RATING REPORT

Lucky Renewables (Private) Limited

REPORT DATE:
January 02, 2025

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A2	A	A2
Rating Date	*January 02, 2025*		*December 20th, 2023*	
Rating Outlook/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION

Incorporated in 2015	**External Auditors:** M/s. Grant Thornton Anjum Rahman
Private Limited Company	**Chief Executive Officer:** Mr. Abdul Sattar Jumani
Key Shareholders (with stake 10% or more):	
Lucky Textile Mills Limited – 51.0%	
Lucky Energy (Pvt.) Limited – 49.0%	

APPLICABLE RATING SCALE(S)

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

APPLICABLE METHODOLOGY

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

Lucky Renewables (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Lucky Renewables (Pvt.) Limited was incorporated as a private limited company in 2015. LRPL is principally engaged in generating electricity and supplying the same to the national grid. Registered office of the Company is located in Karachi.

Profile of CEO: Mr. Abdul Sattar Jumani has extensive experience with FMCG, textile, manufacturing and energy sector. He also serves as the CEO of Yunus Energy Limited. Mr. Jumani is Fellow Member of Institute of Cost and Management Accountants of Pakistan.

Corporate Profile:

Lucky Renewables (Private) Limited ("LRPL' or "the Company"), formerly Tricom Wind Power (Private) Limited, was incorporated as a Special Purpose Vehicle (SPV), with a corporate structure of a private limited company, to exclusively develop a 50 MW Wind Power Project ('the Project') in Deh Kohistan, Jhimpir, District Thatta. The Project is supplying electricity to the national grid on a regular basis post-commencing commercial operations in September 2021. The Company is a subsidiary of Lucky Textile Mills Limited ('the Parent Company') which owns 51% shareholding. Y.B. Holdings (Private) Limited is the ultimate parent company. The registered office of the Company is situated at LuckyOne Mall, Main Rashid Minhas Road, Karachi.

The principal activity of the Company is to sell electricity by whatever means, including wind-mill. The Company was issued a Letter of Intent (LOI) for a wind power project and the land was allotted and leased to the Company by Land Utilization Department – Government of Sindh. The Company signed a twenty five-year Energy Purchase Agreement (EPA) with the Central Power Purchasing Agency (Guarantee) Limited (CPPA) on November 11, 2019. Implementation Agreement (IA) has also been signed on November 12, 2019 with the President of the Islamic Republic of Pakistan (on behalf of GOP).

The Group

The Company operates as part of the Yunus Brother Group ("YBG" or "the Group"), a prominent conglomerate with a strong financial profile and a diversified presence across multiple sectors. YBG's business interests span across various sectors including Cement, Textiles, Power Generation, Chemicals, Automobiles, Pharmaceuticals, Healthcare, Real Estate, Entertainment, Food & Commodities, among others.

Project Details:

Dimensions	Details
Name Plate Capacity	50 MW
Wind Turbine	Siemens Gamesa
Total Capacity	438 GWH
Annual Generation @ Capacity Factor of 38%	166.44 GWH
Approved Levelized Tariff (PKR/Kwh)	7.2175

The total cost of the Project was $65.45 mln approximately PKR 10.44 bln which was financed in debt-to-equity ratio of 80:20 where debt component comprised an equal mix of local and foreign lenders. The Project has an ROE of 14%.

Operational Performance:

Production Capacity and Utilization	FY24A	FY23A
Installed Capacity (KWH)	438,000,000	438,000,000
Average Production Capacity Factor of 38% (KWH)	166,440,000	166,440,000
Actual production	165,736,322	153,131,596
Utilization (%)	37.84%	34.96%

The operational performance of the Company’s wind-based generation capacity shows an increasing utilization trend over the reviewed period. The actual production marginally increased attributed to variations in wind conditions.

Power Production Sector Overview:

In the fiscal year 2024 (FY24), Pakistan's power production sector experienced notable developments, particularly in the areas of energy generation capacity, financial performance, and the integration of renewable energy sources.

As of March 2024, the country's total installed electricity capacity stood at 42,131 megawatts (MW). The composition of this capacity included 25.4% from hydropower, 8.4% from nuclear energy, 6.8% from renewable sources, and the remaining from thermal power plants.

During FY24, power generation decreased by 1.9% year-over-year, totaling 127,167 gigawatt-hours (GWh), compared to 129,591 GWh in the previous fiscal year. This decline was attributed to various factors, including reduced industrial activity and energy conservation measures.

