# VIS
Credit Rating Company Limited



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**APPLICABLE METHODOLOGY(IES):**
VIS Entity Rating Criteria Methodology – Corporate Rating
**(**https://docs.vis.com.pk/docs/CorporateMethodology.pdf**)**
**Rating Scale:**
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

# K-SOLAR PRIVATE LIMITED

**Chief Executive: Fahd Khawaja**

## RATING DETAILS

| RATINGS CATEGORY | LATEST RATING | |
|---|---|---|
| | **Long-term** | **Short-term** |
| ENTITY | A+ | A1 |
| RATING OUTLOOK/ WATCH | Stable | |
| RATING ACTION | Initial | |
| RATING DATE | September 10, 2025 | |

## RATING RATIONALE

The assigned entity ratings of ‘A+/A1’ to K-Solar (Private) Limited reflect the Company’s evolving business model, improving financial metrics, and sponsor backing from its ultimate parent, K-Electric Limited (rated AA/A1+). The ratings draw comfort from the strategic integration with K-Electric and demonstrated equity support. Operating within Pakistan’s medium-risk renewable energy sector, K-Solar holds a favorable position in the Commercial and Industrial (C&I) solar segment, where structural cost savings, rising grid tariffs, and growing ESG-driven demand are driving market growth, although competitive intensity in the industry remains elevated, posing challenges to customer acquisition and exerting pressure on margins. The Company's diversification into the Power Purchase Agreements (PPAs) and Equipment Rental Agreements (ERAs) models, alongside its existing EPC platform, is expected to augment revenue streams. Governance remains closely aligned with the parent company, enabling strategic consistency and financial oversight.

The Company has demonstrated a meaningful turnaround, with profitability improving on the back of operational scale-up, disciplined cost control, and enhanced pricing power. Gross and net margins have expanded materially, reflecting growing operational maturity. The capital structure remains conservative, though additional funding is anticipated in line with PPA and ERA expansion. Liquidity remains strong and coverage metrics, while initially constrained, are expected to stabilize as the operating portfolio matures and debt servicing aligns with structured cash inflows. The ratings remain underpinned in K-Solar’s ability to execute its growth strategy effectively while maintaining financial discipline in the face of a competitive market environment.

# COMPANY PROFILE

K-Solar (Private) Limited ("K-Solar" or "the Company") is a wholly owned subsidiary of KE Venture Company (Private) Limited (KEVCL), which in turn is entirely owned by K-Electric Limited (KEL). Incorporated on September 18, 2020, K-Solar was established as part of K-Electric's diversification strategy to expand into Pakistan's renewable energy sector. The Company currently operates in the distributed generation space, offering renewable energy solutions (including solar & wind) to both commercial and industrial clients.

**Business Activities**

K-Solar primarily operates in the commercial and industrial space facilitating consumers in adopting clean energy and diversifying their energy mix. The Company is registered with the Pakistan Engineering Council (PEC) and the Private Power & Infrastructure Board (PPIB), complying with regulatory standards for on-grid and off-grid installations.

K-Solar operates through three core business models:

**Power Purchase Agreements (PPAs) and Equipment Rental Agreements (ERAs) Models:**

K-Solar offers renewable energy solutions through long-term contractual arrangements, primarily under Power Purchase Agreements (PPAs) and Equipment Rental Agreements (ERAs), as per customer preference. Under these agreements, the Company installs, owns, and operates renewable energy assets, supplying electricity to customers with monthly billing based on contractual terms whether linked to actual energy generation or Fixed Rental. Projects are typically financed on an 80:20 debt-to-equity basis, with debt sourced externally and equity injected by the parent company.

**EPC (Engineering, Procurement, and Construction) Model:**

Under the EPC model, K-Solar delivers turnkey renewable energy systems, where customers fund the capital expenditure and assume operational risk. Payment is made in tranches, linked to project milestones.

**Value-Added Services:**

These include Operation & Maintenance (O&M)/Asset Performance Management (APM), and Battery Energy Storage Systems (BESS), enabling better system reliability, energy independence, and load management. K-Solar also facilitates the trading of International Renewable Energy Certificates (IRECs), enabling customers to reflect compliance with sustainability targets.

