The Pakistan Credit Rating Agency Limited

# Rating Report

## Oursun Pakistan Limited

**Report Contents**



**Rating History**

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|---|---|---|---|---|---|
| 01-Mar-2019 | A- | A2 | Stable | Initial | - |

**Rating Rationale and Key Rating Drivers**

Oursun Pakistan Limited (Oursun Pakistan), 50MWp – incorporated in May 2015, operates under the Renewable Energy Policy 2006. The company achieved financial close in June 2017, while funds released from banks in December 2017 owing to financing approvals pending from State Bank of Pakistan. The rating incorporates commissioning of plant, achieved on 30th November 2018. 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 company signed Energy Purchase Agreement with Karachi Electric Limited for a period of 25 years. O&M contract signed with OMS (Pvt.) Limited for a period of two years. 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. 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 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. The company is required to maintain DSRA equivalent to two quarterly debt repayments under financing documents; this requirement is being met by mix of cash deposit and SBLC from sponsors. Going forward, the company plans to fund DSRA from internal cashflows.

Upholding operational performance in line with agreed performance levels is important. Build-up of DSRA from internal sources, receipt pattern from power purchaser, debt repayment behavior and liquidity cushion would impact the direction 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** | Oursun Pakistan 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(Jan-19) |
| **Rating Analysts** | Faizan Arif \| faizan.sufi@pacra.com \| +92-42-35869504 |

## 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 MWp (net capacity) Solar Power Plant at Gharo, District Thatta, Sindh, Pakistan. 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 11.3506/KWh for 25 years from commercial operation date (COD).

**Return On Project** The ROE of the project, as per upfront tariff issued by NEPRA is PKR 3.6745/KWh of the tariff awarded.

## Ownership

**Ownership Structure** Oursun Pakistan's major sponsor is M/s Future Energy Partners (62.5%) shareholding followed by MCBFSL Trustee PNO Pakistan Fund (25%), Roomi Enterprises (Pvt.) Ltd (12.5%) and individuals (0.004%).

**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 three members, including the CEO and Chairman. Three board members are nominated by the sponsoring family. Only the CEO is executive director while all other directors are non-executive. There is no independent director on the board.

**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.

**Board Effectiveness** Board members meets quarterly or conduct regular board discussions on need basis. CEO 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, 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** 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 Accountaant of Pakistan and qualifeid 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 advanced I.T. solutions 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). The RCOD as per the EPA is 20th October, 2018. However, plant was successfully commissioned on 30th November, 2018 after obtaining extension from Power Purchaser.

**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** Pakistan total power generation is increasing on the back of new power projects under CPEC. Owing to newly installed plants, Pakistan's energy mix is shifting towards Gas/RLNG and coal from Furnace Oil and other expensive sources. During FY18, there has been a growth of ~30% in the actual power generation. Moreover, there has been an increase of ~17% in the installed capacity as at end-Jun18 to 32,641MW (FY17: 27,731MW).

**Generation** Oursun Pakistan delivered a total energy output of 6,910,000 KWh in the month of December 2018. The company dispatched its first invoice to K-Electric Limited on 1st January, 2019.

**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%. However, annual generation as per simulation-P50 estimated at 79,194 MWh.

## 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 4.5% p.a. The local debt facility is between the Bank of Punjab, United Bank Limited and Oursun Pakistan Limited for PKR 3,600mln (USD 33mln) at 3M KIBOR plus 3% p.a, as per SBP REFF. Ratio of foreign to local financing is 28:72. The tenor is of 10 years with Quarterly debt repayments starting from end Dec-18.

**Liquidity Profile** The company is required to maintain Debt Service Reserve Account (DSRA) equivalent to two quarterly debt repayments under financing documents, this requirement is being met through cash deposit and Stand by Letter of Credit (SBLC) given from sponsors.

**Working Capital Financing** Company has not availed any working capital facilities as the project is in initial phase of operations.

**Cash Flow Analysis** Oursun Pakistan projects to generate PKR ~1065mln OCF yearly which will be enough to meet its debt obligations. Oursun Pakistan would have to make quarterly debt repayment of PKR ~715mln which includes PKR ~180mln foreign component and PKR 535mln local component. The company projects to maintain minimum average coverage of 1.43x at all times.

