RATING REPORT

Artistic Energy (Pvt.) Limited

REPORT DATE:
March 16, 2020

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		**Previous Rating**	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A	A-1	A	A-1
Rating Date	*March 16, 2020*		*April 9, 2019*	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION	
Incorporated in 2014	**External auditors:** M/s EY Ford Rhodes Sidat Hyder
Private Limited Company	**Chairman of the Board:** Mr. Yaqoob Ahmed
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Muhammad Murtaza Ahmed
Artistic Milliners (Pvt.) Limited (AMPL) – 99.9%	

APPLICABLE METHODOLOGY(IES)

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

Artistic Energy (Pvt.) Limited (AEPL)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Artistic Energy (Pvt.) Limited (AEPL) was incorporated as a private limited company in 2014. AEPL is principally engaged to maintain wind power generation project of 49.3MW for the generation and supply of electric power. Registered office of the company is located in Karachi.

Financial Statements of the company for FY19 were audited by M/s EY Ford Rhodes Sidat Hyder. Auditors belong to category 'A' on the approved list of auditors published by the State Bank of Pakistan (SBP).

Profile of Chairman

Mr. Yaqoob Ahmed is the Chairman of the Company of AEPL. He is also the Chairman and CEO of Artistic Milliners (Pvt.) Ltd. He has over 40 years of experience in the textile sector.

Incorporated in 2014, Artistic Energy (Pvt.) Limited (AEPL) operates a 49.3MW (29 Wind Turbine Generators (WTGs) of 1.7 MW generation capacity each) wind power plant in Jhimpir, District Thatta, Sindh which was set up at a total cost of Rs 11.7b. The project was funded in a debt equity ratio of 75:25. The plant started commercial operations in March 2018. The company has signed a twenty year Energy Purchase Agreement (EPA) with Central Power Purchasing Agency (CPPA). The Engineering, Procurement and Construction (EPC) were jointly undertaken by Hydrochina International Engineering Co., Ltd. (HIEC) and Hydrochina Corporation while HIEC is responsible for operations & maintenance (O&M) during the initial 2 years of operations till June 2020.

Key Rating Drivers

Strong sponsor profile

Assigned ratings continue to draw comfort from strong sponsor profile. The company is a wholly owned subsidiary of Artistic Milliners (Pvt.) Limited (AMPL). AMPL has been assigned a credit rating of AA-/A-1 by VIS Credit Rating indicating high credit quality, strong protection factors and high likelihood of support if required.

Exposure to wind risk.

Power produced and in turn cash flows are susceptible to seasonality and possible variance in wind speed. Nonetheless, the track record of generation so far in addition to a site specific Wind Resource Assessment and Energy Yield Evaluation Study conducted by Lahmeyer International Germany confirming the adequate wind availability historically provides comfort against this risk.

Operational risk is considered manageable given long-term O&M contract in place with experienced O&M operator.

As per initially agreed terms, 2-year O&M contract with HIEC will end in June 2020. Subsequently, General Electric (GE) will manage the operations and maintenance for next eight years with provisions for ensuring minimum 97% availability of WTGs. In case of availability remaining lower than the agreed level, GE is liable to pay liquidated damages. Moreover, sound track record and extensive experience of both O&M operators, HIEC and GE, in renewable energy sector provides comfort to managing operations risk.

Presence of long term Energy Purchase Agreement with CPPA mitigates off-take risk while adequate insurance coverage is in place.

In case of any capacity issue with the grid due to Non Project Events (NPEs), the company will continue to receive the revenues from CPPA under Non-Project Missed Volume (NPMV) which is compensation of loss of revenue. Furthermore, AEPL has adequate insurance cover for different events covered under the force majeure events.

Satisfactory operating track record since commercial operations.

