RATING REPORT

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

REPORT DATE:
July 05, 2019

RATING ANALYSTS:

Maham Qasim
maham.qasim@vis.com.pk

RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A+	A-1	A+	A-1
Rating Outlook	Stable		Stable	
Rating Date	*June 28,'19*		*February 16,'18*	

COMPANY INFORMATION

Incorporated in 2004	**External Auditors:** KPMG Taseer Hadi & Co. Chartered Accountants
Private Limited Company	**Chairman:** Lt. Khalid Mehmood (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)

VIS Entity Rating Criteria: *Industrial Corporate (May 2019)*
https://www.vis.com.pk/kc-meth.aspx

Foundation Wind Energy-II (Pvt.) Limited

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. Khalid Nawaz Khan, HI (M), Sitar-i-Esar. (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
Total Equity: 9MFY19-Rs. 6.3b, FY18: Rs. 6.2b; FY17 - Rs. 5.2b

Net Profit: 9MFY19- Rs. 472m; FY18: 941m, FY17- Rs. 831m

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, 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.

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

The project had been financed by 75% debt and 25% equity. Debt financing was arranged through a forward lease agreement with Islamic Development Bank (IDB), payable in 19 semiannual installments starting from January 2015. A musharaka finance facility amounting to Rs. 3.0b provided by a consortium of three local banks with contribution of Rs. 1.0b each; the facility is repayable over a period of 10 years with last installment due in January, 2024. The markup charge on the aforementioned facility is 6M Kibor + 2.95%.

The paid-up capital of the company remained unchanged at Rs. 3.5b while total equity augmented to Rs. 6.3b (FY18: Rs. 6.2b; FY17: Rs. 5.2b) by end-3QFY19 on account of internal capital generation. Total liabilities amounted to Rs. 7.2b (FY18: Rs. 7.0b; FY17: Rs. 7.0b) at end-9MFY19. Liabilities against assets subject to finance lease (including current portion) increased to Rs. 5.1b (FY18: Rs. 5.8b; FY17: Rs. 4.7b) at end-9MFY19 in line with depreciation of Pak Rupee in terms of USD. Long term financing for the project (including current portion) amounted to Rs. 1.7b (FY18: Rs.1.9b; FY17: Rs. 2.1b) at end-9MFY19. Loan from sponsors was fully paid off during FY18. The company has not been utilizing short-term borrowings since the last two years. Therefore, as a result of gradual repayment of long-term obligations coupled with increase in equity base, gearing and leverage decreased to 1.09x (FY18: 1.07; FY17: 1.30x ;) and 1.15x (FY18: 1.13x; FY17: 1.36x) respectively on a timeline basis, by end-9MFY19.

Profitability

Revenues generated, adjusted for sales tax, increased to Rs. 2.5b (FY17: Rs. 2.2b) during FY18 on account of higher tariff for the year as the energy dispatch during FY18 was recorded at 110.0 GWh (FY17: 120.3 GWh). 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 than the benchmark generation on account of lower wind speed; however, the associated risk is passed on to the power purchaser. Revenues include invoices in respect of Non-Project Missed Volume and Energy Shortfall. Cost of sales increased to Rs. 933.8m (FY17: 780.6) in line with higher operational and maintenance recorded at Rs. 209.2m (FY17: Rs. 82.3m) during the year. Meanwhile, the depreciation expense stood at Rs. 617.6m (FY17: Rs. 616.7m) during FY18. Therefore, with increase in cost of maintenance gross profit margin slightly decreased to 62.2% (FY16: 64.8%) during FY18. Given decrease in average borrowings, finance cost declined to Rs. 510.7m (FY17: Rs. 538.5). Subsequently, despite decline in margins the profit after tax was reported higher at Rs. 941.0m (FY17: Rs. 831.4m) in FY18 as a result of increase in scale of operations and rationalized operating and finance costs.

Further, net revenue stood at Rs. 1.7b during 9MFY19; resulting into a profit after tax of Rs. 471.8m. 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 represented 82% of the asset base at end-9MFY19. Current assets mainly consist of trade debts and cash & bank balances. Trade debts stood at Rs. 1.4b (FY18: Rs. 1.7b; FY17: Rs. 1.2b) at end-9MFY18; 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. 608.1m (FY18: 60.8m; FY17: Rs. 198.6m) at end-9MFY19. Trade and other payables stood at Rs. 251.7m (FY18: Rs.323.4m; FY17: Rs. 265.0m) at end-9MFY19.

With enhanced profitability funds from operations (FFO) increased to Rs. 1.4b (FY17: Rs.

1.3b) in FY1; the same was recorded at Rs. 1.1b during 9MFY19. Meanwhile, FFO to total debt was recorded at 0.21x (FY18: 0.20x; FY17: 0.19x); meanwhile, debt service coverage ratio improved to 1.37x (FY18: 1.30x; FY17: 1.00x). 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 stood at 97.32% and 96.17% during 9MFY19 and FY18 respectively.

Foundation Wind Energy-II Limited — Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**30-Jun-16**	**Jun-30-17**	**Jun-30-18**	**Mar-31-19**
Fixed Assets	11,407	10,804	10,901	11,156
Trade Debts	1,229	1,204	1,723	1,395
Cash & Bank Balances	849	199	61	608
Total Assets	13,613	12,318	13,133	13,539
Trade and Other Payables	361	265	323	252
Liability against assets subject to finance lease *(*incl. current maturity)*	5,715	4,737	4,761	5,072
Long Term Debt *(*incl. current maturity)*	2,266	2,047	1,870	1,754
Short Term Debt	653	-	-	-
Loan from Sponsors	27	20	-	-
Total Equity	4,398	5,227	6,168	6,290
INCOME STATEMENT	**30-Jun-16**	**30-Jun-17**	**Jun-30-18**	**Mar-31-19**
Net Sales	2,679	2,215	2,467	1,672
Gross Profit	1,869	1,434	1,533	938
Finance Cost	631	539	511	447
Profit After Tax	1,179	831	941	472
FFO	1,968	1,278	1,356	1,075
RATIO ANALYSIS	**30-Jun-16**	**30-Jun-17**	**Jun-30-18**	**Mar-31-19**
Gross Margin (%)	69.8	64.8	62.2	56.1
Net Working Capital	(101)	387	976	802
FFO to Total Debt (x)	0.23	0.19	0.20	0.21
FFO to Long Term Debt (x)	0.29	0.21	0.20	0.21
Debt Servicing Coverage Ratio (x)	2.4	1.0	1.30	1.37
ROAA (%)	8.8	6.4	7.4	4.7
ROAE (%)	31.0	17.3	16.5	10.1
Gearing (x)	1.97	1.30	1.07	1.09
Leverage (x)	2.10	1.36	1.13	1.15

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-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	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. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2019 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
RATING TYPE: ENTITY				
28/06/2019	A+	A-1	Stable	Reaffirmed
16/02/2018	A+	A-1	Stable	Initial