RATING REPORT

Yunus Energy Limited (YEL)

REPORT DATE:
April 12, 2019

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A+	A-1
Rating Outlook	Stable	
Outlook Date	*April 11, 2019*	

COMPANY INFORMATION

Incorporated in 2011	**External Auditors:** M/s Deloitte Yousuf Adil, Chartered Accountants
Public Unlisted Company	**Chairman:** Mr. Muhammad Yunus Tabba
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Muhammad Sohail Tabba
Lucky Cement Limited – 20.0%	
Gadoon Textile Mills Limited – 20.0%	
Yunus Textile Mills Limited – 20.0%	
Lucky Energy (Private) Limited – 20.0%	
Lucky Textile Mills Limited – 20.0%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria *Industrial Corporate (May 2016)*
http://www.vis.com.pk/home2.aspx

Yunus Energy Limited (YEL)

RATING RATIONALE

Incorporated in 2011, Yunus Energy Limited (YEL) is engaged in the generation of electricity and supply of electric power to national grid through a 50 Megawatt (MW) wind power farm located at Jhimpir-Hyderabad Corridor. The plant comprises 20 wind turbine generators, each with a nameplate capacity of 2.5 MW. The company is part of Yunus Brother Group (YBG) with shareholding equally distributed among five group companies with limited shareholding held by individuals.

Electricity generated is transmitted to the National Transmission and Dispatch Company (NTDC) under the Power Purchase Agreement (PPA) dated March 26, 2014 which is valid for a period of 20 years from the Commercial Operations Date (COD). Moreover, a consortium of NORDEX Pakistan (Private) Limited and Descon Engineering Limited is serving as Operations & Maintenance (O&M) contractor. The plant was constructed on EPC basis at a total cost of $110.2m with debt to equity ratio of 80:20. YEL commenced commercial operations in September'2016.

Key Rating Drivers:

Strong sponsor profile and experienced management team

YBG, a reputable conglomerate with strong financial profile, has presence in diversified sectors including power generation, building materials, real estate, textile, chemicals, pharmaceuticals, food and automotive sectors. The group has an annual turnover of nearly Rs. 160b while annual profitability of the group was in excess of Rs. 26b in 2017. Strong sponsor support is evident from contractual commitment of the sponsor to fund any shortfall in the debt payment account.

Risk Factors

Wind Risk: In conformity with Upfront Tariff Regime; wind risk is to be borne by power producer. This may result in seasonal variation in cash flows. However, comfort is drawn from Wind Resource Assessment and Energy Yield Evaluation Study conducted by Lahmeyer International Germany indicating wind speed in Jhimpir, Thatta has historically remained above wind cut-in speed of 3.0 m/s (at 10 minutes average) required by plant to operate at all times.

Non-Availability Risk: Non-availability of plant is another risk faced by YEL. O&M contractors have guaranteed to maintain 95% plant availability. However, in case plant availability declines below 95%, the company has recourse to liquidity damages from O&M operators. The liquidated damages are capped at 40% of the annual O&M Contract Price

Evacuation and Force Majeure Risk: YEL will continue to receive the revenues under Non-Project Missed Volume (NPMV) which is compensation of loss of revenue due to Non Project Events (NPEs) solely attributable to power purchaser (such as capacity issues with the grid). The company has acquired satisfactory insurance coverage against political risk. However, other force majeure events such as changes in regulatory framework and occurrence of earthquake may impact the financial profile of the company.

Liquidity Risk: The energy sector's growing circular debt in the country had reached Rs. 1,362 billion mark as at end-2018. Given the rising circular debt, the company has faced delay in payments from the power purchaser which may translate into some liquidity pressures. Delayed payments are compensated through a mark-up payment of KIBOR+4.5% by the power purchaser. The management is also negotiating a working capital line from Commercial Bank as a stop gap arrangement.

OVERVIEW OF THE INSTITUTION

Yunus Energy Limited (YEL) was incorporated on May 11, 2016 as a public unlisted company under Companies Ordinance, 1984. The principal activity of the company is to generate and supply electricity. Registered office of the company is situated in Karachi.

Financial Statements of the company for FY18 were audited by M/s Deloitte Yousuf Adil, Chartered Accountants. Auditors belong to category 'A' on the approved list of auditors published by the State Bank of Pakistan (SBP).

Profile of CEO

Mr. Muhammad Sohail Tabba is a seasoned businessman with extensive experience in manufacturing, energy, real estate and cement sectors. Mr. Sohail is a chairman of ICI Pakistan Limited and NutriCo Morinaga (Private) Limited. Furthermore, he serves as a CEO of Lucky Energy (Private) Limited, Lucky Knits and LuckyOne (Private) Limited. He is the Chairman of Lucky Paragon Readymix Concrete and a Director *on the Board of Lucky Cement Limited and Kia Lucky Motors Pakistan Limited.*

Financial Snapshot

Net Equity: *Dec'18: Rs. 3.8b, June'18: Rs. 4.1b*

Net Revenue: *HY19: Rs. 1.4b, FY18: Rs. 2.6b*

Satisfactory operating track record

Performance of the plant has remained satisfactory since commercial operations. Plant availability has remained in excess of the 95% stipulated in the PPA while capacity factor has increased on a timeline basis. Capacity factor and availability of the plant since commercial operations is presented in the table below:

Table 1: Performance Indicators

	FY17	FY18	1HFY19
Capacity factor (Actual)	29.08%	31.31%	33.23%
Availability	96.41%	98.71%	98.16%

