

## RATING REPORT

### Artistic Energy (Pvt.) Limited

**REPORT DATE:**

March 29, 2022

**RATING ANALYSTS:**

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Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A+	A-1	A+	A-1
Rating Date	March 29, 2022		March 16, 2021	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Upgrade	

**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: Corporates (August, 2021)*<https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf>

## Artistic Energy (Pvt.) Limited (AEPL)

OVERVIEW  
OF THE  
INSTITUTION

*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 FY21 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 of Artistic Milliners (Pvt.) Ltd. He has over 40 years of experience in the textile sector.*

## RATING RATIONALE

Incorporated in 2014, Artistic Energy (Pvt.) Limited ('AEPL' or 'the Project') 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 to equity ratio of 75:25. Commencing operations in March 2018, AEPL has a 20-year Energy Purchase Agreement (EPA) with Central Power Purchasing Agency (CPPA). The Engineering, Procurement and Construction (EPC) was jointly undertaken by Hydrochina International Engineering Co., Ltd. (HIEC) and Hydrochina Corporation. General Electric (GE) is managing the O&M for AEPL.

In February 2021, AEPL signed a master agreement with Government of Pakistan (GoP), encompassing alterations in existing contractual arrangements, subsequent to which outstanding GoP dues were released by November 2021. The revised tariff featured a lower RoE, lower O&M component among other adjustments, vis-à-vis the initial agreement with CPPA.

**Key Rating Drivers****Strong sponsor profile**

Assigned ratings continue to draw comfort from strong sponsor profile. The Project 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 Company 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. The track record of generation and site specific Wind Resource Assessment and Energy Yield Evaluation Study conducted by Lahmeyer International Germany, confirms adequate wind availability historically, which is considered a source of comfort.

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

General Electric (GE) is managing the O&M for AEPL. There are provisions in place for ensuring minimum 97% availability of Wind Turbine Generators (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 GE, in renewable energy sector provides comfort to managing operations risk.

**Presence of long term Energy Purchase Agreement with CPPA mitigates off-take risk**

In case of any potential capacity issue with the grid, due to Non Project Events (NPEs), AEPL 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 'force majeure'.

**Satisfactory operating track record**

The wind farm has completed around 4 years of successful operations with average annual generation capacity and plant availability remaining compliant with parameters, as laid down in the EPA. During FY21, average capacity factor was reported at 39.75% 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 technical breakdown. Plant availability remained above 97% during the review period. Project performance metrics are provided in the table below:

Table 1: Project Performance

	FY19	FY20	FY21	H1'FY22
Capacity Factor (Actual)	44.90%	40.06%	39.75%	44.57%
Availability	96.11%	98.49%	99.03%	97.25%

2021	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Net Energy Delivered (MW)	10,104	6,510	11,083	12,696	22,799	25,193	26,944	26,813	11,146	10,936	8,974	11,427
Plant Utilization Factor (%)	28.08%	18.09%	30.79%	35.28%	63.35%	70.00%	74.87%	74.50%	30.97%	30.39%	24.94%	31.75%

#### Sound debt coverage metrics and sufficient cash flows indicate satisfactory debt servicing ability

During H1'FY22, Funds from operations (FFO) was up 39%, vis-à-vis SPLY. Debt Servicing Coverage ratio and FFO to Total Debt remain sound at 1.46x and 36.5% as of H1'FY22, respectively. Projected debt servicing coverage ratio (DSCR) is expected to remain comfortable over the rating horizon. Given collection of outstanding receivables from GoP, dividend payout of Rs. 1.7b was made to shareholders in H1'FY22, which was in addition to the Rs. 860m (57%) payout in FY21.

#### Assigned rating incorporates financial risk profile of AEPL

Equity base of AEPL decreased to Rs. 4.7b (FY21: Rs. 5.6b) at Dec'21, given dividend payout of Rs. 1.7b. Total adjusted debt carried on balance sheet (including supplier credit and adjusting for short term investments) amounted to Rs. 6.0b (FY21: Rs. 5.9b) at as of Dec'21. Long-term debt profile includes loans from commercial banks along with a supplier's credit, amounting Rs. 1.0b mobilized for purchase of plant and machinery. In order to pay off this foreign currency debt, AEPL 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 a little higher as of Dec'21, being reported at 1.28x (Jun'21: 1.06x).

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

<b>FINANCIAL SUMMARY</b> <i>(amounts in PKR millions)</i>				
<b><u>BALANCE SHEET</u></b>	<b>Jun'19</b>	<b>Jun'20</b>	<b>Jun'21</b>	<b>Dec'21</b>
Paid Up Capital	2,922	2,922	2,922	2,922
Total Equity	3,550	4,974	5,627	4,722
<b><u>INCOME STATEMENT</u></b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>H1'FY22</b>
Net Sales	3,101	2,973	3,098	1,564
Profit Before Tax	1,721	1,432	1,520	803
Profit After Tax	1,696	1,424	1,513	795
<b><u>RATIO ANALYSIS</u></b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>H1'FY22</b>
FFO	1,651	2,013	2,107	1,106
Current Ratio (x)	1.80	2.30	1.40	0.96
Gearing (x)-adjusted	2.63	1.60	1.06	1.28

## ISSUE/ISSUER RATING SCALE & DEFINITION II

## Annexure

### 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](http://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](http://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](http://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
	3/29/2022	A+	A-1	Stable	Reaffirmed
	3/16/2021	A+	A-1	Stable	Upgrade
	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		02-March-2022
	2	Mr. Irfan Bashir	General Manager		
	3	Mr. Ali Iqbal	Finance Manager		