# RATING REPORT

# Foundation Wind Energy-II (Pvt.) Limited (FWEL-II)

**REPORT DATE:**
February 16, 2018

**RATING ANALYSTS:**

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| Rating Details | | |
|---|---|---|
| **Rating Category** | **Long-term** | **Short-term** |
| **Entity** | A+ | A-1 |
| ***Rating Date*** | *16 Feb'18* | |
| **Rating Outlook** | Stable | |

## COMPANY INFORMATION

| | |
|---|---|
| **Incorporated in 2004** | **External Auditors:** A.F. Ferguson & Co. Chartered Accountants |
| **Private Limited Company** | **Chairman:** Lt. Gen. Syed Tariq Nadeem Gilani, HI (M), (Retd) |
| **Key Shareholders:** | **Chief Executive Officer:** Maj. Gen. Khawar Hanif, HI (M) (Retd) |

- Fauji Fertilizer Bin Qasim Limited – 35%
- IIF Wind Two Limited (Cap Asia) - 25%
- Fauji Foundation - 20%
- Mr. Mustafa Tapal - 10%
- Mr. Danish Tapal - 5%
- Mr. Adnaan Tapal - 5%

## APPLICABLE METHODOLOGY(IES)

**JCR-VIS Entity Rating Criteria:** *Industrial Corporate (May 2016)*
**http://www.jcrvis.com.pk/home2.aspx**

# Foundation Wind Energy-II (Pvt.) Limited

## RATING RATIONALE

The ratings assigned to Foundation Wind Energy-II (Pvt.) Limited (FWEL-II) take into account its strong ownership profile with Fauji Group, through Fauji Foundation and Fauji Fertilizer Bin Qasim Limited, holding major stake in the company. IIF Wind Two Limited (CapAsia – a Malaysian private equity firm) and Tapal Group are the other major sponsors 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. Moreover, presence of reputable operational and maintenance contractor carrying sound track record mitigates the associated operational risk.

### Energy Purchase Agreement

FWEL-II signed an Energy Purchase Agreement (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. As per the Implementation Agreement dated December 18, 2012, payment obligations of the power purchaser are guaranteed by Government of Pakistan.

### Project Design

The plant comprises 20 wind turbine generators, each having a capacity of 2.5MW. The plant components are manufactured by Nordex Singapore Equipment (Private) Limited. The turbine generators comprise rotors with 3 blades of length 48.8m. The speed of rotor ranges from 9.6 rpm to 14.85 rpm. The generators have a voltage of 660V with operation speed range of 740-1,150 rpm.

### Power Generation

Annual benchmark wind speed as per EPA is 7.3 m/s while annual benchmark energy to be supplied to CPPA is 143.7 GWh annually at capacity factor of 32.8%. Actual electricity generation of the plant has been lower (FY17: 120.3 GWh; FY16: 123.3 GWh) than the benchmark generation on account of lower wind speed; however, the associated risk is passed on to the power purchaser. Levelized tariff for year 1-20 is Rs. 13.958 per KWh.

### EPC and O&M

Nordex Singapore Equipment (Private) Limited and Descon Engineering Fze, UAE were signed as an Offshore contractor for Procurement and Supply of Equipment. Nordex Pakistan (Private) Limited, Descon Engineering Limited and Descon Integrated Projects (Private) Limited were signed as the Onshore contractors for Engineering, Construction Operations and Maintenance. The company had achieved Commercial Operation Date (COD) on December 10, 2014. Liquidation Damages, in case of non-availability of plant, are completely covered by the O&M contractor.

### Funding and Capitalization

Total project cost amounted to US$ 126.6m (Rs. 12.8b). The project had been financed by 72% debt and 28% equity. Debt financing was arranged through a forward lease agreement

## OVERVIEW OF THE INSTITUTION

Foundation Wind Energy-II (Pvt.) Limited (Previously known as Green Power (Private) Limited) was incorporated as a private limited company under the company's ordinance, 1984 in 2004. The principal activity of the company is to build, own, operate and maintain a wind power plant having a name plate capacity of 50 MW. The plant is built at Ghora, District Thatta, Province of Sindh, Pakistan.

