RATING REPORT

Gharo Solar Limited

REPORT DATE:
August 12, 2020

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Date	*11th Aug'20*		3rd *May'19*	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Initial	

COMPANY INFORMATION

Incorporated in 2016	External auditors: KPMG Taseer Hadi & Co. Chartered Accountants
Public Limited Company	Chairman: Rana Nasim Ahmed CEO: Rana Uzair Nasim
Key Shareholders (with stake 5% or more):	
Rana Nasim Ahmed – 55% Windforce (Private) Limited – 30% Norsk Solar – 10% Mohammad Khaqan Babar Cheema – 5%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (May 2019)
https://www.vis.com.pk/kc-meth.aspx

Gharo Solar Limited

OVERVIEW OF THE INSTITUTION

Gharo Solar Limited (formerly known as Gharo Solar (Private) Limited) was incorporated as a private limited company under the repealed Companies Ordinance, 1984 (now Companies Act, 2017) on June 30, 2016. Subsequently, the company changed its legal status from private to public on January 01, 2019.The principal activity of the company is to build, own, operate and maintain a solar plant having a total capacity of 50 MW.

Profile of Chairman

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) Limited.

Profile of CEO

Rana Uzair Nasim is also 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 Limited (GSL) incorporate its sponsor profile with major shareholding vested with Rana Nasim Ahmed, having experience in setting up green-field projects in power and industrial sectors. 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 Independent Power Plants (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 Company is maintaining required DSRA amount (2 Principal and interest installments) and required degradation reserve amount.

Key Rating Drivers

Project completion within timeline with no liquidated damages applicable

GSL was incorporated in June 2016 with the objective to build, own, operate and maintain a 50MW solar plant. The Photo Voltaic solar power plant design incorporates mini inverters of 125KW, adding flexibility to overall performance of the project given easy replace ability 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. 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.

The project achieved Operations Date (COD) on December 23, 2019. GSL signed an EPA with K-Electric on September 26, 2018 for a period of 25 years. As per the EPA, the cost overruns until the physical completion date of the project were to be borne by the Company. Further, in case of delay in commercial operations before the required COD, GSL was liable to pay K-Electric liquidated damages amounting to $2.5/kW of the contract capacity each month until COD is achieved. However, no liquidated damages were applicable as the project was completed on schedule (i.e. within 11-months from the financial close in Jan'19) and within budget.

Asset base has augmented with the completion of project

Asset base of the company amounted to Rs. 7.2b at end-9MFY20 (FY19: Rs. 3.7b; FY18: Rs. 0.12b). With the completion of project, property, plant & equipment increased to Rs. 5.6b (FY19: Rs. 1.4b; FY18), representing 78% (FY19: 38%) of asset mix. With the start of commercial operations, trade receivables were recorded at Rs. 165.5m (FY19: nil). As per the EPA, K- Electric purchases and accepts all Net Delivered Energy generated by GSL and delivered at the interconnection point. In this regard, GSL would not take any action which would encumber, impair or diminish its ability to generate, sell and deliver the energy. Moreover, EPA features an escrow account arrangement whereby payment to GSL 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, GSL 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 GSL during the period of any force majeure event, but K-Electric will be entitled to recover these payments from GSL in case NEPRA disallows GSL from claiming these amounts under its supplemental tariff. In such event GSL will be required to payback excess payments received to K-Electric.

Advances and prepayments amounted to Rs. 65m at end-9MFY20. GSL had tax refund due from the government amounting Rs. 224m (FY19: Rs. 88m; FY18: Rs. 1m), which mainly pertained to sales tax receivable. Short-term investments in money market mutual fund (money market) stood at Rs. 194m (FY19: nil) along with cash and bank balance of Rs. 930m (FY19: Rs. 2.2b; FY18: Rs. 44m). As per the management, excess cash balance will be invested in the money market to earned markup income.

