# RATING REPORT

# Foundation Wind Energy-I Limited (FWEL-I)

**REPORT DATE:**
October 14, 2020

**RATING ANALYSTS:**
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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*** | *October 14 '2020* | | *June 28, '2019* | |

## COMPANY INFORMATION

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

## APPLICABLE METHODOLOGY

**VIS Entity Rating Criteria: Corporates (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Energy-I Limited was incorporated in June 2005 as a public limited company under the companies' ordinance, 1984 (now repealed Companies Act, 2017). 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 Chairman**
Mr. Waqar Ahmed Malik has corporate & business experience of over 30 years. He is specialist in Strategy, Corporate / Business leadership and Board Governance.

**Profile of CEO**
Maj. Gen. Khalid Mehmood 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 the Government of Pakistan.

**Financial Snapshot**
**Total Assets:**
FY20: Rs. 16.1b;
FY19: Rs. 14.7b;
FY18: Rs. 13.3b.

**Net Equity**:
FY20: Rs. 9.6b;
FY19: Rs. 7.1b;
FY18: Rs. 6.0b.

**Net Profit**:
FY20: Rs. 2.6b,
FY19: Rs. 1.2b;
FY18: Rs. 938m.

## RATING RATIONALE

The assigned ratings of Foundation Wind Energy-I Limited (FWEL-I) incorporate its strong ownership profile 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. The project is established under the Policy for Development of Renewable Energy for Power Generation, 2006 which offers a guaranteed internal rate of return, cost indexation and pass-through tariff structure. Ratings 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 operational risk.

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.

**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 focused on managing investments in infrastructure sectors in Southeast and Central Asia.

**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-1on August 23, 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, 5thand 10th year. As per the O&M agreement, Nordex and Descon shall carryout 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.

**Compensation by the power purchaser in the form of Shortfall Energy Payments during lower than benchmark wind speed:**
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 FY19 & FY20 remained above benchmark capacity level and stood at 98.4% & 98.2% respectively. Liquidation Damages, in case of non-availability of plant, are completely covered by the O&M contractor.

**Lower than benchmark power generation during FY19 & FY20**: Actual electricity generation of the plant during FY19 & FY20 has been lower than the benchmark on account of lower wind speed vis-à-vis benchmark & grid outages; the associated risk was 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 |
|---|---|---|---|---|
| **FY20** | 144.5 | 1110 | 33.0% | 25.0% |
| **FY19** | 144.5 | 106. | 33.0% | 24.0% |
| **FY18** | 144.5 | 98.7 | 33.0% | 23.0% |

**Asset base primarily comprising fixed assets:**
By end-FY20, total assets amounted to Rs. 16.1b (FY19: Rs. 14.7b; FY18: Rs. 13.3b) and majorly included property, plant & equipment; the same comprised around 71.3% (FY19: 82.2%; FY18: 84.1%) of the asset base. Property, plant & equipment decreased to Rs. 11.5b (FY19: Rs. 12.1b; FY18: Rs. 11.2b) on account of depreciation charge and company did not carry out any major CAPEX during FY19 & FY20. PPE increased during FY19 due to capitalization of exchange loss of Rs. 1.59b on loan taken by the company from IDB in foreign currency (US dollars) for plant & machinery as allowed by CPPA under SRO. The company will depreciate the capitalized exchange loss during the remaining useful life of the plant. Trade debts increased to Rs. 3.5b (FY19: Rs. 1.7b; FY18: Rs. 1.8b) while receivable days increased to 224 days (FY19: 219 days; FY18: 260 days). Main reason for increase in trade receivables was delay in payments by CPPA(G) against the electricity purchase. However, comfort is drawn on account of GoP guarantee regarding payment obligations of the power purchaser under IA which also carries late payment charges of 3M KIBOR + 4.5% per annum after 45 days.

