RATING REPORT

Gharo Solar Limited

REPORT DATE:
September 26, 2024

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-1	A	A-1
Rating Date	September 26, 2024		September 12, 2023	
Outlook/Rating Watch	Stable		Stable	
Rating Action	Upgrade		Reaffirmed	

COMPANY INFORMATION

Incorporated in 2016	**External auditors:** KPMG Taseer Hadi & Co. Chartered Accountants
Public Unlisted Company	**Chairman:** Rana Nasim Ahmed **CEO:** Rana Uzair Nasim **CFO:** Husnain Arif
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)

Applicable Rating Criteria: Corporates:
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

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Gharo Solar Limited was incorporated in June, 2016, as a private limited Company under the repealed Companies Ordinance, 1984 (now Companies Act, 2017).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 MW generation capacity.

RATING RATIONALE

Company Profile

Gharo Solar Limited (GSL or 'the Company'), incorporated in 2016, is a public unlisted entity engaged in the generation and supply of electricity to K-Electric through a 50 MW solar PV power plant located near Gharo, District Thatta, Sindh. The plant was constructed at a total cost of approximately Rs. 6.3 bln, with a debt-to-equity ratio of 75:25. The Energy Purchase Agreement (EPA) with K-Electric, has a 'must run' provision and is valid for 25 years from the commercial operation date (COD). The plant operates under no merit listings, given the renewable nature of solar power. The tariff's return on equity (ROE) component for the project is set at 15%, with the Company having opted for a cost-plus tariff structure.

The project is backed by local sponsors with considerable experience in the solar power sector, along with international partners with extensive expertise in operating renewable energy projects globally. The solar power plant began commercial operations in December 2019. According to the management, GSL has avoided any curtailments since commencing its commercial operations over three and a half years ago.

Operational Performance

The annual benchmark electricity generation for GSL, based on a capacity factor of 22.21%, is recorded at 97,279.8 MWh. The plant has consistently exceeded NEPRA's prescribed performance criteria, achieving output levels above the benchmark each year since commencement, with an average capacity factor ranging between 23% and 24%. In FY24, the capacity factor marginally declined to 22.71% (FY23: 23.31%; FY22: 23.72%), though it remained above the benchmark level. According to the Energy Purchase Agreement (EPA), GSL is entitled to benefit from generating electricity beyond the benchmark capacity factor, leading to higher tariff payments. An annual degradation factor of 0.5% is applied for each year of operation, and the plant's availability has consistently remained above 99% during peak summer months.

	FY22	FY23	FY24
Installed capacity-kWh	50,000	50,000	50,000
Annual benchmark energy-kWh	97,279,800	97,279,800	97,279,800
Benchmark capacity factor	22.21%	22.21%	22.21%
Actual energy delivered-kWh	102,644,000	102,092,092	99,422,809
Actual capacity factor	23.72%	23.31%	22.71%

The Company has installed a PV solar plant, marking the first implementation of such technology in Pakistan. The plant utilizes bifacial solar technology, single-axis trackers, and sun-tracking systems, which are aimed at optimizing solar radiation absorption and improving power conversion efficiency. Additionally, dual glass technology has been integrated to minimize abrasion and manage temperature variations.

Key Rating Drivers

Sound sponsor profile supports the ratings

Ratings are driven by the profiles of both local and international sponsors, whose involvement brings extensive experience in developing greenfield projects within the power and industrial sectors. The majority shareholder, Mr. Rana Ahmed, who holds approximately 55% ownership, serves as the principal sponsor of Harappa Solar, an operational 18MW solar photovoltaic power plant near Sahiwal. Another significant shareholder, Windforce (Pvt.) Ltd, holding around 30%, is a private sector power producer based in Sri Lanka with a diversified portfolio that includes wind, solar, and hydro power projects across various countries. Windforce has established plants in Pakistan, Uganda, and Ukraine, and is conducting feasibility studies for further global expansion. Norsk Solar, holding approximately 10% of the shares, operates as a vertically integrated Independent Power Producer (IPP) based in Norway, focusing on solar projects in emerging markets. Leveraging their expertise in solar energy, the primary sponsors have also submitted bids for additional renewable power projects domestically.

Long-term Energy Purchase Agreement with K-Electric and experienced O&M contract mitigate operational risks

Electricity generated is sold to K-Electric under an Energy Purchase Agreement (EPA) dated September 26, 2018, with a tenure of 25 years from the Commercial Operations Date (COD). If K-Electric fails to accept the delivered energy, it constitutes a Non-Project Event (NPE), and GSL continues to receive compensation from K-Electric under Non-Project Missed Volume (NPMV) for revenue loss. Additionally, if the plant remains non-operational due to circumstances mentioned in the non-project event of the EPA, K-Electric is obligated to pay GSL for the non-operational days based on expected units as determined by an independent valuator. The likelihood of such events is minimized as the plant is classified as a must-run facility in merit order.

Revenue from K-Electric is invoiced monthly, with payments managed through an escrow account. K-Electric is required to settle invoices within 30 days of receipt, and funds are transferred directly to GSL's revenue account before K-Electric accesses its account for other transactions. Delayed payments attract a markup of KIBOR plus 2% on a prorated basis. To date, payments have been received on time.

The Company initially entered a three-year Operations and Maintenance (O&M) contract with OMS (Pvt.) Ltd in 2018, which ended in December 2022. The contract has been renewed for an additional three years under similar terms. OMS (Pvt.) Ltd has significant experience in the renewable energy sector, managing O&M operations for clients such as Orient Power Company Limited, Packages Limited, JDW Power (Private) Ltd., K-Electric, Punjab Thermal Power Limited, and Northern Power Generation Company Limited. OMS (Pvt.) Ltd also manages operations for another power plant within the group, reducing operational risk.