The financial landscape of the power sector faced growing challenges in FY24, with circular debt reaching a record high of PKR 2.393 trillion by year-end. The rise was primarily driven by inefficiencies in billing collection from both public and private sector customers, resulting in payment delays from power distributors to power suppliers. This, in turn, impacted power producers' ability to settle dues with their gas and oil suppliers. A significant component in power tariff to customers comprises of capacity payments to IPPs which raises the power tariff and reduces the customer ability to pay thus increasing the receivables from them and attracting more subsidies adding up to the circular debt.

In the renewable energy sub-sector, efforts were made to enhance the share of renewables in the energy mix. K-Electric, a major utility company, announced plans to increase its renewable energy capacity between FY24 and FY30, aiming to integrate up to 2,200 MW from renewable and indigenous sources. Additionally, the World Bank approved a USD 1 billion loan for the Dasu hydropower project, expected to contribute significantly to the country's renewable energy capacity upon completion.

Despite these initiatives, the overall contribution of renewable energy remained modest. The government's target to achieve a 20% share by 2030 of renewable energy excluding hydel in the national energy mix faced challenges, including financial constraints and infrastructural limitations.

Key Rating Drivers:

Business Risk Profile

Sector Risk; Renewable Energy: Medium to low

The renewable energy sector's business risk profile is categorized as medium given limited exposure to economic cyclicality, low competitive intensity due to regulated market structures or long-term contractual arrangements through PPAs and EPAs, and reduced sensitivity to energy demand fluctuations. Technology risks are viewed as moderate. However, the sector faces challenges stemming from its capital-intensive nature and a strict regulatory framework governing the renewable energy sector. Moreover, the wind risk is borne by the Company, with the primary implication being lower production, resulting in reduced efficiency. However, independent studies have indicated that this risk is mitigated on average over the years.

Demand in the sector is supported by long-term EPAs and PPAs with the CPPA-G, which ensure predictable and stable revenue streams. Dependence on natural renewable resources as the primary input for energy generation mitigates risks associated with raw material availability and dependency.

Sponsor Profile

Ratings are supported by the strong financial profile and diversified business interests of its sponsor, which substantially enhances the group's capacity to successfully ride through various economic cycles. The sponsor's broad presence in diversified sectors provides LRPL operational synergies and resources backing, contributing positively to the Company's overall risk profile.

Demand risk is mitigated through the presence of long-term Energy Purchase Agreement with CPPA-G

LRPL's lower tariff provides benefit in the merit order position consequently mitigating off-take risk. Lower tariff as compared to older wind power producers is a function of lower Engineering Procurement and Construction (EPC) cost, and higher efficiency of new plants having lesser O&M costs.

Financial Risk Profile

Profitability Profile

The Company's revenue stream is derived from tariffs available to the Company through EPP, which also include interest in delayed payments. In FY24, the Company experienced growth in its profitability profile, driven by a revenue increase of 229.4%. Of this growth, 123.0% represent YoY growth while the remaining 106.4% attributed to the Tariff adjustment at Commercial Operation Date (COD) approved by the National Electric Power Regulatory Authority (NEPRA) for the period from September 2021 to June 2023 which accounts for approximately 37.7% of the net revenue for FY24.

This significant revenue growth resulted in an improvement in the gross margin, which increased to 72.5% in FY24 (FY23: 41.4%). Of this, 59.3% represents YoY growth, while the remaining 13.1% is attributed to the approved tariff adjustment for the period from September 2021 to June 2023. Consequently, the Company reported a net profit in FY24, reversing the net loss recorded in FY23, with a net profit margin of 42.7% (FY23: -32.3%) during the period.

Going forward, the adjustment in LRPL's true-up tariff by NEPRA is expected to support stable growth in revenue and profitability.

Coverage Profile

The Company's coverage profile improved notably in FY24, as evidenced by the debt service coverage ratio (DSCR) increasing to 1.6x (FY23: 0.5x). This improvement was primarily driven by a surge in funds flow from operations (FFO), supported by enhanced profitability.

In addition, the short-term debt (STD) coverage ratio improved to 2.0x (FY23: 0.5x) in FY24, reflecting a 482.2% increase in trade debts.

Capitalization Profile

LRPL's capital structure showed improvement in FY24 as gearing ratio improved to 2.9x (FY23: 5.4x), while the leverage ratio was reported at 3.1x (FY23: 6.4x). This improvement in the capitalization metrics in FY24 is primarily attributable to a 78.0% increase in the equity base, supported by higher accumulated profits during the period.

