RATING REPORT

Gharo Solar Limited

REPORT DATE:
October 27, 2021

RATING ANALYSTS:

Nisha Ahuja
nisha.ahuja@vis.com.pk

Sara Ahmed
sara.ahmed@vis.com.pk

RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity	A	A-1	A-	A-2
Rating Date	27 *October'*21		11 *August'20*	
Rating Outlook	Stable		Stable	
Rating Action	Upgrade		Reaffirm	

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

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (August 2021) **https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf**

Gharo Solar Limited

OVERVIEW OF THE INSTITUTION

Gharo Solar Limited was incorporated in June, 2016, as a private limited Company under the repealed Companies Ordinance, 1984 (now Companies Act, 2017). Subsequently, the Company changed its legal status from private to public limited company on January 01, 2019. The Company owns and operates a solar power plant of 50 MWp generation capacity.

Profile of CEO: Rana Uzair Nasim is also the CEO of Harappa Solar (Pvt) Ltd and has led the project from inception through commissioning and 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 and MS degree in Management Sciences & Engineering, both from Stanford University, California, USA.

RATING RATIONALE

Incorporated in 2016, Gharo Solar Limited (GSL) is engaged in the generation and supply of electricity to K-Electric through a 50 MWp solar PV power plant near Gharo, District Thatta, Sindh. The plant was constructed at a total cost of ~ Rs. 6.3b with debt to equity ratio of 75:25. The ROE of the project is determined at 15%. The Company has opted for cost-plus tariff structure. The project sponsors include local and international players having considerable expertise operating renewable energy projects.

Key Rating Drivers

Sound sponsor profile

The ratings incorporate sound profile of local and international sponsors having considerable experience in setting up green-field projects in power and industrial sectors. Mr. Ahmed holds major stake at ~55% and is also the main sponsor of Harappa Solar, an 18MWp solar PV power plant under operation near Sahiwal. Other significant shareholder, Windforce Pvt Ltd (~30%) is a leading private sector power producer in Sri Lanka with diversification into wind, solar, and hydro power. Apart from Pakistan, Windforce has plants established in Uganda and Ukraine as well and is conducting feasibility studies to expand further across the globe. Norsk Solar, holding ~10% stake, is a Norwegian based vertically integrated IPP and focuses on building solar projects in emerging markets.

Leveraging their experience in solar power, sponsors are evaluating new projects in Baluchistan.

Sound operating performance observed with the onset of commercial operations

The solar power plant started commercial operations in December 2019 and has been performing well above the NEPRA laid performance parameters. The Annual Benchmark electricity generation for GSL based on 22.21% capacity factor is 97,279.8 MWh.

in MWh	FY20	FY21
Installed capacity – Kilowatts	50,000	50,000
Annual benchmark energy-kWh	51,032,026	97,279,800
Actual energy delivered- kWh	64,679,000	108,626,026

Under the EPA, GSL will further reap the benefit from producing electricity beyond benchmarked capacity factor as energy payments become proportionately due beyond this threshold and gradually increasing to full 100% on capacity factor surpassing another defined threshold.

The Company is equipped with advanced technology to optimally utilize Solar energy.

Solar energy is mainly dependent on two factors; irradiation and temperature. To effectively utilize solar energy, GSL has installed PV solar plant for the first time in Pakistan having a bi-facial solar technology and single axis trackers along with sun tracking technology which helps in absorbing the maximum amount of solar radiation to convert it into power. Also, the Company has installed dual glass technology to avoid abrasion and cope up with the variance in temperature levels as it is based in geographical terrain encompassing corrosive environment.

Presence of long-term Energy Purchase Agreement with K-Electric mitigates off-take risk while adequate insurance coverage in place

The electricity generated is purchased by K-Electric under the Energy Purchase Agreement (EPA) dated September 26, 2018 which is valid for 25 years from the Commercial Operations Date. In case K-Electric is unable to accept all energy delivered, this will constitute as Non Project Event (NPE) and GSL will continue to receive the payments from K-electric under Non-Project Missed Volume (NPMV) which is compensation of loss of revenue. Furthermore, K-Electric is liable to pay 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.

Revenue from K-Electric is invoiced monthly and the payment mechanism is executed through an escrow account where K-Electric is required to pay on or before 30th day following the day invoice received. The escrow mechanism allows direct transfer to GSL's revenue account before K-electric can access its account for other transactions. In case of delayed payment, the K-Electric is liable to pay markup at the rate of KIBOR plus 2% on prorated basis for the delayed period. Till date all payments have been received on time. Additionally, K-Electric has a sound track record of timely payments to various thermal IPPs.

Operational risk is considered manageable given O&M contract in place with experienced O&M operator.

As per initially agreed terms, the Company has signed a 3 year O&M contract with OMS (Pvt.) Ltd. Post completion of assigned period, the contract is expected to renew with the same operator. OMS (Pvt.) Ltd has a sound track record and extensive experience in renewable energy sector with notable clients including Orient Power Company Limited, Packages Limited, JDW Power (Private) Ltd., K-Electric, Punjab Thermal Power Limited, and Northern Power Generation Company Limited, among others, which provides comfort against operational risk.

