

RATING REPORT

Foundation Wind Energy-I Limited (FWEL-I)

REPORT DATE:

July 05, 2019

RATING ANALYSTS:

Maham Qasim

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A+	A-1	A+	A-1
Rating Outlook	Stable		Stable	
Rating Date	June 28, '19		August 07, '18	

COMPANY INFORMATION

Incorporated in 2005	External Auditors: A.F. Ferguson & Co., Chartered Accountants
Public Limited Unlisted Company	Chairman: Gen Khalid Mehmood (Retd.)
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Maj. Gen. Khawar Hanif, HI (M) (Retd)
Fauji Fertilizer Bin Qasim Limited – 35% IIF Wind One Limited (Cap Asia)-35% Fauji Foundation-30%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: *Industrial Corporate (May 2019)*

<https://www.vis.com.pk/kc-meth.aspx>

Foundation Wind Energy-I Limited

OVERVIEW OF THE INSTITUTION

Foundation Wind Energy-I Limited was incorporated in June 2005 as a public limited company under the companies' ordinance, 1984. The principal activity of the company is to own, operate and maintain a wind power plant having a nameplate capacity of 50 MW.

Profile of CEO

Maj. Gen. Khawar Hanif, HI (M) (Retd) has served in various command and staff appointment positions. In recognition of his services, he has been awarded Hilal-e-Imtiaz (Military) by Government of Pakistan and Legion of Merit Award by the Government of United States of America.

Financial Snapshot

Total Equity:

9MFY19:Rs.6.3b;
FY18:Rs. 6.0b; FY17:
Rs. 5.1b

Net Profit: 9MY19:Rs.

460.4m, FY18:Rs.
938.0m; FY17: Rs. 1.1b

RATING RATIONALE

The assigned ratings of Foundation Wind Energy-I Limited (FWEL-I) incorporate its strong ownership profile vested with Fauji Group, through Fauji Foundation and Fauji Fertilizer Bin Qasim Limited, holding major stake in the company. IIF Wind One Limited (CapAsia) is the other sponsor of the company. Given the project is established under the Policy for Development of Renewable Energy for Power Generation, 2006 the ratings derive strength from guaranteed internal rate of return, cost indexation and pass-through tariff structure. Ratings of the company also draw support from cover against wind risk and power evacuation risk. In addition, presence of reputable operational and maintenance (O&M) contractor carrying sound track record mitigates the associated operational risk.

Strong sponsor profile of the company being majorly owned by Fauji Group: Fauji Group holds 65% stake in the company; the said Group is a large business conglomerate having presence in banking, cement, oil and gas, power, fertilizer and food segments. Remaining stake is held by CapAsia, which is a Malaysian private equity firm involved in managing investments in infrastructure sectors in Southeast and Central Asia.

Principal activity of the company is to own, operate and maintain a wind power plant with nameplate capacity of 50MW in Gharo Creek Area, district Thatta of Sindh province for which Alternate Energy Development Board (AEDB) has allocated 1,210 acres of land to the company under a sublease agreement. National Electric Power Regulatory Authority (NEPRA) granted generation license to FWEL-1 on December 22, 2011 under Renewable Energy Policy for Power Generation, 2006; the license is valid till July, 2033. The company achieved commercial operations date (COD) of its plant on April 11, 2015.

20-year Energy Purchase Agreement (EPA) in place with CPPA, along with GoP guarantee on obligations of the power purchaser: FWEL-1 signed an EPA with National Transmission & Dispatch Company Limited (NTDCL) through its Central Power Purchasing Agency (Guarantee) Limited (CPPA) on December 20, 2012 for a period of 20 years. Under the Implementation Agreement (IA), payment obligations of the power purchaser are guaranteed by Government of Pakistan (GoP). On the basis of one-time tariff adjustment allowed at COD, revised levelized tariff for the company for year 1-20 is Rs. 13.97 per kWh.

Presence of Reputable Operations & Maintenance (O&M) Contractor: Operations & Maintenance (O&M) agreement was signed between Nordex Singapore Equipment (Private) Limited and Descon Engineering Limited with FWEL-1 on 23rd August, 2011 for a period of 10 years commencing from the COD. Both parties have the discretion to revoke the agreement after the end of 2nd, 5th and 10th year. As per the O&M agreement, Nordex and Descon shall carry out scheduled and routine maintenance work in accordance with applicable standards and technical limits. In case interim maintenance is required, the contractor shall seek advice from FWEL-1 regarding the timing of such work. Moreover, all the plant equipment operational life is based on 20 years.

Compensation by the power purchaser in the form of Shortfall Energy Payments during lower than benchmark wind speed provided plant is available at benchmark capacity factor: Annual benchmark capacity factor of the plant is 33.0% or 144.5GWh energy generation, while annual benchmark wind speed as per EPA is 7.3 meters per second. As per Policy for Development of Renewable Energy for Power Generation, 2006, in case, energy generation falls below benchmark due to lower than benchmark wind speed and provided that the plant is available at benchmark capacity level of 94.4%. FWEL-1 shall be paid for energy generation corresponding to benchmark capacity factor by the power purchaser in the form of Shortfall Energy Payments. In case of higher production due to higher than benchmark wind speed, excess energy generated shall be paid at 10% of the prevalent tariff.