Full-impact of commencement of commercial operations is yet to reflect in profitability
GSL reported net revenue of Rs. 201.4m (FY19: nil) during 9MFY20, as it delivered 31.1m units of electricity to KE, including 2.4m pre-COD units. The capacity utilization factor of 22.21% is assumed for tariff determination, which was achieved in April, 2020. Annual degradation is estimated at 0.5. Electricity delivered to KE during April and May was recorded at 11.2m units and 11.7m units, respectively. In accordance with the EPA terms, for payment, KE utilizes credit period of 30 days from the receipt of invoice. Resultantly, GSL has been receiving payments on average within 30 days of invoice received by KE. KE is liable to pay markup at the rate of KIBOR plus 2% on prorated basis for the delayed period.

As per the EPA, energy payments are currently being invoiced at a reference tariff of Rs. 6.727/unit (pre-COD units were invoiced at Rs. 3.364/unit), whereas GSL is in process of filing tariff indexation request with NEPRA. Approval for indexed tariff (estimated at around Rs. 9.875/unit) could take up to 6 months and will be implemented retrospectively.

GSL incurred direct cost of Rs. 20.35m during 9MFY20 (FY19: nil), which mainly pertained to staff salaries, operations & maintenance (O&M) fee, plant security expense, and deprecation charge. Gross profit was reported at Rs. 181m, with a sound margin of 89.9%. The O&M contract was signed with OMS (Private) Limited (OMS) 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. OMS has been providing owner engineer, independent engineer, technical advisor, and operations & maintenance services to local and foreign power companies since 2005. Its notable clients in Pakistan include Orient Power Company Limited, Packages Limited, JDW Power (Private) Ltd., K-Electric, Punjab Thermal Power Limited, and Northern Power Generation Company Limited, among others.

Operating expenses increased to Rs. 79.6m (FY19: Rs. 25.5m) mainly on account of higher depreciation charge of Rs. 57.2m (FY19: Rs. 0.84m), staff salaries of Rs. 9.7m (FY19: Rs. 9.1m), rent, rates and taxes of Rs. 3.9m (FY19: Rs. 0.81m) and travelling expense of Rs. 1.4m (FY19: Rs. 0.05m). Finance cost amounted to Rs. 100.9m (FY19: Rs. 0.4m) further due to utilization of long-term financing during 9MFY20. Resultantly, net profit was recorded at Rs. 0.7m compared to net loss of Rs. 25.9m in FY19.

Liquidity supported by excess cash and short-term investments
Liquidity profile is supported by excess cash and short-term investments of Rs. 1.1b at end-9MFY20 (FY19: Rs. 2.2b). GSL also generated Rs. 61.7m in funds from operations (FFO) during the period COD to March 2020, which resulted in FFO to long-term debt ratio of 0.02x. as the company made local and foreign currency principal repayments of Rs. 137m during March'20. Current ratio moderated to 2.8x by end-9MFY20 (FY19: 14.3x) due to utilization of cash in fixed assets.

Project financing comprised debt to equity mix of 75:25

The project was funded with debt to equity proportion of 75:25. Total liabilities increased to Rs. 5.5b at end-9MFY20 (FY19: Rs. 2.2b) with the mobilization of long-term debt to finance the project. Trade & other payables amounted to Rs. 197.9m (FY19: Rs. 108.4m), which mainly pertained to contractors/suppliers amounting Rs. 121m (FY19: Rs. 41.3m), markup and accrued liabilities of Rs. 46.9m (FY19: Rs. 2.9m), and sales tax payable of Rs. 25.9m (FY19: nil). Given minimal working capital requirements, debt profile of the company comprised only long-term financing of Rs. 5.3b at end-9MFY20 (FY19: Rs. 2.1b), inclusive of current maturities of Rs. 370m. Unamortized loan transaction cost amounted to Rs. 224m (FY19; Rs. 180m).