Liquidity Profile

LRPL's liquidity profile has remained constrained historically, with a four-year average current ratio of 0.8x, showing a marginal improvement to 0.9x in FY24 (FY23: 0.6x). This improvement was supported by funds generated from operations, which were sufficient to bridge the widening working capital gap arising from an increase in trade debts. Lower reliance on short-term borrowings, despite increasing working capital requirements, positively impacted the Company's

	liquidity position. However, a significant portion of liquidity in FY24 remained tied up due to trade receivables from CPPA-G, which, according to LRPL's management, has been resolved subsequent to the year end. This was also reflected in the cash conversion cycle which remained negative at -217 days (FY23: -698 days) in FY24. Nevertheless, these receivables are guaranteed by the government which provides comfort for assigned ratings.

Lucky Renewables (Pvt.) Limited Appendix I

Financial Summary				
Balance Sheet (PKR Millions)	FY21A	FY22A	FY23A	FY24A
Property, plant and equipment	9,171.22	11,314.61	12,897.26	12,249.20
Right-of-use Assets	5.97	5.71	5.46	5.20
Trade debts	N/A	443.81	428.14	2,492.74
Cash & Bank Balances	278.38	1,392.81	1,772.95	98.15
Other Assets	231.64	182.72	21.64	103.83
Total Assets	9,687.21	13,339.66	15,125.45	14,949.12
Creditors	169.34	1,263.77	1,806.76	228.48
Long-term Debt (incl. current portion)	7,077.99	8,981.42	10,247.33	9,229.39
Short-Term Borrowings	53.85	497.22	869.82	1,238.63
Total Debt	7,131.84	9,478.64	11,117.15	10,468.02
Other Liabilities	11.84	171.60	144.70	590.67
Total Liabilities	7,313.02	10,914.01	13,068.61	11,287.17
Paid up Capital	2,213.37	2,213.37	2,213.37	2,213.37
Revenue Reserve	160.83	212.28	-156.54	1,448.61
Equity (excl. Revaluation Surplus)	2,374.20	2,425.65	2,056.83	3,661.98
Income Statement (PKR Millions)	FY21A	FY22A	FY23A	FY24A
Net Sales	N/A	955.09	1,141.96	3,761.95
Gross Profit	N/A	432.96	472.79	2,725.70
Operating Profit	173.72	442.18	458.80	2,686.81
Finance Costs	1.16	390.72	813.26	1,079.53
Profit Before Tax	172.56	51.46	-368.59	1,605.75
Profit After Tax	172.05	51.46	-368.81	1,605.14
Ratio Analysis	FY21A	FY22A	FY23A	FY24A
Gross Margin (%)	N/A	45.33%	41.40%	72.5%
Operating Margin (%)	N/A	46.30%	40.18%	71.42%
Net Margin (%)	N/A	5.39%	-32.3%	42.7%
Funds from Operation (FFO) (PKR Millions)	-121.16	422.94	39.11	2,165.34
FFO to Total Debt* (%)	-1.70%	4.46%	0.35%	20.69%
FFO to Long Term Debt* (%)	-1.71%	4.71%	0.38%	23.46%
Gearing (x)	3.00	3.91	5.4	2.9
Leverage (x)	3.08	4.50	6.4	3.1
Debt Servicing Coverage Ratio* (x)	-0.25	0.75	0.5	1.6
Current Ratio (x)	0.72	0.77	0.6	0.9
(Stock in trade + trade debts) / STD (x)	0.00	0.89	0.5	2.0
Return on Average Assets* (%)	2.82%	0.45%	-2.59%	10.67%
Return on Average Equity* (%)	11.23%	2.14%	-16.46%	56.14%
Cash Conversion Cycle (days)	0.00	-416	-698	-217
*Annualized, if required				
A - Actual Accounts				
P - Projected Accounts				
M - Management Accounts				

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Lucky Renewables (Pvt.) Limited Formerly: Tricom Wind Power (Pvt) Limited)
Sector	Power
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see table below
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	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Rating Watch	Rating Action
RATING TYPE: ENTITY				
02-Jan-25	**A**	**A2**	**Stable**	**Reaffirmed**
20-Dec-23	A	A2	Stable	Reaffirmed
29-Dec-22	A	A2	Stable	Reaffirmed
08-Nov-21	A	A2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Faheem Ahmed	Chief Financial Officer (CFO)	November 26th, 2024
Mr. Siraj Lakhani	Senior Manager Finance & Treasury	
Mr. Bilal Muhammad Iqbal	Senior Manager Accounts & Finance	