**Capitalization** Total cost of the project stands at USD ~62mln which is financed by debt to equity ratio of 75:25.

## Oursun Pakistan Limited

*PKR Mln*

| BALANCE SHEET | 30-Jun-18 | 30-Jun-17 |
|---|---|---|
| | Annual | Annual |
| **Non-Current Assets** | **2,835** | **277** |
| **Current Assets** | **715** | **21** |
| Inventory | - | - |
| Trade Receivables | - | - |
| Other Current Assets | 133 | 17 |
| Cash & Bank Balances | 582 | 5 |
| **Total Assets** | **3,550** | **298** |
| | | |
| **Debt** | **783** | **-** |
| Short-term | - | - |
| Long-term (Inlc. Current Maturity of long-term debt) | 783 | - |
| Other Short term liabilities (inclusive of trade payables) | 1,109 | 14 |
| Other Long term Liabilities | 0 | 15 |
| **Shareholder's Equity** | **1,658** | **269** |
| **Total Liabilities & Equity** | **3,550** | **298** |
| | | |
| **INCOME STATEMENT** | | |
| **Turnover** | **-** | **-** |
| Gross Profit | - | - |
| Other Income | 3.9 | - |
| Admin Expenses | (9.0) | (9.7) |
| Financial Charges | (0.5) | (0.0) |
| **Net Income** | **36.5** | **(9.7)** |
| | | |
| **Cashflow Statement** | | |
| Free Cashflow from Operations (FCFO) | (8.4) | (9.7) |
| Net Cash changes in Working Capital | 1,099.8 | (149.8) |
| Net Cash from Operating Activities | 1,052.2 | (159.5) |
| Net Cash from InvestingActivities | (2,512.6) | (78.2) |
| Net Cash from Financing Activities | 2,037.9 | 242.1 |
| Net Cash generated during the period | 577.5 | 4.4 |
| | | |
| **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) | -0.2 | -2484.3 |
| Interest Coverage (X) (FCFO/Gross Interest) | -15.6 | n.a |
| FCFO Pre-WC/Gross interest+CMLTD+Uncovered STB | -0.2 | -6.4 |
| FCFO Post-WC/Gross interest+CMLTD+Uncovered STB | 22.1 | -106.1 |
| **Liquidity** | | |
| Short Term Borrowings Coverage (Adjusted Quick Assets/Short Te | n.a. | n.a. |
| Net Cash Cycle (Inventory Days + Receivable Days - Payable Days | n.a | n.a |
| **Capital Structure** | | |
| Net Debt/Net Debt+Equity | 32% | 0% |

# Rating Scale

## Credit Rating Scale & Definitions

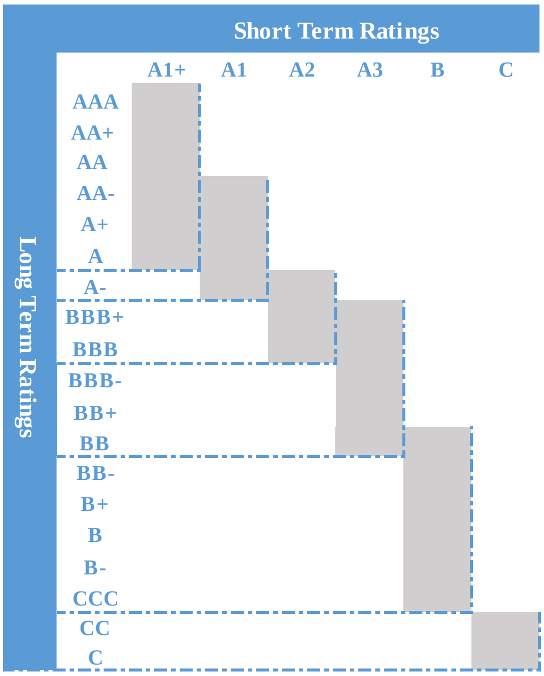
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

### Long Term Ratings

| | |
|---|---|
| AAA | **Highest credit quality.** Lowest expectation of credit risk. 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. 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. 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. 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. 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.** 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 "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.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

## Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

**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

**Restrictions**

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(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.

(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)

(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)

**Independence & Conflict of interest**

(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)

**Proprietary Information**