RATING REPORT

Artistic Energy (Pvt.) Limited

REPORT DATE:
April 18, 2023

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	*April 18, 2023*		*March 29, 2022*	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Upgrade	

COMPANY INFORMATION	
Incorporated in 2014	**External auditors:** M/s BDO Ebrahim and Co. Chartered Accountants.
Private Limited Company	**Chairman of the Board:** Mr. Yaqoob Ahmed
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Muhammad Omer 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 MY22 were audited by M/s BDO Ebrahim and Co. 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.

Financial Snapshot

Tier-1 Equity:

1H'FY23: Rs. 5.6b FY22: Rs. 5.2b; FY21: Rs. 5.6b; FY20: Rs. 4.9b

Assets:

1H'FY23: Rs. 11.6b FY22: Rs. 12.7b; FY21: Rs. 14.2b; FY20: Rs. 15b;

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 Date (CoD) was achieved on March 16, 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.

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.

Profit After Tax: 1H'FY23: Rs. 333.7m FY22: Rs. 1.6b; FY21: Rs. 1.5b; FY20: Rs. 1.4b

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. During 1H'FY23, curtailments from NTDC resulted in less offtake from AEPL, which led to lower capacity factor during the same period. AEPL among several other wind power projects have been facing curtailments since Oct'22, which according to National Transmission & Dispatch Company (NTDC) has been due to availability of relatively cheaper power sources amid excess power generation in winter season. However, the comfort is derived as the company will be paid NPMV in case CPPA purchases less than the contract capacity during off-peak season. Furthermore, AEPL has adequate insurance coverage for different events covered under 'force majeure'.

Satisfactory operating track record

The wind farm has completed around five years of successful operations with average annual generation capacity and plant availability remaining compliant with parameters, as laid down in the EPA. During FY22, average annual capacity factor was reported at 46.51% and has remained higher than agreed percentage i.e., 35% on a timeline basis. Meanwhile, the same witnessed substantial decline during 1H'FY23 owing to government led curtailments. Resultantly, the company reported decrease in profit margins during the same period. Plant availability remained above 97% during the entire review period. Project performance metrics are provided in the table below:

Table 1: Project Performance

	FY20	FY21	FY22	H1'FY23
Capacity Factor (Actual)	40.06%	39.75%	44.70%	27.75%
Availability	98.49%	99.03%	97.59%	99.01%

2022	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Net Energy Delivered (MW)	10,153	7,145	11,142	17,890	26,177	24,287	15,250	12,199	14,693	6,641	4,752	6,380
Plant Utilization Factor (%)	28.2%	19.9%	30.9%	49.7%	72.7%	67.5%	42.4%	33.9%	40.8%	18.5%	13.2%	17.7%

Liquidity Profile:

Lower profitability during H1'FY23 led to decline in funds from operations (FFO) and resultant decrease in cash flow coverages. The same is expected to improve in full year in line with increase in profitability on the back of higher offtake. Nonetheless, debt repayments have been accounted in approved tariff implying adequate debt service coverage. Outstanding receivables from CPPA amounted to Rs. 1.5b (FY22: 2.4b FY21: Rs. 2.5b) at end-1H'FY23. As per management, receivables collection has remained robust in the ongoing year with the same being duly cleared at the end of every quarter. Additionally, following the acceptance of proposed tariff adjustments in Feb'21, receivables amounting Rs. 2.0b were released to the company in 2022.

The company held short term investments worth Rs. 377.9m (FY22: Rs. 242.6m, FY21: Rs. 1.6b), at end-1H'FY23. At the time of COD, required funds for payments to EPC contractor on deferred basis, were invested in short-term investments. These investments majorly comprised fixed income Government bonds, modarba and musharaka certificates. Since then, payments have been released to EPC contractor in 10 equal semi-annual installments through liquidation of these short-term investments, and last payment was made by end-March 31, 2023.

