The Pakistan Credit Rating Agency Limited

# HARAPPA SOLAR (PVT.) LIMITED

# RATING REPORT

| | NEW [AUG-17] |
|---|---|
| Long-Term | A- |
| Short-Term | A1 |
| Outlook | Stable |

**REPORT CONTENTS**



AUGUST 2017

**Profile & Ownership**
- Harappa Solar (Private) Limited (HSPL), incorporated in September 2014 to set up an 18MWp Solar Power Plant at Harappa bypass, Sahiwal, Punjab.
- HSPL will be Pakistan's first solar power plant with single axis sun tracking technology.
- Total estimated cost of the project is USD 24mln with the Debt Equity Ratio of 75:25
- HSPL opted for the Upfront Tariff for Solar Power Projects by NEPRA. The Company has a levelized generation tariff of 11.5327 US¢ per KWh for 25 years.
- The Energy Purchase Agreement is with Central Power Purchasing Agency (CPPA-G), and has a tenure of 25 years.
- HSPL is majorly owned by Rana Nasim Ahmed with 75% shareholding followed by Mr. Khaqan Babar Cheema & Wind force (Pvt.) Limited with 13% and 11.8% shareholding respectively.

**Governance**
- HSPL's Board of Directors (BoD) comprises eight members, including the CEO. Seven board members are currently nominated by main sponsor.
- 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.
- The board members have diversified experience along with useful experience of setting up and running of power plants.

**Management**
- Rana Uzair Nasim is the Chief Executive Officer of the company.
- Mr. Uzair has experience of development and operations of power projects. He has led HSPL from incorporation to completion. 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 but qualified and experienced management team.

**Completion Risk**
- HSPL has signed an Offshore Contract with SUMEC Hardware & Tools Company Limited China worth ~USD 16.4mln and Onshore Contract with Sumec Pakistan (Private) Limited worth ~USD 3.4mln.
- The Required COD as per the EPA is 22 October 2017, i.e. 8 months from the Financial Close.
- The EPC contractor has been mobilized on the site and progress is on schedule.
- The EPC contractor will be liable to pay Liquidated Damages (LDs) in case of any delay. LDs agreed with EPC contractor in EPC contract are more than enough to cover the costs of the delay.

**Operational & Performance Risk**
- HSPL has negotiated an O&M contract with OMS (Pvt.) Limited for a period of three years.
- HSPL has installed PV modules with Single Axis Tracking Technology. Tracking system has given the company cushion to perform under agreed performance parameters (Plant Factor 17% under EPA) with NEPRA.
- EPC contract also include some performance benchmarks to be met. In case actual performance ratio is lower than benchmark, EPC contractor will be liable to pay Liquidated Damages.

**Financial Risk**
- Debt financing constitutes 75% of the project cost i.e. USD 18mln. The USD facility between the ECO Trade and Development Bank Turkey and HSPL is for USD 8.2mln at LIBOR plus 4.7% p.a. (inclusive of USD denominated SBLC covering whole FCY facility).
- The local debt facility is between The Bank of Punjab and Askari Bank, and HSPL for PKR 1,096mln at 6% p.a. under SBP refinance facility or KIBOR + 3% for any amount not yet refinanced by SBP.
- The tenor is of 10 years with Quarterly debt repayments starting from end Mar18.
- HSPL projects to generate USD ~4mln FCFO yearly which will be enough to meet its debt obligations.
- HSPL would have to make quarterly principal payment of USD ~0.45mln which includes USD ~0.200mln foreign component and USD 0.253 local component. HSPL projects to maintain minimum coverage of 1.2x at all times.
- The company is required to maintain DSRA equivalent to 2 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.

## RATING RATIONALE

Harappa Solar (Pvt.) Limited is in the process of setting up an 18MWp – Pakistan's first solar power plant with single axis sun tracking technology. The company opted for upfront tariff which assumes solar risk to be borne by the company. 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 achieved financial close on 23 February 2017. The company has signed offshore supply contract with SUMEC Hardware & Tools Company Ltd, China and onshore contract with Sumec Pakistan (Pvt.) Ltd. Required COD is 8 months from financial close (October 22, 2017) however, company is expecting to achieve COD on 30th September 2017. Given current pace of work, completion risk is well managed. The transmission line from project site to grid station constructed by MEPCO is completed, limiting evacuation risk. 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 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.

## KEY RATING DRIVERS

Successful achievement of COD and upholding operational performance afterwards in line with agreed performance levels are critical for rating. Maintenance and buildup of DSRA from internal cash flows, power purchaser's payment behavior, working capital management and debt repayment pattern will impact direction of rating.

