RATING REPORT

Artistic Energy (Pvt.) Limited

REPORT DATE:
May 14, 2024

RATING ANALYSTS:
Basel Ali Assad
basel.ali@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 Date	*May 14, 2024*		*April 18, 2023*	
Rating Outlook	Stable		Stable	
Rating Action	*Reaffirmed*		*Reaffirmed*	

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
Applicable Rating Criteria: Corporates
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

APPLICABLE RATING SCALE
VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.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 FY23 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 AEPL. He is also the Chairman of Artistic Milliners (Pvt.) Ltd. He has over 40 years of experience in the textile and power sector.

RATING RATIONALE

Artistic Energy (Pvt.) Limited ('AEPL' or 'the Company') is a wholly-owned subsidiary of Artistic Milliners (Pvt.) Limited (AMPL); the assigned ratings take into account the strong profile of the sponsor. The ratings also draw strength from the long-term Operations & Maintenance (O&M) contract in place with experienced operators as well as the presence of a long-term Energy Purchase Agreement (EPA) with the CPPA which partially mitigates offtake risk and provides adequate insurance coverages. While power produced, and in turn cash flows, are susceptible to seasonality and possible variance in wind speed, comfort is drawn from surveys conducted by international consultants confirming adequate wind availability historically.

The Company's profitability metrics witnessed a downturn during FY23 on account of dip in operational performance due to government-led curtailments coupled with lower wind resource; however, the same rebounded during the ongoing year owing to uptick in offtake. Nonetheless, the overall liquidity profile remained sound with collection of receivables from CPPA largely on time and adequate cash flow coverages. Additionally, capitalization indicators depicted improvement owing to both equity expansion and lower debt levels in FY23. Going forward, the assigned ratings will remain dependent on maintenance of business and financial risk metrics in line with the assigned benchmarks.

Corporate Profile

Incorporated in 2014, 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 setup at a total cost of Rs 11.7b. The Project was funded in a debt-to-equity ratio of 75:25. The Commercial 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 the 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 AMPL. AMPL has been assigned a credit rating of 'AA-/A-1' by VIS Credit Rating Company Limited 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 and 35% capacity factor 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 partially 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 FY23, curtailments from NTDC resulted in decline in offtake leading to lower capacity factor during the same period. As per NTDC, these curtailment events were on the account of availability of cheaper power sources amid excess power generation during the winter season. However, comfort is derived as the Company will be compensated in full for 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 six years of successful operations and operating performance has remained largely satisfactory with plant availability remaining above the 97% threshold over the rating review period. However, the average annual capacity factor during FY23 declined to 33.49%, below the 35% requirement, owing to curtailments by the government and limited wind availability. Nonetheless, capacity factor witnessed an uptick to 45.96% during 1HFY24 following reduction in curtailment events coupled with better wind resource. Project performance metrics are tabulated below:

	FY21	FY22	FY23	1HFY24
Availability	99.03%	97.59%	98.65%	98.85%
Capacity Factor (Actual)	39.75%	44.70%	33.49%	45.96%
Output (kWh)	172,507,435	193,033,713	144,720,801	100,278,933

Improvement in profitability indicators on the ongoing year

AEPL's topline performance decreased by 5.2% to Rs. 3.0b during FY23 (FY22: Rs. 3.2b) in line with lower offtake. Consequently, coupled with increase in operating costs to Rs. 1.4b (FY22: Rs. 1.1b) largely due to inflationary impact on operations & maintenance charges, the gross margin decreased to 53.6% (FY22: 64.4%). Moreover, net margin also declined to 33.0% (FY22: 50.3%) in tandem with lower gross margin and high finance charges of Rs. 622.6m (FY22: Rs. 504.2m) owing to high interest rate environment.

During 1HFY24, revenue generation almost doubled vis-à-vis SPLY to Rs. 2.2b owing to rebound in volumetric offtake and quarterly tariff adjustments. Additionally, other income increased to Rs. 148.9m (FY23: Rs. 87.5m, FY22: Rs. 134.9m) largely on the back of higher investment returns amidst the high policy rate environment. Resultantly, profitability metrics improved significantly with gross and net margins standing at 64.8% and 55.5%, respectively. Going forward, profitability indicators are expected remain sound on the back of higher offtake and adjustments in tariff.

Improvement witnessed in the company's liquidity profile

Funds from Operations (FFO) improved during the ongoing year to Rs. 1.5b (FY23: Rs. 1.6b, FY22: Rs. 2.2b) in line with uptick in profitability metrics, resulting in higher cash flow coverages. Debt-servicing coverage increased to 2.50x during 1HFY24 (FY23: 1.12x, FY22: 1.43x); nonetheless, debt repayments have been accounted in the approved tariff providing added comfort to debt repayment capacity.

