FINAL REPORT

Gharo Solar (Private) Limited (GSPL)

REPORT DATE:
13 May, 2019

RATING ANALYSTS:

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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	*3rd May'19*	

COMPANY INFORMATION	
Incorporated in 2016	
Private Limited Company	**Chairman:** Rana Nasim Ahmed
Key Shareholders (with stake 10% or more):	**Chief Executive Officer:** Rana Uzair Nasim
Rana Nasim Ahmed – 55%	
Windforce (Private) Limited – 30%	
Norsk Solar – 10%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria *Industrial Corporate (May 2016)*
https://www.vis.com.pk/kc-meth.aspx

Gharo Solar Power (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Gharo Solar (Private) Limited was incorporated as a private limited company under the Companies Ordinance, 1984 on June 30, 2016. The principal activity of the company is to build, own, operate and maintain a solar plant having a total capacity of 50 MW.

Chairman's Profile: *Rana Nasim Ahmed, an experienced project developer in power and industrial sector, serves as the Chairman of BOD. Mr. Ahmed is also the main sponsor of 18 MW Harappa Solar (Private) Limiteed.*

CEO's Profile: *Rana Uzair Nasim is the CEO of Harappa Solar (Pvt.) Limited and has led the project from inception through commissioning & operations. He has previously worked as a management consultant in New York with Oliver Wyman and Dalberg Global Development Advisors. He holds a BA degree in Economics and an MS degree in Management Science & Engineering, both from Stanford University, California, USA.*

RATING RATIONALE

The ratings assigned to Gharo Solar (Private) Limited (GSPL) incorporate its sponsor profile with major shareholding vested with Rana Nasim Ahmed who has significant experience of setting up green field projects in power and industrial sector. Mr. Nasim is also the main sponsor of Harappa Solar (Private) Limited (HSPL). Windforce (Private) Limited (WPL), Sri Lanka based energy generation company, is the other major sponsor of the company. WPL has extensive experience in establishing renewable energy based IPPs and operating a portfolio of solar and small hydro projects. Moreover, underlying economic risk factors are largely mitigated by inking of 25 year-long energy purchase agreement (EPA) signed with K-electric. The ratings draw comfort from upfront funding of two debt reserve account installments coupled with upfront funding of degradation reserve and working capital requirements. The ratings remain dependent upon timely completion of the project in terms of agreement with the power purchaser.

Completion risk is slightly on a higher side; however, the company has achieved financial close

GSPL is to be constructed and operated on land with title owned in the company's name with debt to equity proportion of 75:25. The feasibility study for the project was prepared in-house based on the management's prior experience of establishing HSPL. The financial close of the 50MW project was reached by end-Jan'19. The project entails a construction period of 10 months; hence, the company is expected to achieve Commercial Operations Date (COD) in October, 2019. As per the covenants in the agreement signed with the financier, GSPL's minimum debt service coverage ratio must not fall below 1.2x during the entire tenor of the facility. Further, the main sponsor has to retain majority shareholding of 51% till the complete tenor of funding facilities. In addition, project's Debt to Equity Ratio cannot exceed 80:20 at any time till the debt facilities are retired.

Higher quantum of input modules adds flexibility and longevity to the project

The Photo Voltaic solar power plant design incorporates mini inverters of 125KW; the same adds flexibility to overall performance of the project given easy replaceability of non-bulky input components coupled with minimal output loss owing to limited dependence on one inverter. On account of precise pre-calculation of solar plants, the performance risk is majorly curtailed. Each inverter will be tested twice before implementation with no capacity testing will be done onsite. However, the project is based in geographical terrain encompassing highly corrosive environment; therefore, the management has opted for double glass walled modules to avoid abrasion.

Energy purchase agreement signed with K-Electric for 25 years with must run clause incorporated

GSPL has signed an EPA with K-Electric on September 26, 2018 for a period of 25 years. As per the EPA signed, the cost overruns until the physical completion date of the project are to be borne by the Company. As per the agreement, K- Electric should purchase and accept all Net Delivered Energy generated by GSPL and delivered at the interconnection point. In this regard, GSPL should not take any action which would encumber, impair or diminish its ability to generate, sell and deliver the energy. The capacity utilization factor of 22.21% is assumed for tariff determination. Moreover, EPA features an escrow account arrangement whereby payment to GSPL will be made before K-electric can access its account for other transactions. In addition, being a private electricity transmission company K-Electric has sound track record of timely payments to various thermal IPPs.

If K-Electric is unable to accept all energy delivered, this will constitute as Non-Project Event and payment for non-evacuation will be made as Non-Project Missed Volume (NPMV). The NPMV pertaining to a particular timeframe will be charged at prevailing tariff. Moreover, GSPL is entitled to recover certain payments as pass through items including worker's welfare fund, workers profit participation fund, taxes of non-refundable nature, excise duty, tax costs, any increase in withholding tax, costs of the metering system and upgrades to protective devices of the power plant. Furthermore, K-Electric will continue to make energy payments to GSPL during the period of any force majeure event, but K-Electric will be entitled to recover these payments from GSPL in case NEPRA disallows GSPL from claiming these amounts under its supplemental tariff. In such event GSPL will be required to pay back excess payments received to K-Electric.

Delay in achieving COD will lead to payment of liquidity damages to K-Electric

In an event the Project is not commissioned on or before the Required Commercial Operations Date (COD), GSPL will be liable to pay liquidated damages to the seller less the amount in dispute plus K-Electric's reasonable estimate of the delayed payment rate that will be payable until dispute is resolved in accordance with the agreement coupled with settlement of all liabilities. In an event where GSPL fails to pay the required liquidated damages to K-Electric, then the latter would be entitled to collect such amounts, less any amounts disputed by GSPL, from the Letter of Credit upon presentation of a certificate of an authorized officer of the Purchaser stating that amounts shown in the invoice accompanying the certificate are due and payable by GSPL to K-Electric. Further, if GSPL is unable to achieve commercial operations before the required COD, then it will have to pay K-Electric liquidated damages amounting to $2.5/kW of the contract capacity each month until COD is achieved.

EPC and O&M

The Operations & Maintenance was signed with OMS (Private) Limited in Sep'18 to operate and maintain the facility. The agreement is valid for a term of three years and can be renewed on mutually agreed terms. The proposed operation and maintenance plan will be presented to the company two months before the execution is carried out. In case of OMS's event of default, GSPL has the right to terminate its O&M Agreement after a notice period of thirty days in case of OMS enters into bankruptcy proceedings or liquidation, whether voluntarily or compulsory. Also, GSPL may terminate the agreement, if OMS is under breach of its obligation under the agreement and such breach is not remedied within forty-five days.

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure III

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES Annexure-IV

Name of Rated Entity	Gharo Solar (Private) Limited
Sector	Power
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
03-05-2019	A-	A-2	Stable	Initial

Statement by the Rating Team	VIS, 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(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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