By end-FY20, advance tax due from government stood at Rs. 182m (FY19: Rs. 194m; FY18: Rs. 190m) while advances & other receivables increased to Rs. 324m (FY19: Rs. 207m; FY18: Rs. 142m); advances & other receivables mainly comprised Rs. 326m (FY19: Rs. 202m, FY18: Rs. 142m) receivable from NTDC against Workers' Profit Participation Fund (WPPF). Short term investments decreased to Rs. 397m (FY19: Rs. 440m; FY18: Nil); the company placed this amount in TDRs and mutual funds with a maturity of 3 months. Cash & bank balances increased to Rs. 203m (FY19: Rs. 34m; FY18: Rs. 4m) at end-FY20.

**Improved profitability during FY20 owing to higher sales and better gross margin:** During FY20, net revenue generated from sale of electricity increased to Rs. 4.29b (FY19: Rs. 2.91b; FY18: Rs. 2.49b). Regular energy invoice increased to Rs. 3.22b (FY19: Rs. 2.44b, FY18: Rs. 2.19b) and shortfall energy invoice also increased to Rs. 1.25b (FY19: Rs. 679m; FY18: Rs. 661m). Main reason for higher regular energy invoice is the increase in price of electricity due to rupee depreciation along with recalculation of foreign debt component from COD date which was approved by NEPRA. The shortfall energy invoice also increased on account electricity unit price increase. During FY20, cost of sales increased slightly to Rs. 1.16b (FY19: Rs. 999m; FY18: Rs. 922m) primarily due to higher O&M cost and depreciation expense. Gross margin improved considerably to 75.5% (FY19: 65.7%; FY18: 63.1%) during FY20 mainly on the back of unit price increase. Administrative expenses decreased slightly to Rs. 84m (FY19: Rs. 90m; FY18: Rs. 82m) mainly on account of lower salaries & wages, travelling and legal charges. Other income increased slightly to Rs. 62m (FY19: Rs. 55m; FY18: Rs. 14m) during FY20 on account of dividend from mutual funds. Finance cost decreased to Rs. 622m (FY19: Rs. 659m; FY18: Rs. 560m) mainly due to lower average outstanding borrowings in FY20. Net profit for the company stood higher at Rs. 2.6b (FY19: Rs. 1.2b; FY18: Rs. 938m) primarily on the back of higher sales, and better gross margins during FY20.

**Capitalization related indicators improved due to periodic repayment of long-term debt and profit retention:**
By end-FY20, total liabilities declined to Rs. 6.5b (FY19: Rs. 7.6b; FY18: Rs. 7.3b) primarily on account of repayment of long term borrowings. Liabilities mainly included long-term borrowings of Rs. 5.9b (FY19: Rs. 7.2b, FY18: Rs. 6.7b) at end-FY20. Long-term borrowing primarily comprised the company's lease agreement with Islamic Development Bank (IDB) worth $ 66.86m and Rs. 3.0b musharaka finance facility provided by a consortium of National Bank of Pakistan, Faysal Bank Limited and United Bank Limited for financing the FWEL-1 project in FY15. Both facilities are to be repaid in 19 semi-annual installments commencing January 2015 with final maturity dates in January 2024. By end-FY20, outstanding lease liability declined to Rs. 4.46b (FY19: Rs. 5.43b; FY18: Rs. 4.78b) on account of periodic repayment while musharaka liability decreased to Rs. 1.45b (FY19: Rs. 1.76b; FY18: Rs. 2.02b). The company is not using any hedging mechanism for IDB loan payment in US dollars as SBP is not allowing any foreign currency hedging. Mark-up on the lease facility is LIBOR + 4.6% p.a. and mark-up on musharaka facility is 6-month KIBOR + 2.95% p.a. Trade and other payables increased to Rs. 559m (FY19: Rs. 424m; FY18: Rs. 369m) which mainly included payables to workers profit participation fund of Rs. 310m (FY19: Rs. 187m; FY18: Rs. 126m) and accrued liabilities of Rs. 99m (FY19: Rs. 47m; FY18: Rs. 57m). The company paid cash dividend of Rs. 150m during FY19. Total net worth of the company increased to Rs. 9.6b (FY19: Rs. 7.1b; FY18: Rs. 6b) on the back of profit retention.

