RATING REPORT

Yunus Energy Limited (YEL)

REPORT DATE:
April 01, 2022

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	April 01, 2022		March 01, 2021	
Rating Outlook	Stable		Stable	
Rating Action	*Reaffirmed*		*Reaffirmed*	

COMPANY INFORMATION	
Incorporated in 2011	**External Auditors:** 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)
VIS Entity Rating Criteria: Corporates (August, 2021) **https://docs.vis.com.pk/docs/CorporateMethodology202108.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 FY21 were audited by 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' or 'the Company') 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. YEL's plant comprises 20 Wind Turbine Generators (WTGs), 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.

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). YEL commenced commercial operations in September 2016. YEL's plant was constructed on EPC basis at a total cost of $110.2m with debt to equity ratio of 80:20. A consortium of NORDEX Pakistan (Private) Limited and Descon Engineering Limited is providing Operations & Maintenance (O&M) services and is expected to remain the plant's O&M contractors till debt financing is fully paid off.

Key Rating Drivers:

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. 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

Wind Risk: In conformity with Upfront Tariff Regime; the onus of wind risk lies on the power producer. Power produced and in turn cash flows are susceptible to seasonality and possible variance in wind speed. However, comfort is drawn from Wind Resource Assessment and Energy Yield Evaluation Study conducted by Lahmeyer International Germany indicating adequate wind speed in Jhimpir, Thatta.

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: Outstanding receivables - in terms of trade debts receivable from Government of Pakistan (GoP) and overdue payments classified in other receivables considered good - amounted to Rs. 3.6b as of Dec'21 (Jun'21: Rs. 3.8b; Jun'20: Rs. 3.3b). Nevertheless, given that the amount is payable by GoP, credit risk is considered satisfactory. In February 2021, power producers were offered an agreement with offtaker for revised tariff featuring a lower RoE, lower O&M component among other adjustments, vis-à-vis the

initial agreement with CPPA, against settlement of full dues by GoP. YEL, however, is yet to come to an agreement with the offtaker in this regard. As per management, payment mechanism of the GoP has generally depicted improvement, as previously it was being settled on 10 month basis, which has reduced to 6-month basis presently. The management believes that the outstanding amount should be materially lower by end-FY22. YEL continues to book profit on outstanding receivables, as agreed under the PPA, at KIBOR+4.5%. In FY21, profit booked amounted to Rs. 320m (FY21: Rs. 263m). In order to manage the sizable receivables from GoP, YEL has sizable short term borrowing lines in place, which are utilized on need basis.
YEL's operations are susceptible to liquidity risk, albeit given borrowing lines available and association with YBG, liquidity risk is considered manageable.

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. Capacity factor and availability of the plant is presented in the table below:

	FY19	FY20	FY21	H1'FY22
Capacity factor (Actual)	31.02%	29.50%	26.33%	31.40%
Availability	98.62%	98.90%	98.82%	99.21%

Cash flows are adequate for servicing outstanding debt obligations
Funds from Operations (FFO) amounted to Rs. 1.26b for H1'FY22 which is a 38% increase compared to SPLY. Debt Servicing Coverage ratio of 2.11x (FY21: 1.80x; FY20: 1.85x) at end-Dec'21 indicates satisfactory debt servicing ability. FFO to Total Debt was reported at 0.46x (FY21: 0.33x; FY20: 0.30x) during H1'FY22, considered adequate from a ratings perspective.

Financial risk profile has improved given drop in leverage
Net equity of the YEL amounted to Rs. 7.2b (Jun'21: Rs. 6.7b; Jun'20: Rs. 5.6b) as of Dec'21 and total debt decreased to Rs. 5.5b (Jun'21: Rs. 6.0b; Jun'20: Rs. 7.03b) as at Dec'21. Gearing and leverage ratios have improved on a timeline basis with the same being reported at 0.76x (Jun'21: 0.88x; Jun'20: 1.25x) and 0.83x (Jun'21: 0.96x; Jun'20: 1.35x) respectively as of Dec'21.

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

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**Jun'19**	**Jun'20**	**Jun'21**	**Dec'21**
Paid Up Capital	3,058	3,058	3,058	3,058
Total Equity	4,616	5,620	6,770	7,276
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**H1'FY22**
Net Sales	2,940	3,451	2,755	1,680
Profit Before Tax	1,437	1,606	1,462	1,044
Profit After Tax	1,420	1,600	1,459	1,041
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**H1'FY22**
FFO	1,862	2,135	1,955	1,263
Current Ratio (x)	2.29	2.31	3.07	3.39
Gearing (x)	1.59	1.25	0.88	0.76

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
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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
4/1/2022	A+	A-1	Stable	Reaffirmed
3/1/2021	A+	A-1	Stable	Reaffirmed
3/18/2020	A+	A-1	Stable	Reaffirmed
4/11/2019	A+	A-1	Stable	Initial

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Maqsood Bawany	Senior Manager Finance and Accounts	March 24, 2022