Topline improved on the back of tariff adjustments

The Company's revenue reached Rs. 1.8 bln in FY24 (FY23: Rs. 1.5 bln; FY22: Rs. 1.0 bln), primarily due to the upward adjustment in the tariff, which is revised quarterly. The energy supplied to K-Electric remained stable at 99,442,809 MWh in FY24 (FY23: 102,092,092 MWh). Quarterly tariff adjustments have been effective since July 2021, with the latest approved rate at Rs. 17.4/kWh for July-September 2024, compared to the levelized tariff of Rs. 9.8/kWh set in April 2021.

Income from short-term investments amounted to Rs. 189 mln in FY24 (FY23: Rs. 133 mln), contributing to an operating profit of Rs. 1.3 bln (FY23: Rs. 1.1 bln). Taxation applied to income from financial investments totaled Rs. 33 mln in FY24 (FY23: Rs. 24 mln), resulting in a net profit of Rs. 666 mln, with a net margin of 37.6% (FY23: 33.6%).

Sound liquidity profile

Funds from operations (FFO) increased to Rs. 1,014m in FY24 (FY23: Rs. 804m), reflecting the growth in profits. Despite high leverage, coverage ratios have remained adequate, with a Debt Service Coverage Ratio (DSCR) of 1.34x at the end of FY24 (FY23: 1.34x). The current ratio has also been maintained at a stable level. Liquidity is further supported by a Debt Service Reserve Account for debt repayments, wherein GSL invested Rs. 529 mln (FY23: Rs. 493 mln) of excess cash into mutual funds, as short-term investments, surpassing the minimum required amount of Rs. 300 mln as of June 2024.

Improved leverage profile as dollar rates improved

GSL's equity base increased to Rs. 2.6 bln by the end of FY24 (FY23: Rs. 2.3 bln), primarily due to the impact of an interim dividend payout amounting to Rs. 325 mln, which remained below the net profit for the year. The rupee value of foreign debt increased in previous years due to local currency depreciation against the USD, while dollar-based equity remained unaffected by similar adjustments due to accounting restrictions. In FY24, the stabilization of the dollar rate and equity improvement contributed to a reduction in gearing and leverage ratios, which declined to 2.2x and 2.3x, respectively (FY23: 2.8x and 2.9x).

Gharo Solar Limited — Annexure I

Financial Summary				
Balance Sheet (PKR Millions)	FY21A	FY22A	FY23A	FY24A
Property, plant and equipment	5,762	6,445	7,679	7,200
Trade debts	237	279	0	0
Cash & Bank Balances	241	143	185	190
Other Assets	1,030	666	1,111	1,245
Total Assets	7,270	7,533	8,975	8,636
Creditors	45	1	1	7
Long-term Debt (incl. current portion)	4,937	5,459	6,466	5,737
Total Debt	4,937	5,459	6,466	5,737
Other Liabilities	4	125	196	245
Total Liabilities	4,986	5,584	6,663	5,989
Paid up Capital	1,002	1,002	1,704	1,704
Equity (excl. Revaluation Surplus)	2,285	1,948	2,312	2,647

Income Statement (PKR Millions)	FY21A	FY22A	FY23A	FY24A
Net Sales	1,260	996	1,488	1,769
Gross Profit	899	629	1,038	1,231
Operating Profit	872	644	1,065	1,297
Finance Costs	307	315	535	598
Profit Before Tax	565	329	531	699
Profit After Tax	559	314	507	666

Ratio Analysis	FY21A	FY22A	FY23A	FY24A
Gross Margin (%)	71.3	63.2	69.7	69.6
Operating Margin (%)	69.2	64.7	71.6	73.3
Net Margin (%)	44.4	31.6	34.1	37.6
Funds from Operation (FFO) (PKR Millions)	816	578	804	1,014
FFO to Total Debt* (%)	16.5	10.6	12.4	17.7
FFO to Long Term Debt* (%)	16.5	10.6	12.4	17.7
Gearing (x)	2.16	2.80	2.80	2.17
Leverage (x)	2.18	2.87	2.88	2.26
Debt Servicing Coverage Ratio* (x)	1.61	1.27	1.34	1.34
Current Ratio (x)	3.42	1.83	1.63	1.67
Return on Average Assets* (%)	7.6	4.2	6.1	7.6
Return on Average Equity* (%)	27.9	14.9	23.8	26.9
Cash Conversion Cycle (days)	7	72	34	-2

**Annualized, if required*

A - Actual Accounts
P - Projected Accounts
M - Management Accounts

REGULATORY DISCLOSURES	Annexure II				
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	Outlook/ Rating Watch	Rating Action
	RATING TYPE: ENTITY				
	26/Sep/24	A+	A-1	Stable	Upgrade
	12/Sep/23	A	A-1	Stable	Reaffirmed
	06/Sep/22	A	A-1	Stable	Reaffirmed
	27/Oct/21	A	A-1	Stable	Upgrade
	11/Aug/20	A-	A-2	Stable	Reaffirmed
	03/May/19	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.				
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Due Diligence Meetings Conducted	Name	Designation	Date
	Mr. Husnain Arif	Chief Financial Officer	10th September, 2024
	Mr. Asad Hayat	Manager Finance	
	Ms. Ayesha Subhan	Financial Analyst	