Profitability boosted on full impact of commencement of commercial operations.

Since the Company achieved commercial operations in Dec 2019, FY2021 was the first full year of operations. GSL delivered 108,626 MWh of electricity to the K-Electric during FY21 (FY20: 64,679 MWh). Consequently, net revenue increased by 195% to Rs. 1.25b during FY21 (FY20: Rs. 427m). Moreover, cost of sales increased to Rs. 361.0m (FY20: Rs. 181.9m), led by higher depreciation and energy charge. The company recorded higher gross profit Rs. 898.7m (FY20: Rs. 245.1m) with the increase in gross margin up to 71.3% (FY20: 57.4%) during FY21. Overall profitability profile enhanced to Rs. 558.8m (FY20: Rs. 9.8m) in FY21.

Approval of indexed tariff determined at Rs. 10.1473/kWh to increase profits, going forward

The tariff adjustment on Commercial operations was approved by NEPRA in April 2021 at Rs. 10.1473 /kWh for the next 10 years while levelized tariff over the 25 years period was approved at Rs.8.6761/kWh.
The difference between previously invoiced payments at Rs. 6.7272/kWh and the revised approved tariff has been booked as receivable of Rs 537.9m and is expected to be received upon billing of differential energy payment in FY22. Post true up, GSL has been receiving quarterly indexation from NEPRA. The last approved tariff for Jul-Sep 2021 was Rs 9.4586/kWh.

Sound liquidity profile supported by healthy cash flows generation

In line with the higher profits, funds from operations increased to Rs. 781.7m (FY20: Rs. 184.7m) during FY21. Debt service coverage ratio (DSCR) and total debt to FFO of the company stood at 1.56x (FY20: 1.63x) and 16% (FY20: 3%), respectively during FY21. Current ratio stood higher at 3.4x (FY20: 2.6x) Comfort is drawn from the presence of Debt Service Reserve Account which covers the principal and markup payments for the next nine months. GSL has parked excess liquidity of about Rs. 420.8m in short term liquid investments including money market funds of mutual funds.

Leverage indicators have improved with augmentation of equity and scheduled repayments

Equity base of GSL augmented to Rs. 2.2b during Jun'21 (FY20: Rs. 1.7b) on account of improved profitability. The debt profile comprises long-term financing only, as the Company continues to hold sufficient liquid assets to meet working capital requirements. The outstanding balance of long-term borrowings decreased to Rs. 4.9b by end-Jun'21 (FY20: Rs. 5.5b) with the scheduled repayments. Company has availed both local and foreign loan to finance the debt. Local borrowings' are utilized at concessionary rate offered by SBP within its renewable energy 2006 policy (through The Bank of Punjab and Bank Alfalah) at fixed rate of 5.9418% while foreign loan (availed from Nederlandse Financierings-Maatschappij) is serviced using three month LIBOR plus 4.25% spread. With the augmentation of equity and decline in borrowing levels, gearing and leverage indicators improved to 2.16x (FY20: 3.20x) and 2.18x (FY20: 3.25x), respectively. Given no plans to mobilize any new debt financing, the projected increase in equity with higher expected profitability will positively impact leverage indicators, going forward.

Gharo Solar Limited Annexure I

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**
PP&E	79.0	1,388.7	6,062.0	5,762.3
Trade Debts	-	-	192.5	237.4
Cash & Bank Balance	43.9	2,197.6	698.1	240.8
Short Term Investments	0.0	0.0	200.6	420.8
Total Assets	**123.8**	**3,674.9**	**7,344.9**	**7,270.3**
Trade & Other Payables	33.0	108.4	94.2	45.4
Short-term Borrowings	-	-	-	-
Long-Term Borrowings *(Inc. current maturity)*	-	2,057.4	5,520.8	4,936.7
Total Debt	-	2,057.4	5,520.8	4,936.7
Total Liabilities	33.0	2,165.7	5,618.6	4,985.6
Paid Up Capital	0.0	169.1	169.1	1,002.1
Total Equity	90.9	1,509.2	1,726.2	2,284.6
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**FY21**
Net Sales	-	-	427.0	1,259.6
Gross Profit	-	-	245.1	898.7
(Loss)/Profit Before Tax	(1.5)	(25.9)	11.9	565.1
(Loss)/Profit After Tax	(1.5)	(25.9)	9.8	558.8
FFO	n.m	n.m	184.7	781.7
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**FY21**
Gross Margin (%)	-	-	57.4%	71.3%
Net Margin (%)	-	-	2.3%	44.4%
FFO to Total Debt (x)	n.m	n.m	3%	16%
Debt Servicing Coverage Ratio (x)	n.m	n.m	1.63	1.56
ROAA (%)	-	-	0.2%	7.6%
ROAE (%)	-	-	0.6%	27.9%
Gearing (x)	n.a	1.36	3.20	2.16
Debt Leverage (x)	0.36	1.44	3.25	2.18
Current Ratio (x)	1.36	14.30	2.63	3.42

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	see table below

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
27/10/2021	A	A-1	Stable	Upgrade
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	Senior Manager Finance	September 20th, 2021
Mr. Ghulam Nabi	Assistant Manager Finance	September 20th, 2021