>a Operating Expenses</i>	(8)	(31)	(20)	(12)
3 Operating Profit	229	1,219	1,767	501
<i>a Non Operating Income or (Expense)</i>	15	67	21	17
4 Profit or (Loss) before Interest and Tax	244	1,286	1,788	518
<i>a Total Finance Cost</i>	(108)	(467)	(711)	(370)
<i>b Taxation</i>	-	(19)	(11)	-
6 Net Income Or (Loss)	135	800	1,066	148

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	317	1,572	2,073	661
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	302	1,505	2,052	357
<i>c Changes in Working Capital</i>	(111)	453	(1,478)	(638)
1 Net Cash provided by Operating Activities	191	1,958	574	(281)
2 Net Cash (Used in) or Available From Investing Activities	(23)	(118)	(7)	(3,627)
3 Net Cash (Used in) or Available From Financing Activities	(172)	(1,040)	(1,170)	4,170
4 Net Cash generated or (Used) during the period	(4)	801	(604)	262

D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	-83.5%	3.7%	196.8%	--
<i>b Gross Profit Margin</i>	63.8%	71.5%	79.5%	67.8%
<i>c Net Profit Margin</i>	36.5%	45.7%	47.5%	19.6%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	55.7%	115.9%	26.5%	3.0%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	4.3%	33.2%	38.5%	11.9%

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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	
CC	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.
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>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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(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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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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- (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)

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- (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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