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APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology – Industrial Corporates

Rating Scale:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

ZEPHYR POWER LIMITED

Chief Executive: Kumayl Khaleeli

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A+	A1	A+	A1
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	April 30, 2025		April 18, 2024	

RATING RATIONALE

The assigned ratings of A+/A1 with a Stable Outlook have been reaffirmed, reflecting the Company's sustained operational performance and financial risk profile within the context of a medium-risk renewable energy sector. Ratings draw comfort from the long-term energy purchase agreement with CPPA-G, backed by a sovereign guarantee, which supports revenue predictability. The sponsor profile remains a key credit strength, underpinned by experienced local investors and foreign ownership by a Development Finance Institution. Operational risks are mitigated by the long-term O&M agreement with an experienced contractor. Profitability has been maintained through tariff-linked adjustments, while internal equity generation has strengthened the capital structure. Liquidity remains sound, supported by low capital outflows and the limited working capital intensity given the renewable energy nature of the business model.

COMPANY PROFILE

Incorporated as a private limited company in 2005 with conversion into a public unlisted company in June 2021, ZPL principally operates a Wind Independent Power Project (IPP) with a total capacity of 50 MW employing 25 Wind Turbine Generators (WTGs) located at Gharo, Thatta, Sindh. The IPP interconnection is maintained and operated by the National Transmission Despatch Company (NTDC).

The Company entered into Energy Purchase Agreement (EPA) with the Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) on April 13, 2017. The EPA is based on the 2006 Renewable Energy Policy and the 2015 Upfront Tariff as awarded by the National Electric Power Regulatory Authority (NEPRA). The Company achieved its Commercial Operations Date on March 28, 2019. The term of the EPA is for twenty years commencing from the date of COD.

GOVERNANCE

The Board of Directors comprises seven members, with representation from each of the four shareholder groups. One board seat is held by a female director. Three committees operate under the Board: the Audit and Risk Committee, the Human Resources and Remuneration Committee, and the Environment and Social Governance Committee.

INDUSTRY PROFILE & BUSINESS RISK

The business risk profile for Pakistan's renewable energy sector is assessed as medium, underpinned by growing demand, favorable policy support, and substantial resource potential, balanced against structural and operational challenges. The sector has exhibited notable growth, supported by the government's long-term strategy to diversify the energy mix and reduce reliance on imported fossil fuels. As of 2024, the country's total installed power generation capacity stands at approximately 42,000 MW, with renewable energy sources—comprising wind, solar, and biomass—accounting for nearly 6-9% of the energy mix. Ambitious national targets aim to increase this share to 30% by 2030.

Growth momentum has been aided by the Alternative and Renewable Energy Policy 2019 and the Indicative Generation Capacity Expansion Plan (IGCEP 2047), which prioritize renewables through competitive bidding and grid modernization. Pakistan's geographic and climatic conditions further support sector expansion, with wind potential of 50,000 MW in Sindh and Balochistan and an average solar irradiance of 5.3 kWh/m² per day. These fundamentals have attracted international investments and encouraged the development of large-scale wind corridors and solar parks.

Despite these advantages, sector risks remain. Regulatory risk persists, as changes in tariff structures, licensing procedures, or grid access policies may affect the financial viability of projects. Technological risk is also considerable; rapid innovation in renewable technologies can render existing assets obsolete, necessitating ongoing capital expenditure. The capital-intensive nature of the sector amplifies exposure to financing constraints and cost overruns. Furthermore, while renewable energy adoption benefits from growing industrial demand, it continues to compete with conventional energy sources, which remain influential due to pricing volatility and supply dynamics. Substitution risks and variable effectiveness of market entry barriers pose additional concerns.

Strong sponsor profile

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 experienced local equity shareholders.

Long-term Energy Purchase Agreement (EPA)

The EPA with CPPA-G is for twenty years commencing from the Commercial Operations Date (COD) dated March 28, 2019. Revenue measurements are in accordance with the mechanism stipulated in EPA at the quarterly tariff rates approved by NEPRA. Revenues are recognized as per EPA on the basis of Net Delivered Energy and Non-Project Missed Volume (NPMV) in case the offtake pick up network is not available to evacuate power.

Revenue from CPPA-G is invoiced on a monthly basis as per tariff structure, and any differences in amounts are re-submitted. In case of delayed payments, interest is recognized on an accrual basis at 3M KIBOR plus 2% per annum based on 365 days per year convention. Ratings also draw comfort from payments being secured under guarantee issued by the Government of Pakistan (GoP).

Experienced O&M Contractor

The Company has entered into short term warranty period (2 years) and, thereafter, long term period (8 years) O&M contracts with Siemens Gamesa Renewable Energy Technology (China) Co. Ltd (formerly Gamesa Wind (Tianjin) Co. Ltd.). The O&M contractor exhibits track record of introducing wind power to new markets as per market demands, and operates in Asia since 1980's. The current Long-Term Operations and Maintenance (LT-O&M) Contract has a term of 8 years, that will expire by end-Oct'29. As per agreed terms, the O&M contractor has guaranteed maintenance of 98% plant availability over the term of the Contract.