The Pakistan Credit Rating Agency Limited

**Harappa Solar (Pvt.) Limited** *PKR Mln*

| BALANCE SHEET | 30-Jun-16 | 30-Jun-15 |
|---|---|---|
| | Annual | Annual |
| **Non-Current Assets** | **19.8** | **11.2** |
| **Current Assets** | **1.2** | **7.7** |
| Inventory | - | - |
| Trade Receivables | - | - |
| Other Current Assets | 0.0 | 1.9 |
| Cash & Bank Balances | 1.2 | 5.8 |
| **Total Assets** | **20.9** | **18.8** |
| | | |
| **Debt** | - | - |
| Short-term | - | - |
| Long-term (Inlc. Current Maturity of long-term debt) | - | - |
| Other Short term liabilities (inclusive of trade payables) | 16.3 | 22.3 |
| Other Long term Liabilities | - | - |
| **Shareholder's Equity** | **4.6** | **(3.5)** |
| **Total Liabilities & Equity** | **20.9** | **18.8** |

| INCOME STATEMENT | | |
|---|---|---|
| **Turnover** | - | - |
| Gross Profit | - | - |
| Other Income | - | - |
| Admin Expenses | (10.2) | (3.4) |
| Financial Charges | (0.1) | (0.1) |
| **Net Income** | **(10.4)** | **(3.5)** |

| Cashflow Statement | | |
|---|---|---|
| Free Cashflow from Operations (FCFO) | (10.2) | (3.4) |
| Net Cash changes in Working Capital | (4.2) | 20.5 |
| Net Cash from Operating Activities | (14.6) | 17.0 |
| Net Cash from InvestingActivities | (8.6) | (11.2) |
| Net Cash from Financing Activities | 18.5 | 0.0 |
| Net Cash generated during the period | (4.7) | 5.8 |

| Ratio Analysis | | |
|---|---|---|
| **Performance** | | |
| Gross Margin | n.a | n.a |
| Net Margin | n.a | n.a |
| ROE | n.a | n.a |
| **Coverages** | | |
| Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD) | -76.2 | n.a |
| Interest Coverage (X) (FCFO/Gross Interest) | n.a | n.a |
| FCFO Pre-WC/Gross interest+CMLTD+Uncovered STB | -1.9 | -1.5 |
| FCFO Post-WC/Gross interest+CMLTD+Uncovered STB | -2.7 | 7.5 |
| **Liquidity** | | |
| Short Term Borrowings Coverage (Adjusted Quick Assets/Short Terr | n.a. | n.a. |
| Net Cash Cycle (Inventory Days + Receivable Days - Payable Days) | n.a | n.a |
| **Capital Structure** | | |
| Net Debt/Net Debt+Equity | 0% | 0% |

# 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

| | |
|---|---|
| AAA | **Highest credit quality.** Lowest expectation of credit risk.<br>Indicate exceptionally strong capacity for timely payment of financial commitments. |
| AA+<br>AA<br>AA- | **Very high credit quality.** Very low expectation of credit risk.<br>Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. |
| A+<br>A<br>A- | **High credit quality.** Low expectation of credit risk.<br>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. |
| BBB+<br>BBB<br>BBB- | **Good credit quality.** Currently a low expectation of credit risk.<br>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. |
| BB+<br>BB<br>BB- | **Moderate risk.** Possibility of credit risk developing.<br>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+<br>B<br>B- | **High credit risk.**<br>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. |
| CCC<br>CC<br>C | **Very high credit risk.** Substantial credit risk<br>"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. |

## Short Term Ratings

**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.

**B:** The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

**C:** An inadequate capacity to ensure timely repayment.

**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 surveill the opinion due to lack of requisite information

## Regulatory and Supplementary Disclosure

| | |
|---|---|
| Rated Entity | |
| **Name of Rated Entity** | Harappa Solar (Pvt.) Limited |
| **Sector** | Renewable Energy - IPP |
| **Type of Relationship** | Solicited |
| Purpose of the Rating | Independent Risk Assessment |
| Related Criteria and Research | Power Generation - Mar17 |
| Methodology: | IPP's Rating Methodology |
| Rating Analysts | Muhammad Hassan<br>Muhammad.hassan@pacra.com<br>(92-42-35869504)<br><br>Rai Umar Zafar<br>rai.umar@pacra.com<br>(92-42-35869504) |

**Rating Team Statement**

**Rating Procedure**

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

**Disclaimer**

**Rating Shopping**

PACRA maintains principle of integrity in seeking rating business.

PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information.

**Conflict of Interest**

PACRA, the analysts involved in the rating process, and members of its rating committee do not have any conflict of interest relating to the credit rating done by them.

The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest

The analysts and members of the rating committees including the external member members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA

The analysts or any of its family members do not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This is, however, not applicable on investment in securities through collective investment schemes. PACRA has established appropriate policies governing investments and trading in securities by its employees

PACRA may provide consultancy/advisory services or other services to any of its clients or to any of its clients' associated companies and associated undertakings that is being rated or has been rated by it. In such cases, PACRA has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities

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 ii) fee mandate - signed with the payer, which can be different from the entity

PACRA ensures that the credit rating assigned to an entity or instrument should 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

**Surveillance**

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

**Reporting of Misconduct**

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

**Confidentiality**

PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties

Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

**Prohibition**



**Probability of Default (PD)**

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.