# RATING REPORT

## Yunus Energy Limited (YEL)

**REPORT DATE:**
March 18, 2020

**RATING ANALYSTS:**

Talha Iqbal
*talha.iqbal@vis.com.pk*

Asfia Aziz
*asfia.aziz@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-1 |
| ***Rating Date*** | *March 18, 2020* | | *April 11, 2019* | |
| **Rating Outlook** | Stable | | Stable | |
| ***Rating Action*** | *Reaffirmed* | | *Initial* | |

| 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. Abdul Sattar Jumani |
| *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) |
|---|
| ***Applicable Rating Criteria: Industrial Corporates (April 2019)*** |
| https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf |

# Yunus Energy Limited (YEL)

| OVERVIEW OF THE INSTITUTION | RATING RATIONALE |
|---|---|

*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 FY19 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).*

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 who are expected to remain the plant's O&M contractors till the debt is outstanding on YEL's books. 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.

**<u>Key Rating Drivers:</u>**

**Strong sponsor profile and experienced management team**

YBG, a leading conglomerate with strong financial profile and has diverse presence across multiple sectors including power generation, building materials, real estate, textile, chemicals, pharmaceuticals, food and automotive sectors. The group has an annual turnover of nearly Rs. 196.3b while annual profitability of the group was in excess of Rs. 27.7b in 2018. Total assets of the Group stood at Rs. 335.2b. Ratings assigned to YEL draw support from strong financial profile and diversified presence of sponsor. Sponsor support is also evident from contractual commitment of the sponsor to fund any shortfall in the debt payment account.

**Risk Factors**

<u>Wind Risk:</u> 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.

<u>Non-Availability Risk:</u> 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

<u>Evacuation and Force Majeure Risk:</u> 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.

<u>Liquidity Risk:</u> The energy sector's growing circular debt in the country had reached Rs. 1.8 trillion mark as at end-Dec'19. Given the rising circular debt and increasing capacity payments, delays in payments by

CPPA 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 has negotiated a working capital line of Rs. 500m with commercial banks to manage liquidity needs.

**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 decreased below requirement during 1HFY20 reported at 29.61% due to off-take curtailment. Capacity factor and availability of the plant since commercial operations is presented in the table below:

| | FY17 | FY18 | 1HFY19 | FY19 | 1HFY20 |
|---|---|---|---|---|---|
| Capacity factor (Actual) | 29.08% | 31.31% | 33.23% | 31.02% | 29.61% |
| Availability | 96.41% | 98.71% | 98.16% | 98.62% | 98.34% |

**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. 1b (FY19: Rs. 1.9b, FY18: Rs. 1.7b)) for 1HFY20. Increase in FFO was attributable to higher revenues during the period under review. Debt Servicing Coverage ratio of 1.80x (FY19: 1.76x, FY18: 1.72x) at end-Dec'19 indicates satisfactory debt servicing ability. FFO to Total Debt was reported at 0.28x (FY19: 0.25x, FY18: 0.21x) during HFY20. Total overdue receivables increased to Rs. 2.14b (FY19: Rs. 1.84b; FY18: Rs. 1.42b) at end-HFY20. Going forward, receipts from Pakistan Energy Sukuk 2 by the government will facilitate in reducing outstanding receivables. However, continuation of circular debt at current high levels may translate into some liquidity pressures. Comfort is drawn from commitment by the government for release of funds for timely debt repayment.

**Improving leverage indicators**

Net equity of the YEL amounted to Rs. 4.8b (FY19: Rs. 4.6b; FY18: Rs. 4.1b) at end-HFY20. Management has projected excess cash after debt payment to be paid out as dividends. The company availed its available running finance line during 1HFY20 to finance working capital needs. Total debt amounted to Rs. 7.43b (FY19: Rs. 7.32b; FY18: Rs. 7.88b) at end-HYFY20. Gearing and leverage ratios have improved on a timeline basis with the same being reported at 1.55x (FY19: 1.59x; FY18: 1.91x) and 1.64x (FY19: 1.70x; FY18: 2.01x) respectively at end-HFY20. 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

| FINANCIAL SUMMARY *(amounts in PKR millions)* | | | | | |
|---|---|---|---|---|---|
| **BALANCE SHEET** | **FY16** | **FY17** | **FY18** | **FY19** | **1HFY20** |
| Paid Up Capital | 3,058 | 3,058 | 3,058 | 3,058 | 3,058 |
| Total Equity | 2,880 | 3,600 | 4,119 | 4,616 | 4,802 |
| | | | | | |
| **INCOME STATEMENT** | | | | | |
| Net Sales | - | 1,865 | 2,601 | 2,940 | 1,773 |
| Profit Before Tax | (51) | 734 | 1,226 | 1,437 | 802 |
| Profit After Tax | (51) | 720 | 1,206 | 1,420 | 798 |
| | | | | | |
| **RATIO ANALYSIS** | | | | | |
| FFO | (41) | 913 | 1,673 | 1,862 | 1,041 |
| Current Ratio (x) | 0.29 | 1.52 | 2.05 | 2.29 | 2.15 |
| Gearing (x) | 2.58 | 2.35 | 1.91 | 1.59 | 1.55 |

## 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** | Yunus Energy (Pvt.) Ltd. |
| **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 |
|---|---|---|---|---|
| **3/18/2020** | A+ | A-1 | Stable | Reaffirmed |
| **4/11/2019** | A+ | A-1 | 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. |
| **Disclaimer** | Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.<br>Copyright 2020 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS. |

**Due Diligence Meetings Conducted**

| | Name | Designation | Date |
|---|---|---|---|
| 1 | Mr. Maqsood Bawany | Senior Manager Finance and Accounts | 14-Feb-2020 |