Outstanding receivables from CPPA amounted to Rs. 2.5b at end-Dec'23 (FY23: Rs. 2.0b, FY22: Rs. 2.4b). Overall aging of trade debts is satisfactory with the entirety of the same due within 6 months at end-FY23. As per management, receivables collection has remained largely on time over the rating review period. Moreover, short-term investments, comprising largely of mutual funds, increased to Rs. 433.2m by end-1HFY24 (FY23: Rs. 4.5m, FY22: Rs. 242.6m). As per management, the excess funds are invested to generate other income.

Improvement in leverage indicators on a timeline basis

The Company's equity base augmented to Rs. 7.2b by end-Dec'23 (FY23: Rs. 6.0b, FY22: Rs. 5.2b) on the back of internal capital generation. While no dividend was distributed during the ongoing year, dividend amounting to Rs. 250m was disbursed during FY23 (FY22: Rs. 2.0b). The overall debt profile comprises solely of long-term borrowings, amounting to Rs. 4.9b at end-Dec'23 (FY23: Rs. 4.7b, FY22: Rs. 6.6b). About two-thirds of the same includes a facility from a consortium of commercial banks under SBP Islamic financing scheme for renewable energy carrying a subsidized markup rate. Moreover, short-term running finance facility was completely settled over the rating review period as working capital requirements were met through internal capital. With reduction in overall debt levels coupled with enhancement of equity base, capitalization indicators exhibited improvement on a timeline basis with debt leverage and gearing levels decreasing to 0.68x and 0.67x, respectively (FY23: 0.90x, 0.79x; FY22: 1.42x, 1.26x). Going forward, given projected profitability and minimal capital expenditure, capitalization indicators are expected to depict further improvement.

Artistic Energy (Pvt.) Limited (AEPL)

Annexure I

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY21**	**FY22**	**FY23**	**1HFY24**
Property, Plant and Equipment	9,715	9,612	9,152	8,806
Trade Debts	2,536	2,386	2,015	2,543
Short term investments	1,623	243	5	433
Cash and Bank Balances	109	154	8	38
Other Assets	247	292	231	289
Total Assets	**14,231**	**12,687**	**11,411**	**12,110**
Long-Term Borrowings *(incl. current maturity)*	7,095	6,127	4,735	4,874
Short-Term Borrowings	500	500	0	0
Total Borrowings	**7,595**	**6,627**	**4,735**	**4,874**
Trade and Other Payables	114	127	133	45
Other Liabilities	895	689	546	26
Total Liabilities	**8,604**	**7,444**	**5,413**	**4,946**
Paid-Up Capital	1,412	1,412	1,412	1,412
Total Equity/Tier 1 Equity	**5,627**	**5,243**	**5,998**	**7,239**
INCOME STATEMENT	**FY21**	**FY22**	**FY23**	**1HFY24**
Revenue	3,098	3,211	3,045	2,237
Gross Profit	2,057	2,068	1,633	1,450
Finance Cost	581	504	623	319
Other Income	124	135	87	149
Profit Before Tax	1,520	1,620	1,015	1,242
Profit After Tax	1,513	1,616	1,005	1,241
FFO	2,107	2,218	1,628	1,521
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**	**1HFY24**
Gross Margin (%)	66.4%	64.4%	53.6%	64.8%
Net Margin (%)	48.8%	50.3%	33.0%	55.5%
Current Ratio	2.03	1.26	1.92	3.46
Short-Term Borrowing Coverage (x)	5.1	4.8	-	-
FFO to Long-Term Debt	0.30	0.36	0.34	0.62
FFO to Total Debt	0.28	0.33	0.34	0.62
Debt Servicing Coverage Ratio (x)	1.43	1.43	1.12	2.50
Gearing (x)	1.35	1.26	0.79	0.67
Debt Leverage (x)	1.53	1.42	0.90	0.68
ROAA (%)	10.3%	12.0%	8.3%	21.1%
ROAE (%)	28.5%	29.7%	17.9%	37.5%

REGULATORY DISCLOSURES					Annexure II
Name of Rated Entity	Artistic Energy (Pvt.) Ltd.				
Sector	Power				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	5/14/2024	A+	A-1	Stable	Reaffirmed
	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. Copyright 2024 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
Due Diligence Meetings Conducted		**Name**	**Designation**	**Date**	
	1	Mr. Irfan Bashir	CFO and Company Secretary	April 8, 2024	
	2	Mr. Ali Iqbal	Sr. Finance Manager		