RATING REPORT

Yunus Energy Limited (YEL)

REPORT DATE:
July 03, 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	July 03, 2024		April 04, 2023	
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 Sohail 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

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

APPLICABLE RATING SCALE

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

Yunus Energy Limited (YEL)

OVERVIEW OF THE INSTITUTION

Yunus Energy Limited (YEL) was incorporated in 2011 as a public unlisted company under the repealed Companies Ordinance, 1984 (now Companies Act, 2017). 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 FY23 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).

RATING RATIONALE

Yunus Energy Limited ('YEL' or 'the Company') operates a 50-Megawatt (MW) wind power farm comprising 20 Wind Turbine Generators (WTGs), each with a nameplate capacity of 2.5 MW, located at the Jhimpir-Hyderabad corridor. YEL commenced commercial operations (CoD) in Sept'16. The assigned ratings incorporate the sound sponsor profile of YEL as being a part of the Yunus Brother Group (YBG), one of the country's leading conglomerates with diversified presence across several sectors. Additionally, the contractual commitment of the sponsor to fund any shortfall in debt provides further comfort to the assigned ratings. The ratings also factor in the long-term Energy Purchase Agreement (EPA) with the CPPA-G, mitigating offtake risk, as well as the Operations & Maintenance (O&M) contract with an experienced O&M operator.

YEL's operational performance was hampered during FY23 on the back of government-led curtailments coupled with relatively lower wind resource; however, uptick in offtake was exhibited during the ongoing year. Consequently, profitability metrics reflected some variance, though remained sound throughout the rating review period. Moreover, the liquidity position remained adequate owing to strong cash flow and adequate liquidity ratios. Furthermore, continuing improvement in capitalization indicators has been witnessed on a timeline period on account of profit retention, debt repayments and the absence of short-term borrowings for working capital requirements. Going forward, the ratings remain sensitive to ensuring satisfactory operational performance as well as maintaining comfortable liquidity and leverage metrics.

Corporate Profile

Electricity generated is transmitted to the National Transmission and Dispatch Company (NTDC) under the Energy Purchase Agreement (EPA) (dated March 26, 2014), which is valid for a period of 20 years from the COD. 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 debt.

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 a 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. 4.6b at end-Dec'23 (FY23: Rs. 3.8b, FY22: Rs. 4.5b) are secured and considered good. Credit risk is considered satisfactory since the amount is payable by GoP. The trade debts have remained range bound in absolute terms as the GoP has been paying at regular intervals, therefore, allowing working capital requirements to be met through internal cash flow generation. Furthermore, in view of association with YBG and the availability of standby credit lines, liquidity risk is considered manageable.

Performance Update: While the wind farm has completed about eight years of operations, plant performance has remained satisfactory with plant availability exceeding the 95% stipulated benchmark in the EPA over the rating review period.

The capacity factor however declined to 23.9% (FY22: 31.5%) in FY23 on account of lower wind availability and curtailments from NTDC due to availability of cheaper power sources amid excess power generation during the winter season. Additionally, the Company also decided not to accept the proposal extended by the CPPA-G during Feb'21 which pertained to the revision of RoE, O&M and other components vis-à-vis initial agreements against settlement of full dues by GoP; as per management, the same also contributed to curtailment events during FY23. As the capacity factor fell below the 31% requirement as outlined in the O&M contract, the Company was compensated for NPMV by CPPA-G due to curtailments. Nonetheless, capacity factor improved to 34.9% in 1HFY24 owing to reduction in curtailment events and higher wind resource.

Capacity factor and availability of the plant is tabulated below:

	FY22	FY23	HY23	HY24
Capacity factor (Actual)	31.50%	23.88%	20.47%*	34.90%*
Availability	99.28%	99.33%	99.52%	99.11%
Actual Output (MWh)	137,944	104,580	44,851	77,052

Annualized*

Profitability: Despite lower offtake, the Company's topline depicted slight increase to Rs. 4.1b (FY22: Rs. 4b) during FY23 owing to upward revision in tariff rates. However, the gross margin, though remained high, decreased slightly to 74.8% (FY22: 78.7%) largely owing to higher operations and maintenance cost in line with inflationary pressure. Despite uptick in other income to Rs. 221.8m (FY22: Rs. 36.6m) largely on account of dividends received from mutual funds and disposal of operating fixed assets, increase in financing charges to Rs. 1b (FY22: Rs. 734.8m) due to the high policy rate environment added pressure to the bottom-line. Consequently, the net margin stood lower at 49.7% (FY22: 57.7%). Nonetheless, profitability metrics still remained sound in the outgoing year.

The annualized topline increased significantly in 1HFY24 on the back of higher offtake coupled with increase in tariff rates. Resultantly, the YEL's profitability metrics improved with gross and net margins increasing to

82.6% and 65.1%, respectively. Going forward, profitability performance is expected to remain sound provided maintenance of offtake and tariff adjustments.