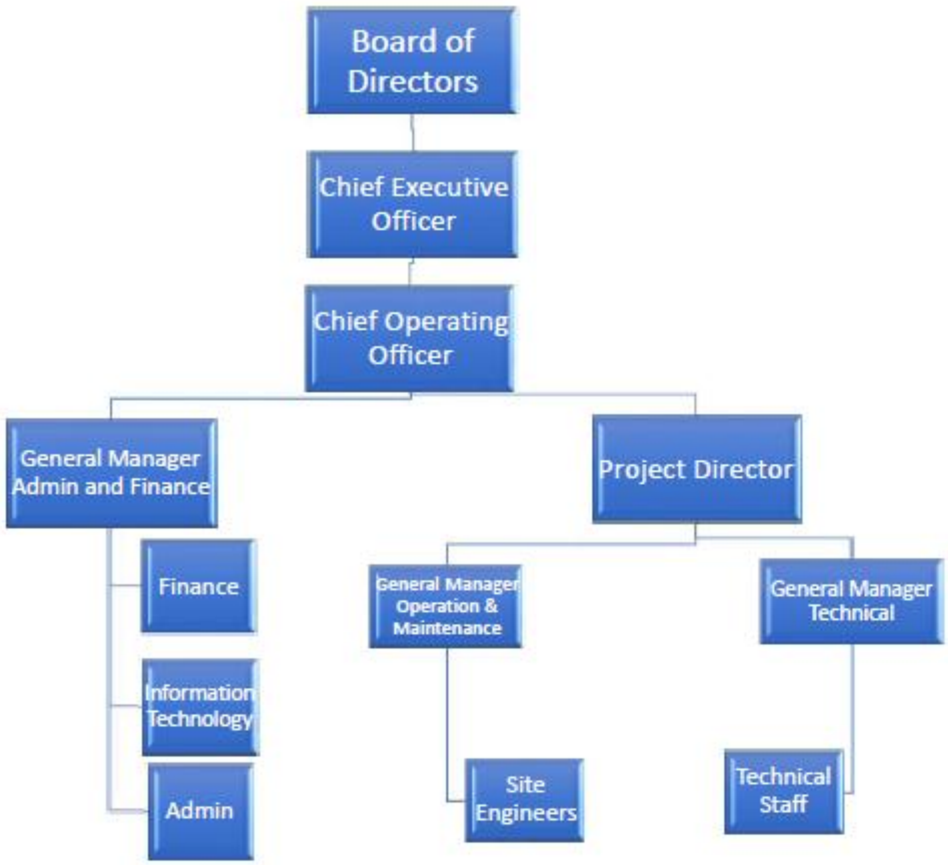
Cash flows are adequate for servicing outstanding debt obligations. Persistence of circular debt may translate into some liquidity pressures.

Funds from Operations (FFO) amounted to Rs. 1.65b (FY17: Rs. 913.1b) for FY18. Increase in FFO was attributable to higher revenues owing to full year operations and higher capacity factor. Annual debt repayment is expected to remain around Rs. 650m, translating into Debt Servicing Coverage ratio of 1.72x (FY18: 1.71x; FY17: 2.12x) indicating satisfactory debt servicing ability. FFO to Total Debt was reported at 0.23x (FY18: 0.21x; FY17: 0.11x) during HFY19. Total overdue receivables increased to Rs. 1.27b (FY18: Rs. 1.42b; FY17: Rs. 941m) at end-HFY19. Going forward, receipts from recent issuance of Rs. 200b circular debt Sukuk by the government along with another issuance planned will facilitate in managing outstanding receivables. However, continuation of circular debt at current high levels may translate into some liquidity pressures.

Elevated leverage indicators but are projected to decline over the rating horizon

Net equity of the YEL amounted to Rs. 3.84b (FY18: Rs. 4.12b) at end-HFY19. The decline was due to reduction in accumulated profits owing to dividends. Dividend payout ratio of the Company was reported at 133% during FY18. Management expects payout levels to remain elevated over the rating horizon. Total debt profile of the company is long term in nature with the same amounting to Rs. 7.59b (FY18: Rs. 7.88b) at end-HYFY19. Gearing and leverage ratios were at 1.98x (FY18: 1.91x; FY17: 2.35x) and 2.10x (FY18: 2.01x; FY17: 2.57x) respectively at end-HFY19. Going forward, level of leverage indicators will depend on quantum of dividend payout and borrowings mobilized, if any, to fund working capital requirements.

Yunus Energy Limited (YEL) Annexure I



Yunus Energy Limited (YEL) **Annexure II**

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**FY17**	**FY18**	**HFY19**
Property, Plant and Equipment	10,691.5	10,297.6	10,100.3
Debtors	941.8	1,418.6	1,274.9
Cash & Bank Balances	974.3	295.5	87.4
Total Assets	12,836.4	12,392.1	11,906.3
Trade and Other Payables	747.3	340.4	414.9
Long Term Debt	8,466.8	7,885.3	7,593.2
Total Equity	3,600.3	4,119.3	3,837.9
INCOME STATEMENT			
Net Sales	1,865.0	2,601.3	1,363.3
Gross Profit	1,416.2	1,990.7	1,039.8
Operating Profit/Loss	1,344.4	1,893.7	986.4
Profit After Tax	720.0	1,205.9	635.8
RATIO ANALYSIS			
Gross Margin (%)	75.9%	76.5%	76.3%
Net Working Capital	736.7	1,070.9	697.3
FFO to Total Debt (%)	0.11	0.21	0.23
FFO to Long Term Debt (%)	0.11	0.21	0.23
Debt Servicing Coverage Ratio (x)	2.12	1.71	1.72
ROAA (%)	6.0%	9.6%	10.5%
ROAE (%)	22.2%	31.2%	32.0%
Gearing (x)	2.35	1.91	1.98
Leverage (x)	2.57	2.01	2.10

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	Yunus Energy Limited (YEL)
Sector	Power
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	See table below
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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
4/11/2019	A+	A-1	Stable	Initial