**Profile of Chairman**
Lt. Gen. Syed Tariq Nadeem Gilani, HI (M), . (Retd) is currently the Managing Director of Fauji Foundation and also holds director/chairman positions in all subsidiaries and associated companies of Fauji Foundation.

**Profile of CEO**
Maj. Gen. Khawar Hanif, HI (M) (Retd) has served in various command and staff appointment positions. He has also been appointed as CEO of FWEL-I effective January 2016.

**Financial Snapshot**
Net Equity: 1QFY18- Rs. 5.8b, FY17 - Rs. 5.2b

Net Profit: 1QFY18- Rs. 579.3m, FY17- Rs. 831.4m with Islamic Development Bank (IDB), payable in 19 semiannual installments starting from January 2015. A musharaka finance facility provided by a consortium of three local banks; the facility is repayable over a period of 10 years with last installment due in January, 2024. Long term loan was rescheduled in July, 2014 on account of delay in commercial operation date (COD). According the management, COD was postponed on account of delay in the financial close. However, the company has been current on dues subsequent to the rescheduling.

The paid-up capital of the company is Rs. 3.5b while total equity increased to Rs. 5.2b (FY16: Rs. 4.4b) by end-FY17. Total liabilities amounted to Rs. 7.1b (FY16: Rs. 9.2b) at end-FY17. Liabilities against assets subject to finance lease (including current portion) amounted to Rs. 4.7b (FY16: Rs. 5.7b) at end-FY17. Long term financing for the project (including current portion) amounted to Rs. 2.1b (FY16: Rs. 2.3b) at end-FY17. Loan from sponsors stood at Rs. 20.3m (FY16: Rs. 27.0m). As the repayment is based on half yearly installments, long-term debt (including current maturity) remained unchanged by end-1QFY18. The company had been utilizing short-term borrowings in previous years. However, short-term borrowings were nil (FY16: 653.4m; FY15: Rs. 789.3m) at end-FY17 and 1QFY18. This along with gradual repayment of long-term debt, gearing and leverage decreased to 1.09x (FY17: 1.30x; FY16: 1.97x) and 1.25x (FY17: 1.36x; FY16: 2.10x) respectively, by end-1QFY18.

**Profitability**

Revenues generated, adjusted for sales tax, declined to Rs. 2.2b (FY16: Rs. 2.7b) in FY17. During FY16, revenues reported higher on the back of one-time retrospective adjustment of increase in tariff. Revenues include invoices in respect of Non-Project Missed Volume and Energy Shortfall. Cost of sales amounted to Rs. 780.6m (FY16: 810.2m) including depreciation expense of Rs. 616.7m (FY16: Rs. 610.2m). Operation and maintenance charges were reported at Rs. 82.3m during FY17. With largely fixed cost of production, gross profit margin decreased to 64.8% (FY16: 69.8%) during FY17. Given decrease in average borrowings, finance cost declined to Rs. 538m (FY16: Rs. 631m). The company reported a profit after tax of Rs. 831.4m (FY16: Rs. 1.2b) in FY17.

With increase in wind magnitude in summers, net revenue stood higher at Rs. 945.1m during 1QFY18; resulting into a higher profit after tax of Rs. 579.3m. Revenues of the company are primarily a function of wind speed that is expected to remain range bound. With largely sustainable revenue and decline in borrowings, profitability is likely to remain sound, going forward.