Cash flows are adequate for servicing outstanding debt obligations:
Funds from operations (FFO) augmented to Rs. 2.4b (FY23: Rs. 2.4b, FY22: Rs. 2.7b) during the ongoing year in line with improvement in profitability. Resultantly, cash flow coverages improved notably on an annualized basis with FFO-to-Total Debt increasing to 1.59x (FY23: 0.55x, FY22: 0.53x). However, the debt-service coverage ratio (DSCR) decreased to 1.49x (FY23: 1.90x, FY22: 2.24x) owing to higher financial and debt-repayment charges during 1HFY24.

Moreover, the overall liquidity position remained sound with the current ratio improving to 4.3x (FY23: 3.7x, FY22: 3.71x) as current assets were increasingly being funded through equity. Short-term investments of Rs. 880.6m (FY23: Rs. 1b, FY22: Rs. 290.3m) also provide cushion against financial obligations. As per management, excess liquidity is parked largely in mutual funds in order to generate additional income to manage liquidity needs.

Equity base is being strengthened and leverage indicators are improving on a timeline basis
The equity base expanded notably over the rating review period to Rs. 10.8b (FY23: Rs. 9b, FY22: Rs. 8.2b) by end-Dec'23 owing to partial profit retention. The company paid cash dividends amounting Rs. 1.2b and Rs. 305.8m during FY23 and 1HFY24, respectively. YEL's overall debt profile constitutes of long-term borrowings only which have been declining on a timeline basis, amounting to Rs. 3b (FY23: Rs. 4.4b, FY22: Rs. 5.2b) at end-Dec'23. The company has not mobilized short-term borrowings over the years. However, a standby short-term credit facility of Rs. 500m is available for unforeseen circumstances.

Debt leverage and gearing have depicted improvement to 0.35x and 0.27x, respectively (FY23: 0.57x, 0.49x; FY22: 0.7x, 0.63x) by end-1HFY24. Going forward, capitalization indicators are projected to further improve on the back of expansion of the equity base, scheduled debt repayments and no additional debt drawdown in the foreseeable future.

Yunus Energy Limited (YEL) Annexure I

FINANCIAL SUMMARY *(amounts in PKR mln)*				
BALANCE SHEET	**FY21**	**FY22**	**FY23**	**1HFY24**
Property, Plant and Equipment	9,075	8,690	8,395	8,203
Trade Debts	3,827	4,488	3,806	4,640
Other Receivables	260	404	497	576
Cash and Bank Balances	103	106	275	204
Short-Term Investments	-	290	1,022	881
Other Assets	43	60	88	70
Total Assets	***13,308***	***14,039***	***14,085***	***14,575***
Long-term Borrowings (inc. current portion)	5,973	5,167	4,384	2,968
Short term borrowings	-	-	-	-
Accrued and Other Payables	444	511	493	563
Other Liabilities	104	118	211	219
Total liabilities	***6,521***	***5,796***	***5,088***	***3,750***
Share capital	3,058	3,058	3,058	3,058
Total/Tier-1 Equity	***6,787***	***8,243***	***8,997***	***10,825***
INCOME STATEMENT	**FY21**	**FY22**	**FY23**	**1HFY24**
Net Sales	3,075	3,977	4,084	3,279
Gross Profit	2,314	3,130	3,057	2,708
Finance Cost	703	735	1,037	496
Other Income	14	37	222	78
Profit Before Tax	**1,479**	**2,304**	**2,057**	**2,148**
Profit After Tax	**1,475**	**2,296**	**2,031**	**2,134**
FFO	**1,971**	**2,735**	**2,430**	**2,364**
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**	**1HFY24**
Gross Margin (%)	75.2%	78.7%	74.8%	82.6%
Net Margin (%)	48.0%	57.7%	49.7%	65.1%
FFO to Long-Term Debt*	0.33	0.53	0.55	1.59
FFO to Total Debt*	0.33	0.53	0.55	1.59
Debt Servicing Coverage Ratio (x)*	1.81	2.24	1.90	1.49
Current Ratio	3.09	3.71	3.70	4.03
ROAA (%)*	11.1%	16.8%	14.4%	29.8%
ROAE (%)*	23.8%	30.5%	23.6%	43.1%
Gearing (x)	0.88	0.63	0.49	0.27
Debt Leverage (x)	0.96	0.70	0.57	0.35
Cash Conversion Cycle*	174	176	192	66

**Annualized*

REGULATORY DISCLOSURES					**Annexure II**
Name of Rated Entity	Yunus Energy Ltd.				
Sector	Power				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	07/03/2024	**A+**	**A-1**	**Stable**	**Reaffirmed**
	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.				
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Due Diligence Meetings Conducted		**Name**	**Designation**	**Date**
	1	Mr. Faheem Ahmed	CFO	June 03, 2024
	2	Mr. Maqsood Bawany	Senior Manager Finance and Accounts	June 03, 2024