The wind farm has completed around two years of successful operations with average generation capacity and plant availability remaining compliant with normative parameters as laid down in the EPA. During FY19, average capacity factor was reported at 47.38% being higher than 35% as stipulated in EPA. While remaining above the 35% stipulated in the EPA, the same witnessed some decline during the ongoing year owing to off-take curtailment during the winter season (although wind speed was significantly higher as compared to corresponding period last year) and lower wind speed during summer season. Plant availability remained above 97% during the review period. Monthly energy delivered and plant utilization factor for 2019 is depicted in the following table:

2019	Jan	Feb	Mar	April	May	Jun	July	Aug	Sep	Oct	Nov	Dec
Net Energy Delivered (MW)	10,035	11,792	10,496	16,819	24,081	22,325	28,577	18,069	7,724	8,516	4,288	1,749
Plant Utilization Factor (%)	27.4%	35.8%	28.6%	47.4%	65.7%	62.9%	77.9%	49.3%	21.8%	23.2%	12.1%	4.8%

	FY18	FY19	1HFY20
Capacity factor (Actual)	61.16%	47.38%	31.67%
Availability	97.52%	97%	98.07%

Sound debt coverage metrics (present and projected) and sufficient cash flows indicate satisfactory debt servicing ability; however, inconsistent payment cycle exhibited by CPPA may translate into some liquidity pressures.

During FY19, Funds from operations (FFO) improved to Rs. 1.65b (FY18: Rs. 796.5m) due to full year operations. Debt Servicing Coverage ratio and FFO to Total Debt remain sound at 1.81x and 15% during FY19, respectively. Projected debt servicing coverage ratio (DSCR) is expected to remain comfortable over the rating horizon. Given higher cash flows, the company paid a sizeable dividend during FY19. Management expects dividend payouts to continue although quantum of dividends is expected to be lower.

The energy sector's growing circular debt in the country had reached Rs. 1.8 trillion mark as at end-Dec'19. Given the rising circular debt and increasing capacity payments, delays in payments by CPPA may translate into some liquidity pressures. Receivables witnessed a surge to Rs. 1.68b (FY19: Rs. 1.5b, FY18: Rs. 954.8b) at end-December'19 with the same expected to further increase on account of modified tariff post incorporation of quarterly indexation and adjustments resulting from utilization of SBP's refinancing facility. Going forward, receipts from issuance of Energy Sukuk 2 and lower buildup of circular debt due to decline in oil prices will facilitate in reducing quantum of outstanding receivables.

High leverage indicators due to sizeable dividend payout and elevated debt levels

Total equity of AEPL has increased to Rs. 4.3b (FY19: Rs. 3.5b FY18: Rs. 3.7b) at end-HFY20. Sizeable dividend amounting Rs. 1.8b was paid during FY19. Total adjusted debt carried on balance sheet (including supplier credit and adjusting for short term investments) amounted to Rs. 10b (FY19: Rs. 9.3b) at end-December 2019. Long-term debt profile includes loans from commercial banks along with a supplier's credit, amounting Rs. 2.3b mobilized for purchase of plant and machinery. In order to pay off this foreign currency debt, the company has acquired a local currency loan of Rs. 2.2b, proceeds of which have been placed in the form of TDRs. As per management, returns from these deposits are expected to hedge against the foreign liability's prevailing currency risk. Gearing adjusted for short term investments was reported at 2.63x (FY18: 2.99x) end-FY19. Going forward, level of leverage indicators will depend on quantum of dividend payout and borrowings mobilized, if any, to fund working capital requirements.

Artistic Energy (Pvt.) Limited (AEPL) Annexure I

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**FY17**	**FY18**	**FY19**
Paid Up Capital	154	2,922	2,922
Total Equity	946	3,692	3,550
INCOME STATEMENT			
Net Sales	-	1,161	3,101
Profit Before Tax	(5)	793	1,721
Profit After Tax	(5)	786	1,696
RATIO ANALYSIS			
FFO	(4)	797	1,651
Current Ratio (x)	7.53	3.10	1.80
Gearing (x)	2.88	2.99	2.63

ISSUE/ISSUER RATING SCALE & DEFINITION Annexure 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					Annexure III
Name of Rated Entity	Artistic Energy (Pvt.) Ltd.				
Sector	Power				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	3/16/2020	A	A-1	Stable	Reaffirmed
	4/9/2019	A	A-1	Stable	Reaffirmed
	6/26/2018	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**	
	1	Mr. Rafique Khanani	CFO and Company Secretary	11-Feb-2020	
	2	Mr. Irfan Bashir	General Manager	11-Feb-2020	
	3	Mr. Ehtisham Akhtar	Head of Technical and Senior Project Manager	11-Feb-2020	
	4	Mr. Ali Iqbal	Finance Manager	11-Feb-2020	