Evacuation Risk Cover provided by the Power Purchaser under the EPA: In case, the power purchaser has not been able to evacuate the energy due to problems at grid, the company

shall continue to receive revenues under non-project missed volume.

O&M contractor maintaining plant availability above benchmark capacity factor: Non-availability of plant is a risk faced by FWEL-I. O&M contractor have guaranteed to maintain 94.43% of plant availability; the contractors have provided warranty amounting to 10% of O&M contract price in this regard. Plant availability during FY18& 9MFY19 stood well above benchmark capacity level of 94.0%. Liquidation Damages, in case of non-availability of plant, are completely covered by the O&M contractor. The company renewed its O&M contracts during FY18 and entered into a further three year contract with effect from August 8, 2017.

Lower than benchmark power generation during FY18 & 9MFY19: Actual electricity generation of the plant during FY18 & 9MFY19 has been lower than the benchmark on account of lower wind speed vis-à-vis benchmark and grid outages; the associated risk is passed on to the power purchaser. Generation history of the plant is tabulated below:

Table: Energy Generation

	Benchmark Generation (GWh)	Actual Generation (GWh)	Benchmark Capacity Factor	Actual Capacity Factor
9MFY19	144.5	93.8	33.0%	24.0%
FY18	144.5	98.7	33.0%	23.0%
FY17	144.5	108.2	33.0%	28.8%
FY16	144.5	109.8	33.0%	25.1%

Asset base primarily comprising fixed assets: By end-9MFY18, total assets amounted to Rs. 13.7b (FY18: Rs. 13.3b; FY17: Rs. 12.6b) and majorly include property, plant & equipment; the same comprised around 83.0% (FY18: 84.1%; FY17: 88.0%) of the asset base. By end-9MFY19, trade debts declined to Rs. 1.4b (FY18: Rs. 1.8b; FY17: Rs. 1.2b); in terms of overdue receivables the company has GoP guarantee regarding payment obligations of the power purchaser under IA.

By end-9MFY19, advance tax asset stood higher at Rs. 192.7m (FY18: Rs. 190.6m; FY17: Rs. 61.7m), while advances & other receivables amounted to Rs. 156.4m (FY18: Rs. 143.m FY17: Rs. 142.6m); advances & other receivables mainly comprised receivable from NTDC against Workers' Profit Participation Fund (WPPF). Cash & balances increased sizably to Rs. 616.9m (FY18: Rs. 3.6m FY17: Rs. 114.5m) at end-9MFY19 on account of smooth operations of the project.

Reduced profitability during FY18 and 9MFY19 owing to lower gross margin: During FY18, net revenue generated from sale of electricity reduced slightly to Rs. 2.5b (FY17: Rs. 2.6b) on account of lower shortfall energy invoice of Rs. 660.8m (FY17: Rs. 859.0m). During FY18, cost of sales increased to Rs. 922.8m (FY17: Rs. 774.4m) primarily owing to higher O&M cost. As a result, gross margin stood lower. Administrative expenses increased marginally to Rs. 82.1m (FY17: Rs. 74.9m) mainly on account of higher salaries expense, auditors remunerations and corporate social responsibility. Average staff strength increased to 72 from 60. Other income increased to Rs. 14.3m (FY17: Rs. 7.1m) during FY18 as an outcome of higher interest income from financial assets. Further, finance cost declined to Rs. 560.0m (FY17: Rs. 591.0m) mainly due to lower average outstanding borrowings in FY18. However, net profit of the company was recorded lower at Rs. 938.0 (FY17: Rs. 1.1b) primarily on the back of lower gross margins.

During 9MFY19, net revenue stood higher at Rs. 1.7b (9MFY18: Rs. 1.5b) in comparison with to corresponding period last year, however cost of sales increased to Rs. 734.8m (9MFY18: Rs. 675.2m) mainly due to hike in O&M expense to Rs. 176.5m (9MFY18: Rs. 149.5m) on account of upward revision in O&M cost. As a result, gross margin stood lower. Administrative expenses amounted to Rs. 58.2m (9MFY18: Rs. 53.1m), while other income amounted to Rs. 39.1m (9MFY18: Rs. 9.8m) during 9MFY19. Finance cost was higher at Rs. 462.4m (9MFY18: Rs. 406.6m) due to forex adjustment on cost of borrowing on assets subjected to finance lease. However, despite decline in margins the net income was recorded higher at Rs. 460.4m vis-à-vis

Rs. 326.3 for the corresponding period last year owing to increase in scale of operations leading to increased electricity generation. Recurring revenues of the company are expected to largely sustain owing to fixed tariff and wind risk and evacuation compensation borne by the power purchaser.