**Liquidity and Cash Flows**

The property, plant and equipment comprised 88% of the asset base at end-FY17. Current assets mainly consist of trade debts and cash & bank balances. Trade debts stood at Rs. 1.2b (FY17: Rs. 1.2; FY16: Rs. 1.2b) at end-1QFY18; these are receivables from NTDCL and secured by a guarantee from Government of Pakistan under the implementation agreement. Further, these are subject to mark-up on delay payments under EPA at the rate of 3M Kibor plus 4.5%. Cash and bank balances amounted to Rs. 839.8m (FY17: 198.6m; FY16: Rs. 849.4m) at end-1QFY18. Trade and other payables stood at Rs. 264.9m (FY16: Rs. 361.4m) at end-FY17.

With decline in net profit, funds from operations (FFO) decreased to Rs. 1.3b (FY16: Rs. 1.9b) in FY17. Given higher wind magnitude in summers, FFO stood higher at Rs. 3.4b (annualized) during 1QFY18. Meanwhile, FFO to total debt stood at 0.19x (FY16: 0.23x). Debt service coverage ratio was reported at 1.0x (FY16: 2.4x). Going forward, FFO is projected to remain stable on an annual basis while the same is expected to remain sufficient for timely debt repayment.

***Risk Factors***

**Wind Risk:** In case Generation falls below benchmark due to lower wind speed than benchmark speed, independent engineer determines the generation in case the wind speed has been according to the benchmark. The company continues to receive the revenues in the form of Shortfall Energy.

**Evacuation Risk:** In case the power purchaser has not been able to evacuate the energy due to problems at grid, the company continues to receive the revenues under Non-Project Missed Volume.

**Non-availability Risk:** Non-availability of plant is another risk faced by FWEL-II. O&M contractors 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 1QFY18 remained unchanged at around 98% in line with the last two years

## Foundation Wind Energy-II Limited — Appendix I

| FINANCIAL SUMMARY | *(amounts in PKR millions)* | | |
|---|---|---|---|
| **BALANCE SHEET** | **Sept-30-17** | **Jun-30-17** | **30-Jun-16** |
| Fixed Assets | 10,649 | 10,804 | 11,407 |
| Trade Debts | 1,212 | 1,204 | 1,229 |
| Cash & Bank Balances | 840 | 199 | 849 |
| Total Assets | 13,052 | 12,318 | 13,613 |
| Trade and Other Payables | 300 | 265 | 361 |
| Liability against assets subject to finance lease *(*incl. current maturity)* | 4,737 | 4,737 | 5,715 |
| Long Term Debt *(*incl. current maturity)* | 2,047 | 2,047 | 2,266 |
| Short Term Debt | - | - | 653 |
| Loan from Sponsors | 20 | 20 | 27 |
| Total Equity | 5,806 | 5,227 | 4,398 |
| | | | |
| **INCOME STATEMENT** | **Sept-30-17** | **30-Jun-17** | **30-Jun-16** |
| Net Sales | 945 | 2,215 | 2,679 |
| Gross Profit | 721 | 1,434 | 1,869 |
| Finance Cost | 125 | 539 | 631 |
| Profit After Tax | 579 | 831 | 1,179 |
| | | | |
| **RATIO ANALYSIS** | **Sept-30-17** | **30-Jun-17** | **30-Jun-16** |
| Gross Margin (%) | 76.3 | 64.8 | 69.8 |
| Net Working Capital | 1,122 | 387 | (101) |
| FFO to Total Debt (x) | 0.50 | 0.19 | 0.23 |
| FFO to Long Term Debt (x) | 0.58 | 0.21 | 0.29 |
| Debt Servicing Coverage Ratio (x) | N.M | 1.0 | 2.4 |
| ROAA (%) | 18.3 | 6.4 | 8.8 |
| ROAE (%) | 42.0 | 17.3 | 31.0 |

## ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

**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:** JCR-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.jcrvis.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.jcrvis.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.

**'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.jcrvis.com.pk/images/policy_ratings.pdf

**'SD' Rating:** An 'SD' rating is assigned when JCR-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-II Limited |
| **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** | JCR-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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Rating History:

| Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
|---|---|---|---|---|
| **RATING TYPE: ENTITY** | | | | |
| **02/16/2018** | A+ | A-1 | Stable | Initial |