K-Solar employs a structured credit policy to manage counterparty risk. Financial assessments are conducted internally and mitigation tools including upfront billing (three to twelve months), hypothecation of assets, and asset repossession clauses are implemented under the risk management framework.

To date, they have executed around 28 projects with a combined capacity of 26,449 kW of solar power, encompassing both EPC and ERA models. While the EPC mode constitutes the larger share of this capacity, the PPA/ERA model has recently gained significant traction, with K-Solar successfully delivering ERA projects for Bulleh Shah Packaging, Ghandhara Tyre & Rubber Company Ltd., Starchpack (Private) Ltd., and Archroma Pakistan Limited.

## GOVERNANCE

K-Solar's governance structure is reflective of its status as a wholly owned subsidiary of K-Electric, with full board representation from the parent entity. The Board of Directors comprises three members—Mr. Muhammad Aamir Ghaziani (CFO, K-Electric), Mr. Abbas Husain Siahiwala, and Ms. Sadia Dada—all of whom are senior executives of K-Electric, which ensures close strategic alignment between the subsidiary and its ultimate holding company. This structure enables effective oversight, particularly in areas such as financial integration, operational risk, and compliance with K-Electric's broader corporate objectives.

**Senior Management – K-Solar (Private) Limited**

K-Solar is led by a seasoned management team with diverse experience. The Chief Executive Officer, Fahd Khawaja, brings over 23 years of expertise in commercial strategy and business transformation, with leadership roles at Engro, Sapphire, and HBL Zarai Services. He is aided by Fahad Ali Daudpota, the Chief Operating Officer, with 18 years of experience in the solar and power sector, with a strong track record in project development and technical sales. Collectively, the team provides strong operational, strategic, and financial leadership aligned with K-Solar's growth ambitions.

## INDUSTRY PROFILE & BUSINESS RISK

The renewable energy sector in Pakistan maintains a medium-risk profile, characterized by increasing demand, evolving technology, intensifying competition, and regulatory unpredictability, it offers moderate yet sustainable growth potential under changing market dynamics. According to NEPRA, the installed solar capacity in Pakistan had reached about 3.3 GW by mid-2024 (including 2.5 GW from net-metering), rising to over 3.6 GW by early 2025 as reported in the Pakistan Economic Survey 2024-25, and the Revised IGCEP 2025-35 projects this to exceed 7 GW by 2029.

The Commercial and Industrial (C&I) solar segment, in particular, is undergoing a rapid transformation. This growth is primarily driven by persistently high electricity tariffs, ongoing grid reliability issues, and increasing pressure on businesses to comply with sustainability and ESG standards. Major industries such as textiles, FMCG, cement, and telecom are increasingly turning to solar energy as a dependable and cost-effective alternative. With industrial/commercial grid tariffs reaching~ PKR 35-45/kWh in 2025, solar installations offer significant cost savings, often reducing energy expenses by 50–70% over the system's lifetime, thereby strengthening the business case for adoption.

A key enabler of this expansion had been NEPRA's net metering framework, which allows commercial users to export surplus electricity to the grid, significantly improving project viability. However, recent policy signals have indicated a move away from net metering, which has created uncertainty. The sector has also previously benefitted from fiscal incentives and duty exemptions on imported solar equipment, though recent reversals in policy have introduced new challenges for developers and end-users alike.

Two business models dominate the Commercial and Industrial solar market: the CAPEX and OPEX models. In the CAPEX model, businesses purchase and own the solar system, typically larger industrial players with strong balance sheets and long-term operational outlooks. This structure provides full asset control and maximizes long-term savings. On the other hand, the OPEX model, commonly structured as Power Purchase Agreements (PPAs) and Equipment Rental Agreements (ERAs), enable businesses to access renewable energy without upfront investment. The system is installed, owned, and operated by a third party, and the client pays only either for the electricity generated or fixed rentals, usually at rates lower than grid prices. This model is gaining traction among companies looking for off-balance sheet solutions and financial flexibility. Active players in this segment include Reon Energy, Shams Power, Burj Capital and Orient Energy Systems.

Despite a strong growth trajectory, the sector faces key challenges. The lack of local manufacturing capabilities makes developers heavily reliant on imported panels and inverters, exposing them to exchange rate volatility. Furthermore, recent policy reversals on net metering and fiscal incentives have created uncertainty, while quality inconsistencies among smaller service providers continue to pose operational and reputational risks.