Long-term debt comprised syndicated local currency borrowings of Rs. 2.1b (FY19: Rs. 263.8m) repayable in 44-quarterly installments and foreign currency borrowings of Rs. 3.5b (FY19: Rs. 2.0b) availed from Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. at a markup rate 3-month LIBOR plus 4.25%, repayable in 52-quarterly installments. No hedging mechanism is in place, however, currency risk is mitigated by indexation of US$ in the power tariff.

First local currency loan installment amounting to Rs. 48.4m was paid on March 20, 2020, while first and second foreign currency loan installments amounting to 41.8m and Rs. 44.8m (at prevailing exchange rate) were paid on December 30, 2019 and March 27, 2020, respectively. Recently, second local currency loan installment amounting to Rs. 48.4m was paid on June 22, 2020 and third foreign currency loan installment amounting to Rs. 45.9m was paid on June 29, 2020. During FY21, the company is scheduled to make local and foreign currency loan repayments of Rs. 193.5m and Rs. 195m (at current exchange rate of Rs. 168/US$), respectively. Given that approval for indexed tariff could take some time, excess cash would be utilized along with internal capital generation to meet financial obligations during FY21.

Equity base of the company increased to Rs. 1.7b at end-9MFY19 (FY19: Rs. 1.5b) with the increase in share deposit money to Rs. 1.55b (FY19: Rs. 1.35b) which pertained to all sponsors as per shareholding structure. Issuance of shares against the share deposit money is in process. According to debt financing terms, project's debt to equity ratio cannot exceed 80:20 at any time till the debt facilities are retired. At end-9MFY20, gearing and debt leverage ratios were recorded at 3x (FY19: 1.4x) and 3.2x (FY19: 1.4x) respectively. Given no plans for further borrowings in the foreseeable future, the leverage indicators are expected to improve with the retention of profits, going forward.

Gharo Solar Limited Annexure I

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**FY18**	**FY19**	**9MFY20**
Non-Current Assets	79.0	1,388.7	5,648.6
Receivables	-	-	165.5
Advances, Deposits & Prepayments	-	0.8	64.9
Tax Refund Due from Govt.	1.0	87.8	224.3
Short-term Investment	-	-	194.0
Cash & Bank Balance	43.9	2,197.6	929.8
Total Assets	**123.8**	**3,674.9**	**7,227.2**
Trade & Other Payables	33.0	108.4	197.9
Short-Term Borrowings	-	-	-
Long-Term Borrowings *(Inc. current matur)*	-	2,057.4	5,312.4
Total Liabilities	33.0	2,165.7	5,510.3
Tier-1 & Total Equity	**90.9**	**1,509.2**	**1,716.9**
Paid-up Capital	0.01	169.1	169.1
INCOME STATEMENT	**FY18**	**FY19**	**9MFY20**
Net Revenue	-	-	201.4
Gross Profit	-	-	181.0
Operating Expenses	1.5	25.5	79.6
Finance Cost	n.m	0.4	100.9
(Loss)/Profit Before Tax	(1.5)	(25.9)	0.7
(Loss)/Profit After Tax	(1.5)	(25.9)	0.7
FFO	n.m	n.m	61.7
RATIO ANALYSIS	**FY18**	**FY19**	**9MFY20**
Gross Margin (%)	-	-	89.9
Net Margin (%)	-	-	0.4
Net Working Capital	11.9	2,126.3	1,010.7
Current Ratio (x)	1.36	14.30	2.78
FFO to Long-Term Debt (x)	n.m	n.m	0.02*
FFO to Total Debt (x)	n.m	n.m	0.02*
Debt Servicing Coverage Ratio (x)	n.m	n.m	1.61
Gearing (x)	n.a	1.36	3.0
Debt Leverage (x)	0.36	1.44	3.21

**Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure II

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 III
Name of Rated Entity	Gharo Solar Limited
Sector	Power
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
11/08/2020	A-	A-2	Stable	Reaffirmed
03/05/2019	A-	A-2	Stable	Initial

Instrument Structure	N/A
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.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Husnain Arif	Sr. Manager Finance	June 22, 2020