Improvement in leverage indicators on timeline basis:
Equity base of AEPL increased to Rs. 5.6b (FY22: Rs. 5.2b; FY21: Rs. 5.6b) at end-1H'FY23. During the same period no dividend distribution was made; meanwhile, dividend amounting Rs. 2.0b (FY21: Rs. 860.1m) was disbursed during FY22. Total adjusted debt carried on balance sheet (including supplier credit and adjusting for short term investments) amounted to Rs. 5.5b (FY22: Rs. 6.4b; FY21: Rs. 6.0b) as of 1H'FY23. Long-term debt profile includes facility from a consortium of commercial banks, under SBP Islamic financing scheme for renewable energy carrying a markup at SBP refinance rate of 2% and bank spread 2.5%. Long-term debt also included supplier's credit, as discussed above, for deferred payments against purchase of wind plant. Leverage indicators have exhibited improvement on a timeline basis primarily on the back of growth in equity base due to internal capital generation and scheduled repayments of long-term financing. Gearing, adjusted for short term investments, was reported lower at 0.98x (FY22: 1.22x; FY21: 1.06x) at end-1H'FY23, indicating enhanced risk absorption capacity.

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

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY20**	**FY21**	**FY22**	**1H'FY23**
Property, Plant and Equipment	10,520.4	9,714.8	9,612.2	9,134.9
Trade Debts	2,449.6	2,536.3	2,385.7	1,504.3
Deposits and prepayments	45.4	50.6	81.2	81.1
Loan and Advances	46.5	0.7	1.0	18.6
Other Receivable	178.2	148.1	151.2	266.0
Short term investments	1,666.4	1,623.4	242.6	378.0
Cash and Bank Balances	70.8	109.3	154.1	105.6
Other Assets	31.0	47.4	58.9	142.4
Total Assets	**15,008.3**	**14,230.5**	**12,686.9**	**11,630.9**
Long-Term Borrowings *(Inc. current maturity)*	9,429.1	7,094.9	6,127.2	5,876.5
Deferred Income *(Inc. current portion)*	0.0	826.5	646.0	0.0
Sales Tax Payable	58.3	57.0	34.1	13.3
Short-Term Borrowings	178.0	500.0	500.0	0.0
Trade and Other Payables	360.2	113.6	127.4	143.2
Other Liabilties	8.6	11.7	8.9	20.9
Total Liabilities	**10,034.2**	**8,603.6**	**7,443.6**	**6,053.8**
Paid-Up Capital	1,412.3	1,412.3	1,412.3	1,412.3
Total Equity/Tier 1 Equity	**4,974.1**	**5,627.0**	**5,243.4**	**5,577.1**
INCOME STATEMENT	**FY20**	**FY21**	**FY22**	**1H'FY23**
Revenue	2,972.9	3,098.1	3,211.5	1,123.3
Gross Profit	1,972.7	2,057.2	2,067.9	481.0
Finance Cost	726.0	581.2	504.2	305.5
Other Income	253.1	123.5	134.9	195.2
Profit Before Tax	1,432.4	1,520.0	1,620.3	335.3
Profit After Tax	1,424.4	1,512.9	1,616.4	333.7
FFO	2,013.0	2,106.9	2,218.0	441.9
RATIO ANALYSIS	**FY20**	**FY21**	**FY22**	**1H'FY23**
Gross Margin (%)	66.4%	66.4%	64.4%	42.8%
Net Margin (%)	47.9%	48.8%	50.3%	29.7%
Current Ratio	2.30	2.03	1.26	14.27
Net Working Capital	2,533.45	2,291.85	632.48	2,250.84
FFO to Long-Term Debt	0.25	0.37	0.49	0.15*
FFO to Total Debt	0.21	0.30	0.36	0.15*
Debt Servicing Coverage Ratio (x)	1.39	1.43	1.43	0.67
ROAA (%)	9.4%	10.3%	12.0%	5.5%*
ROAE (%)	33.4%	28.5%	29.7%	12.3%*
Gearing (x)	1.90	1.26	1.17	1.05
Adjusted Gearing (x)	1.60	1.06	1.22	0.99
Debt Leverage (x)	2.02	1.53	1.42	1.09
Inventory + Receivable/Short-term Borrowings (x)	13.8	5.1	4.8	N/A

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
4/18/2023	A+	A-1	Stable	Reaffirmed
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.
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. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Ehtisham Akhtar	Director Projects	27-March-2023
2	Mr. Irfan Bashir	General Manager	
3	Mr. Ali Iqbal	Finance Manager	