Looking ahead, the outlook for the C&I solar market remains positive as more businesses aim for energy independence, cost efficiency, and alignment with global ESG benchmarks. The choice between CAPEX and OPEX models will largely depend on the client's financial strategy, operational priorities, and appetite for risk and asset ownership.

## FINANCIAL RISK

**Profitability**

Since commencing revenue generation in FY22, the Company's topline has shown strong growth reflected in a CAGR of 44.91%. This was primarily driven by EPC contracts, with the Commercial & Industrial (C&I) segment contributing 91.88% of total EPC sales through FY24. In 3QFY25, a shift in the revenue mix was observed with the introduction of ERA income, which contributed approximately 46% to total revenue, while EPC sales—largely from the C&I segment—accounted for 53%. The Company plans to add wind and BESS projects from FY26 onwards to further diversify its portfolio. The Company's margin profile reflects a significant improvement over a relatively short period, showcasing the business's maturing operational model since the commencement of commercial operations in 2022. Initial years margins were indicative of a business still in its ramp-up phase, with elevated costs of sales and limited pricing power. Operating and net margins remained negative in both years, with operating margin plunging to -50.07% in FY23, likely due to high fixed overheads and front-loaded administrative expenses associated with setting up operations.

From FY24 onward, the financial trajectory shifted markedly. Gross margin rose to 24.90% in FY24 and further to 51.67% in 9MFY25, reflecting improved procurement efficiencies, project pricing discipline, and economies of scale. As topline margins strengthened, operating margins also turned positive climbing to 10.20% in 9MFY25, indicating improved cost control and overhead absorption. This translated into a strong recovery in net profitability, with net margins reaching 13.11% in FY24 and 25.56% in 9MFY25.

**Capital Structure**

To date, K-Electric has injected approximately Rs. 1.2 billion into the Company. The debt profile comprises of solely long-term borrowings secured against contractual cash flows. Going forward, the Company is pursuing funding diversification through the issuance of Sukuks, which will be backed by ERAs and their associated cash flows. Overall, the capital structure is expected to remain prudent, with incremental debt equity injections and internal cash generation.

**Debt Coverage & Liquidity**

The Company maintains a healthy current ratio, averaging 2.88x over the past three years**,** with a further improvement to 5.12x as of 3QFY25 (FY24: 3.38x). This reflects a comfortable short-term liquidity position, driven by efficient working capital management and interim financing support from sponsors, particularly for EPC and PPA/ERA project phases.

For solar PPA/ERA based contracts, debt servicing is factored into customer billing; however, temporary mismatches between finance cost outflows and inflows from under-implementation projects can create timing-related pressure on coverage. As the rental portfolio matures, inflows are expected to increasingly align with repayment obligations, supporting stable long-term coverage.

<table>
<tr><th colspan="2">REGULATORY DISCLOSURES — Appendix II</th></tr>
<tr><td>Name of Rated Entity</td><td>K-Solar Pvt Limited</td></tr>
<tr><td>Sector</td><td>Power</td></tr>
<tr><td>Type of Relationship</td><td>Solicited</td></tr>
<tr><td>Purpose of Rating</td><td>Entity Ratings</td></tr>
<tr><td>Rating History</td><td><table><tr><th>Rating Date</th><th>Medium to Long Term</th><th>Short Term</th><th>Rating Outlook/Watch</th><th>Rating Action</th></tr><tr><td>9/10/2025</td><td>A+</td><td>A1</td><td>Stable</td><td>Initial</td></tr></table></td></tr>
<tr><td>Instrument Structure</td><td>N/A</td></tr>
<tr><td>Statement by the Rating Team</td><td>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.</td></tr>
<tr><td>Probability of Default</td><td>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.</td></tr>
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<tr><td>Due Diligence Meeting Conducted</td><td><table><tr><th>Name</th><th>Designation</th><th>Date</th></tr><tr><td>Mr. Fahd Khawaja</td><td>CEO</td><td>14 July 2025</td></tr><tr><td>Mr. Syed Ali Imran Jafferi</td><td>Treasury Specialist</td><td>26 June 2025</td></tr></table></td></tr>
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