RATING REPORT

Zephyr Power (Pvt.) Limited (ZPL)

REPORT DATE:
November 26, 2020

RATING ANALYST:
Muhammad Tabish
muhammad.tabish@vis.com.pk

RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity	A	A-2	A-	A-2
Rating Date	*Nov 26, 2020*		*Aug 26, 2019*	
Rating Outlook	Stable		Stable	
Rating Action	Upgraded		Reaffirmed	

COMPANY INFORMATION	
Incorporated in 2005	**External Auditors:** PwC |A. F. Ferguson & Co
Private Limited Company	**Chief Executive Officer:** Mr. Kumayl Khaleeli

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Industrial Corporates (May, 2019) https://s3-us-west 2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

Zephyr Power (Pvt.) Limited (ZPL)

OVERVIEW OF THE INSTITUTION

Zephyr Power (Pvt.) Limited was incorporated as a private limited company in July 2005. The principal activity of the company is to build, own and operate wind power plant with a net capacity of 50MW in Gharo area, located in Thatta, Sindh.

Profile of CEO

Mr. Khaleeli has over 10 years of institutional investment management and investment banking experience, along with over 9 years of experience in project acquisition, development and finance fields in the energy sector. He has a Bachelor of Arts (BA) degree from Bates College and an M.B.A. from The Fuqua School of Business at Duke University.

RATING RATIONALE

Zephyr (Pvt.) Limited (ZPL) has been operating a 50 Megawatt (MW) wind-power plant (25 Wind Turbine Generators of 2.0MW each) for more than one year. COD was achieved in Mar'19 while takeover by management from EPC contractor was completed in Oct'19. The plant is situated in Gharo area, Thatta, Sindh.

Key Rating Drivers

Strong sponsor strength

Assigned ratings continue to draw comfort from strong sponsor profile which comprises foreign investment by a Development Finance Institution (DFI) wholly owned by UK Government and other local equity shareholders.

Satisfactory coverage against all operating risk factors

Wind Risk: In conformity with Upfront Tariff Regime; wind risk is to be borne by power producer. This may result in seasonal variation in power produced and cash flows. However, the track record of generation so far coupled with the site specific Wind Resource Assessment studies conducted by three different consultants and use of efficient technology reduce the exposure to wind risk.

Evacuation and Force Majeure Risk: ZPL 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). Moreover, ZPL has adequate insurance cover for different events covered under the force majeure events.

Operational and off-take Risk: Gamesa Wind (Tianjin) Co. Ltd is the O&M operator for first 10 years of operations (since Sep'19) with guaranteed 97% plant availability in the first year and 98% for remaining 9 years. In case plant availability declines below minimum guaranteed threshold, ZPL has recourse to liquidity damages from O&M operators. Moreover, presence of 20 years long-term Energy Purchase Agreement (EPA) with Central Power Purchase Agency (Guarantee) Limited (CPPA-G) mitigates the off-take risk.

Sound track record of operations

Given the healthy demand and efficient technology, the plant operated at higher than required capacity in FY20. Performance of the plant also remained satisfactory since COD with average plant availability and capacity factor remaining compliant with normative parameters as laid down in the PPA. Details of the same are presented below:

Table 1: Performance Indicators

	FY20
Capacity factor (Actual)	40.4%
Availability	99.5%

Liquidity profile is strong on the back of healthy cash flow generation and sound debt coverage metrics; presence of Debt Service Reserve Account (DSRA) and CPPA-G's commitment of timely payment of receivables for debt servicing continues to provide comfort to the ratings.

In FY20, Funds from operations (FFO) were reported at Rs. 2.4b while annual debt repayment (including lease liabilities) stood at around Rs. 987m. Thus, translating into Debt Servicing Coverage ratio of 1.66x indicating satisfactory debt servicing ability. Nevertheless, build-up of receivables has impacted cash flows from operations (CFO). As per management, CPPA-G has committed timely payment of receivables for debt servicing. Comfort is drawn from the presence of Debt Service Reserve Account (DSRA) which covers the principal and markup payment for the next nine months.

Leverage indicators despite depicting improvement in the outgoing fiscal year remain elevated.

ZPL's net equity increased to Rs. 5.6b (FY19: Rs. 3.8b) on account of profit retention. Total debt profile is long term in nature with the same amounting to Rs. 10.5b (FY19: Rs. 11.3 b) at end-FY20. Leverage indicators despite depicting improvement in the outgoing fiscal year remain elevated. Going forward, given projected debt repayment and internal capital generation, leverage indicators are expected to decline. However, quantum of reduction will depend on the future dividend payout.

Impact on risk profile of recent negotiations with IPPs (including wind power plants) will be evaluated once finalized.

Energy sector's circular debt was reported at Rs. 2.2 trillion and capacity payment at Rs. 1 trillion in 2020. Given the country's ever growing circular debt and capacity payment issue, the government has recently taken the initiative of re-negotiating with IPPs to revisit old contracts and tariffs. Discussions in this regard with ZPL are under way.

Corporate governance framework has been strengthened

Previously, the company had three directors present on the Board. However, recently the board has given approval to enhance Board size to seven directors. Moreover, the management has also planned to change ZPL's legal status from 'private' to 'public unlisted' company. Regulatory processes for both the changes are currently underway. External auditor for the ongoing fiscal year has also been changed from 'Delloite' to 'A. F. Ferguson & Co'.

ISSUE/ISSUER RATING SCALE & DEFINITION Annexure I

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 — Annexure III

Name of Rated Entity	Zephyr Power (Pvt.) Ltd.
Sector	Power
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
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.
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2020 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
26/11/2020	A	A-2	Stable	Upgraded
26/08/2019	A-	A-2	Stable	Reaffirmed
16/08/2017	A-	A-2	Stable	Initial