Capitalization related indicators improving due to profit retention: Liabilities of the company mainly included long-term borrowings; the same amounted to Rs. 7.4b (FY18: Rs. 7.3b; FY17: Rs. 7.5b) by end-9MFY19. Long-term borrowing primarily comprised the company's forward lease agreement with Islamic Development Bank (IDB) worth \$ 64.9m and Rs. 3.0b musharakah finance facility provided by a consortium of National Bank of Pakistan (NBP), Faysal Bank Limited and United Bank Limited (UBL) for financing the FWEL-1 project in FY15. Both facilities are to be repaid in 19 semi-annual installments commencing January 2015 until and including the final maturity date in January, 2024. Mark-up on the lease facility is LIBOR + 4.6% p.a. and mark-up on musharakah facility is 6-month KIBOR + 2.95% p.a. In case of any delay in payments, both facilities are subject to additional charge of 2% p.a above the normal rate of return.

By end-FY18, outstanding lease liability declined to Rs. 4.8b (FY17: Rs. 4.1b) on account of periodic repayment; the same increased to Rs. 4.2b by end-9MFY19 primarily on account of foreign exchange loss. Outstanding Musharakah liability amounted to Rs. 1.6b (FY18: Rs. 1.7b; FY17: Rs. 2.2b) at end-9MFY19. Long-term borrowings also comprised sub-ordinated loan from sponsors carrying mark-up of 3-months KIBOR + 2%, repayable in four quarterly instalments; the same was fully repaid during FY18. By end-FY18, short-term borrowings were reduced nil (FY17: Rs. 197.0m; FY16: Rs. 1.03b).

By end-9MFY19, equity of the company augmented to Rs. 6.3b (FY18: Rs. 6.0b; FY17: Rs. 5.1b) on the back of profit retention. Gearing and leverage of the company has improved on a timeline basis to 1.1x (FY18: 1.1x; FY17: 1.4x) and 1.2x (FY18: 1.2x; FY17: 1.5x), respectively, on account of periodic repayment of borrowings and enhanced equity base.

Sound debt repayment capacity on the back of stable cash flows: By end-9MFY19, current ratio of the company amounted to 1.44x (FY18: 1.43x; FY17: 1.18x). During FY18, Funds from Operations (FFO) slightly declined to Rs. 1.44b (FY17: Rs. 1.55b) on account of decline in margins. FFO (annualized) amounted higher at Rs. 1.4b during 9MFY19 as a result of higher energy dispatch. As a result, FFO (annualized) to total debt was reported at 0.15x (FY18: 0.21x; FY17: 0.22x); meanwhile debt service coverage ratio (DSCR) improved to 1.61x (FY18: 1.28x; FY17: 1.18x) during 9MFY19. With decline in borrowings and largely stable cash flows, coverages are expected to improve, going forward.

Foundation Wind Energy-I Limited
Appendix-I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>				
<u>BALANCE SHEET</u>	FY16	FY17	FY18	9MFY19
Fixed Assets	11,657.7	11,056.5	11,156.3	11,408.6
Trade Debts	736.9	1,193.1	1,777.9	1,367.5
Advance Tax	20.3	61.7	190.6	192.7
Advances & Other Receivables	236.2	142.6	143.1	156.4
Cash & Bank Balances	1,191.6	114.5	3.6	616.9
Total Assets	13,842.7	12,568.4	13,271.5	13,742.2
Trade and Other Payables	224.7	229.4	368.8	258.1
Other Liabilities	232.7	21.0	166.3	
Long Term Debt <i>(*incl. current maturity)</i>	8,425.4	7,051.9	6,728.8	6,971.5
Short Term Debt	1,036.8	197.0	-	-
Total Equity	3,923.1	5,069.1	6,007.6	6,318.0
<u>INCOME STATEMENT</u>				
FY16	FY17	FY18	9MFY18	
Net Sales	2,297.1	2,583.9	2,499.0	1,683.4
Gross Profit	1,478.7	1,809.5	1,576.2	948.7
Operating Expenses	48.6	76.4	82.1	58.2
Interest Expense	696.4	591.0	560.0	462.4
Other Income	8.1	7.1	14.3	39.1
Other Expenses	-	-	8.2	-
Profit Before Tax	741.8	1,149.2	940.2	467.1
Profit After Tax	742.7	1,148.2	938.0	460.4
<u>RATIO ANALYSIS</u>				
FY16	FY17	FY18	9MFY18	
Gross Margin (%)	64.4	70.0	63.1	54.4
Current Ratio	0.84	1.18	1.43	1.44
FFO to Total Debt (x)	0.16	0.22	0.21	0.15
FFO to Long Term Debt (x)	0.18	0.22	0.21	0.15
Debt Servicing Coverage Ratio (x)	1.55	1.08	1.28	1.61
Gearing (x)	2.39	1.43	1.13	1.10
Leverage (x)	2.50	1.48	1.21	1.18
ROAA (%)	5.33	8.69	7.26	4.55
ROAE (%)	20.91	25.54	16.94	9.96

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix-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				Appendix-III	
Name of Rated Entity	Foundation Wind Energy-I Limited				
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
	RATING TYPE: ENTITY				
	28/06/2019	A+	A-1	Stable	Reaffirmed
	07/08/2018	A+	A-1	Stable	Reaffirmed
	31/10/2017	A+	A-1	Stable	Reaffirmed
	03/04/2017	A+	A-1	Stable	Initial
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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