Product Profile & Capacity

In FY24, the Company's average capacity factor increased to 28.18% (FY23: 26.26%) following the resumption of operations of two wind turbines previously under maintenance. This improvement supported a recovery in the availability factor to 98.52%; however, the capacity factor remained below the 35% threshold stipulated in the Energy Purchase Agreement (EPA), primarily due to load curtailment by the power purchaser. Total energy delivered during the period stood at 124,134 MWh (FY23: 115,265 MWh), driven by improved turbine availability and higher average wind speeds.

During 1HFY25, the average capacity factor was recorded at 29.67%, indicating an increase over the full-year FY24 average but a notable decline compared to 1HFY24 (35.13%). The variance is attributed to lower wind speeds and significant load curtailment in response to dispatch instructions from the power purchaser. The monsoon season typically supports stronger wind patterns during the first half, with wind speeds generally tapering off in the latter half of the year. Based on prevailing wind conditions and load management patterns, the full-year FY25 capacity factor is projected to fall below FY24 levels.

Availability in 1HFY25 was also impacted by scheduled maintenance in August and September. Management expects availability to recover to approximately 98.5% in line with contractual obligations under the operations and maintenance (O&M) agreement.

	FY22-23	FY23-24	HY24-25
Average Capacity factor (Actual) (%)	26.26	28.18	29.67
Availability (%)	95.44	98.52	96.41
Output produced (MWh)	115,268	124,134	54,595

FINANCIAL RISK

Assigned ratings also consider the financial risk profile of the Company. Profitability has improved, supported by tariff indexation mechanisms linked to inflation, exchange rates, and interest rates. Revenue was further supplemented by compensation clauses in the energy purchase agreement. The gross margin remained within historical trends, despite fluctuations due to tariff adjustment timing and debt servicing costs. Capitalization metrics strengthened, reflecting scheduled long-term debt repayments and internal equity generation, while limited working capital needs and stable receivables from a sovereign-backed counterparty contributed to a conservative capital structure. Liquidity remained sound, supported by profit retention and limited capital outflows, as indicated by a strong current ratio. Debt servicing capacity improved with higher production and tariff adjustments, although a decline in subsequent production levels moderated the coverage ratio, albeit remaining in a healthy range.

Profitability

The Company reported net revenues of PKR 6,711 million during FY24, reflecting a 51% increase from PKR 4,441 million in FY23. The growth was primarily driven by periodic tariff adjustments linked to movements in the US Consumer Price Index (CPI), LIBOR/KIBOR rates, and exchange rate fluctuations. Additionally, although certain generated units were not dispatched, compensation was received under the Notified Plant Variable Margin (NPVM) clause of the energy purchase agreement, with PKR 1,950 million recognized as revenue.

Gross margin improved to 74.94% (FY23: 67.31%), supported by the cost pass-through provisions embedded in the tariff structure. Fluctuations in gross margin are influenced by the timing of tariff adjustments and the impact of non-operational cost components, including increased debt servicing requirements arising from higher KIBOR and SOFR rates, along with local currency depreciation affecting the repayment of foreign currency loans as well as US CPI. Gross margin readjusted to 68.06% (1HFY24: 70.45%). Historically gross margins of the Company have generally oscillated between 65% and 75%.

Capital Structure

The capitalization profile is influenced by the Company's renewable energy-focused business model, which limits the need for short-term borrowings typically associated with working capital requirements. Receivables are primarily due from CPPA-G and are considered to carry reduced counterparty risk due to sovereign backing. Long-term debt, denominated in USD, has remained stable in absolute terms, with a declining trajectory owing to scheduled repayments. However, the PKR value of this debt increased in FY23 as a result of currency depreciation. Capitalization has been supported by internal equity generation through retained earnings. Consequently, gearing and leverage indicators have continued to improve, recorded at 0.91x and 1.00x in FY24 (FY23: 1.38x and 1.53x), and further reduced to 0.78x and 0.87x, respectively, by 1HFY25.

Debt Coverage & Liquidity

An improvement in debt service coverage ratio (DSCR) to 1.79x (FY23: 1.22x) was recorded, primarily driven by higher production levels and adjustments in the non-debt components of the tariff, including the US CPI indexation. In the subsequent period, lower production resulted in reduced funds from operations (FFO), leading to a DSCR of 1.55x; however, the ratio still remains at healthy levels.

Liquidity remains sound, underpinned by the Company's operational model and the inherently liquid profile of its business. This is reflected in a current ratio of 3.15x (FY24: 3.04x; FY23: 2.56x). The improvement in liquidity is attributed to profit retention, with no capital expenditure obligations or significant utilization of funds on the non-current asset side. Dividend distributions, which are common in the renewable energy sector, continue to be the primary outflow impacting liquidity.

REGULATORY DISCLOSURES	**Appendix II**
Name of Rated Entity	Zephyr Power 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				
30/04/2025	**A+**	**A1**	**Stable**	**Reaffirmed**
18/04/2024	**A+**	**A1**	**Stable**	**Reaffirmed**
02/02/2023	**A+**	**A1**	**Stable**	**Upgraded**
31/12/2021	**A**	**A2**	**Stable**	**Reaffirmed**
26/11/2020	**A**	**A2**	**Stable**	**Upgraded**
26/08/2019	**A-**	**A2**	**Stable**	**Reaffirmed**
16/08/2017	**A-**	**A2**	**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.
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Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Azeem Iqbal	Head of Operations	23rd April 2025