**Sound debt repayment capacity on the back of improving liquidity profile:**
During FY20, Funds from Operations (FFO) improved to Rs. 3.2b (FY19: Rs. 1.8b; FY18: Rs. 1.4b). As a result, FFO to total debt was reported at 0.54x (FY19: 0.26x; FY18: 0.21x) while FFO to long term debt also remained the same as the company is not utilizing any short term borrowings. Debt service coverage ratio (DSCR) increased to 1.90x (FY19: 1.34x; FY18: 1.35x) during FY20. With decline in borrowings and increased net worth, debt leverage improved to 0.67x (FY19: 1.08x; FY18: 1.21x) while gearing improved to 0.61x (FY19: 1.02x; FY18: 1.13x). By end-FY20, current ratio of the company also improved to 2.19x (FY19: 1.43x; FY18: 1.43x).

| FINANCIAL SUMMARY *(Amounts in PKR millions)* | | | |
|---|---|---|---|
| **BALANCE SHEET** | **FY18** | **FY19** | **FY20** |
| Fixed Assets | 11,156 | 12,083 | 11,520 |
| Trade Debts | 1,778 | 1,745 | 3,515 |
| Advance Tax due from Government | 191 | 194 | 182 |
| Advances & Other Receivables | 142 | 207 | 324 |
| Short Term Investments | - | 440 | 397 |
| Cash & Bank Balances | 4 | 34 | 203 |
| Total Assets | **13,271** | **14,703** | **16,140** |
| Trade and Other Payables | 369 | 424 | 559 |
| Current Portion of Financial Lease | 768 | 1,095 | 1,186 |
| *Current portion of Long-term Debt* | 261 | 303 | 353 |
| Liabilities against Financial Lease | 4,015 | 4,337 | 3,263 |
| Long Term Debt | 1,739 | 1,441 | 1,088 |
| Total Debt | **6,783** | **7,176** | **5,890** |
| Other Liabilities | 111 | 38 | 43 |
| Total Liabilities | 7,263 | 7,638 | 6,492 |
| Total Net Worth | **6,008** | **7,065** | **9,648** |
| Tier 1 Equity | 6,008 | 7,065 | 9,648 |
| Paid Up Capital | 3,502 | 3,502 | 3,502 |
| | | | |
| **INCOME STATEMENT** | **FY18** | **FY19** | **FY20** |
| Net Sales | 2,499 | 2,910 | 4,293 |
| Gross Profit | 1,576 | 1,911 | 3,240 |
| Interest Expense | 560 | 659 | 622 |
| Other Income | 14 | 55 | 62 |
| Profit Before Tax | 940 | 1,217 | 2,596 |
| Profit After Tax | 938 | 1,208 | 2,582 |
| Funds from Operations (FFO) | 1,438 | 1,834 | 3,183 |
| | | | |
| **RATIO ANALYSIS** | **FY18** | **FY19** | **FY20** |
| Gross Margin (%) | 63.1 | 65.7 | 75.5 |
| Net Margin (%) | 37.5 | 41.5 | 60.1 |
| Current Ratio (x) | 1.43 | 1.43 | 2.19 |
| FFO to Total Debt (x) | 0.21 | 0.26 | 0.54 |
| FFO to Long Term Debt (x) | 0.21 | 0.26 | 0.54 |
| Debt Servicing Coverage Ratio (x) | 1.35 | 1.34 | 1.90 |
| Debt Leverage (x) | 1.21 | 1.08 | 0.67 |
| Gearing (x) | 1.13 | 1.02 | 0.61 |

## 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** | | | | |
| | 14/10/2020 | A+ | A-1 | Stable | Reaffirmed |
| | 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 |
| **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** | | |
| | Mr. Sohail Kashif | CFO | October 2, 2020 | | |