RATING REPORT

Yunus Energy Limited (YEL)

REPORT DATE:
April 04, 2023

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 04, 2023		April 01, 2022	
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 Energy (Pvt.) Limited – 20.00%	
Gadoon Textile Mills Limited – 19.99%	
Yunus Textile Mills Limited – 19.99%	
Lucky Textile Mills Limited – 19.99%	
Lucky Cement Limited – 19.99%	

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

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 FY22 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).

Financial Snapshot

Tier-1 Equity:

H1'FY23: Rs. 8.4b FY22: Rs. 8.2b; FY21: Rs. 6.8b; FY20: Rs. 5.6b

Assets:

H1'FY23: Rs. 13.7b FY22: Rs. 14.0b; FY21: Rs. 13.3b; FY20: Rs. 13.2b;

Profit After Tax: *H1'FY23: Rs. 750.8m FY22: Rs. 2.3b; FY21: Rs. 1.5; FY20: Rs. 1.6b*

RATING RATIONALE

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 distributed among five group companies with very limited shareholding (<1%) 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). 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 is 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 the 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 – due from Government of Pakistan (GoP) - amounting to Rs. 4.0b (FY22: Rs. 4.5b; FY21: Rs. 3.8b) as of Dec 31, 2022 are secured and considered good. Credit risk is considered satisfactory since the amount is payable by GoP. As per management, payment mechanism of the GoP has improved during the last two years, with receivables are generally settled within around six to seven months as previously it used to take around 10 months to settle. Resultantly, due to the improvement in recovery of outstanding receivables, the company is able to meet working capital requirements through internal cash flow generation. Furthermore, in view of association with YBG and availability of borrowing lines, liquidity risk is considered manageable.

Performance Update: Performance of the plant has remained satisfactory since commercial operations commenced. Plant availability has remained in excess of the 95% as stipulated in the PPA. 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. Given YEL among several other wind power projects have not taken any final decision regarding this issue, NTDC has started to impose curtailments since Nov' 2022. Resultantly, this led to lower capacity factor in 1HY23. Capacity factor and availability of the plant is tabulated below:

	FY21	FY22	*HY22*	HY23
Installed Capacity (in 000's)	**438,000**	**438,000**	***438,000***	**438,000**
Capacity factor (Actual)	26.33%	31.50%	*31.40%**	20.47%*
Availability	99.82%	99.28%	*99.21*	99.52%
Actual Output (MWh) (in 000's)	115,323	137,944	*68,766*	44,851

Annualized*

Cash flows are adequate for servicing outstanding debt obligations due to higher profitability: Funds from operations (FFO) amounted to Rs. 927.6m (FY22: Rs. 2.7b, FY21: Rs. 1.9b) for 1HY23, a 26.4% decrease compared to SPLY. DSCR of at end-Dec'22 indicates manageable debt servicing ability. FFO-to-Total Debt remained adequate at 0.39x(FY22: 0.53x; FY21: 0.33x) at end-1HFY23. Debt service coverage, albeit decreased in 1HY23, primarily owing lower FFO, remained adequate at 1.60x (FY22: 2.24x, FY21: 1.81x). Notable improvement in cash flow position in the outgoing year was on account of higher profit margins emanating from the positive impact of rupee depreciation amid dollar indexation of tariff.

Financial risk profile has shown consistent improvement given drop in leverage indicators on a timeline basis

Tier-1 equity stood higher at 8.4b (FY22: Rs. 8.2b, FY21: Rs. 6.8b) at end Dec'22, primarily on the back of profit retention. The company distributed final dividend @ Rs. 2/share amounting to Rs. 611.5m. Gearing and leverage ratios improved to 0.57x (FY22: 0.63x, FY21: 0.88x) and 0.64x (FY22: 0.70x FY21: 0.96x) respectively, by end-HY23, due to augmentation in equity base and repayment of long-term debt.

Yunus Energy Limited (YEL) Annexure I

FINANCIAL SUMMARY	*(amounts in PKR millions)*			
BALANCE SHEET	**FY20**	**FY21**	**FY22**	**1H'FY23**
Property, Plant and Equipment	9,461.0	9,075.4	8,690.2	8,464.2
Stores, Spares. And Loose Tools	1.4	1.4	1.4	1.4
Prepayments and advances	53.4	20.1	32.4	122.8
Trade Debts	2,851.0	3,826.5	4,488.1	3,981.6
Other Receivables	781.3	260.1	403.8	430.6
Cash and Bank Balances	36.3	103.2	106.3	165.4
Other Assets	40.4	21.2	26.1	34.6
Total Assets	**13,224.7**	**13,308.0**	**14,038.7**	**13,740.4**
Loans from FI (inc. current portion)	6,723.3	5,958.1	5,151.6	4,763.0
Lease liabilities (inc. current portion)	14.3	14.8	15.4	16.4
Short term borrowings	295.0	0.0	0.0	0.0
Retirement benefit obligation/ Staff Gratuity	29.9	42.8	48.7	66.1
Accrued and Other Payables	485.0	444.0	511.0	434.1
Provision for taxation	**57.2**	**61.0**	**68.9**	**78.5**
Total liabilities	**7,604.8**	**6,520.8**	**5,795.6**	**5,358.1**
Share capital	3,057.6	3,057.6	3,057.6	3,057.6
Tier-1 Equity	5,620.5	6,787.2	8,243.1	8,382.3
Total Equity	**5,620.5**	**6,787.2**	**8,243.1**	**8,382.3**
INCOME STATEMENT	**FY20**	**FY21**	**FY22**	**1H'FY23**
Net Sales	3,451.1	3,075.3	3,976.8	1,707.7
Gross Profit	2,697.2	2,314.1	3,130.2	1,233.0
Finance Cost	1,185.4	703.0	734.8	492.3
Other Income	283.0	14.4	36.6	113.8
Profit Before Tax	1,605.9	1,479.1	2,303.8	760.3
Profit After Tax	1,600.2	1,475.3	2,295.8	750.8
FFO	2,135.5	1,971.4	2,734.8	927.6
RATIO ANALYSIS	**FY20**	**FY21**	**FY22**	**1H'FY23**
Gross Margin (%)	78.2%	75.2%	78.7%	72.2%
Net Margin (%)	46.4%	48.0%	57.7%	44.0%
Net Working Capital	2,126.8	2,853.5	3,898.8	3,846.5
FFO to Total Debt	0.30	0.33	0.53	0.39*
Debt Servicing Coverage Ratio (x)	1.85	1.81	2.24	1.60
Current Ratio	2.31	3.09	3.71	3.71
ROAA (%)	12.5%	11.1%	16.8%	10.8%*
ROAE (%)	31.3%	23.8%	30.5%	18.1%*
Gearing (x)	1.25	0.88	0.63	0.57
Debt Leverage (x)	1.35	0.96	0.70	0.64

**Annualized*

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
4/04/2023	A+	A-1	Stable	Reaffirmed
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

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
1	Mr. Maqsood Bawany	Senior Manager Finance and Accounts	March 16, 2023