

RATING REPORT

Artistic Wind Power (Pvt.) Limited

REPORT DATE:

March 16, 2021

RATING ANALYSTS:

Asfia Aziz

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RATING DETAILS

| Rating Category | Latest Rating | | Previous Rating | |
|-----------------|----------------|------------|-----------------|------------|
| | Long-term | Short-term | Long-term | Short-term |
| Entity | A- | A-2 | A- | A-2 |
| Rating Date | March 16, 2021 | | March 16, 2020 | |
| Rating Outlook | Stable | | Stable | |
| Rating Action | Reaffirmed | | Initial | |

COMPANY INFORMATION

| | |
|---|---|
| Incorporated in 2015 | External auditors: M/s EY Ford Rhodes Chartered Accountants |
| Private Limited Company | Chairman of the Board: Mr. Yaqoob Ahmed |
| Key Shareholders (with stake 5% or more): | Chief Executive Officer: Mr. Murtaza Ahmed |
| Artistic Milliners (Pvt.) Limited (AMPL) – 100% | |

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (April 2019)

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Corporate-Methodology-201904.pdf>

Artistic Wind Power (Pvt.) Limited (AWPPL)

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Artistic Wind Power (Pvt.) Limited (AWPPL) was incorporated as a private limited company in 2015. AWPPL is principally engaged to maintain wind power generation project of 50MW for the generation and supply of electric power. Registered office of the company is located in Karachi.

Financial Statements of the company for FY20 were audited by M/s EY Ford Rhodes Chartered Accountants. 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 AWPL. He is also the Chairman of Artistic Milliners (Pvt.) Ltd. He has over 40 years of experience in the textile sector.

Incorporated in 2015, Artistic Wind Power (Pvt.) Limited (AWPPL) plans to set up a 50MW wind power plant in Jhimpir, District Thatta, Sindh. The project has been allocated 462 acres of land by the Government of Sindh. Brief project details are stipulated in the table below:

| Dimensions | Details |
|-------------------------------------|------------|
| Plant Name Plate Capacity | 50 MW |
| Wind Turbine | Gold Wind |
| Annual Generation | 164.25 GWh |
| Model | GW 121-2.5 |
| Net capacity factor | 38% |
| Hub height | 90m |
| Rotor Diameter | 121m |
| Name plate capacity of each turbine | 2.5 MW |
| Approved Levelized Tariff (Rs./Kwh) | 5.665 |

The total cost of the project has been estimated at \$66.2m which shall be financed in debt to equity ratio of 80:20 where debt component will comprise an equal (50:50) mix of local and foreign lenders. The financial close for this project has been achieved in November 2019. Plant Off-take connectivity is expected to be with Jhimpir-2 Interconnection facility which is under construction and is projected to be completed by September 2021. The targeted commercial operations date is expected in October 2021 with construction currently in progress. The project has an ROE of 14%.

The company has signed a twenty five year Energy Purchase Agreement (EPA) with Central Power Purchasing Agency (CPPA). Implementation Agreement (IA) has been signed with AEDB (on behalf of GOP). Offshore Engineering, Procurement and Construction (EPC) contract has been signed with Power Construction Corporation Of China Limited (PCCCL) on November 22, 2017 which primarily relates to procurement and supply of electrical and mechanical equipment outside Pakistan while onshore EPC contract was signed with HydroChina International Engineering Company Limited (HIEC) on November 22, 2017 which comprise of civil works, erection, commissioning, testing etc. Moreover, HIEC is also the Operations and Maintenance (O&M) contractor for an initial warranty period of 2 years commencing from commercial operations date.

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 from VIS Credit Rating indicating high credit quality, strong protection factors and likelihood of support from sponsors in case of need.

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 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, the company has signed a 2-year O&M contract with HIEC. O&M costs include expenses associated with services provided along with associated with local staff, administrative expenses, corporate fees, audit fees, advisory fees etc. Post completion of the warranty period, the O&M contract shall be extended for another 11 years with HIEC. Sound track record and extensive experience of the contractor in renewable energy sector provides comfort to managing operations risk.

Presence of long term Energy Purchase Agreement with CPPA mitigates off-take risk while insurance coverages are in place

The company has signed a twenty five year EPA with CPPA. 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. Management also possesses necessary insurance coverages for construction and operation periods.

Project completion risk is partly mitigated by in-built guarantees and liquidated damages. Timely project completion will remain an important rating driver.

In case either, onshore or offshore EPC contractor fails to comply with project timeline specified in the contract due to fault on its part, then the contractor must pay delay damages to AWPPL. The EPC contractor will pay damages of USD 28,000/- per day of delay which will be backed by an irrevocable bank guarantee up to 15% of the EPC Contract Price. AWPPL has also obtained performance guarantees from the O&M contractors subject to a cap of 10% of the O&M contract price. Annual plant availability and efficiency benchmarks have been set at 95% and 38% respectively. Both O&M and EPC contractors possess extensive experience to set up and operate various wind power projects.

| <u>Net annual plant capacity factor</u> | <u>% of prevalent tariff allowed to power producer</u> |
|--|---|
| Above 38% up to 40% | 5% |
| Above 40% up to 42% | 10% |
| Above 42% up to 44% | 20% |
| Above 44% up to 46% | 40% |
| Above 46% up to 48% | 80% |
| Above 48% | 100% |

Project Completion risk

Construction risk is inherent in the project and management's ability to effectively manage the same is considered important from ratings perspective. However, this risk is mitigated to a certain extent by the sound operational history of contractors and adequate liquidated damages coverage from EPC contractors in case of such delay.

Sound projected debt coverage metrics; however, inconsistent payment cycle exhibited by CPPA may translate into some liquidity pressures.

Given that debt repayments have been accounted for in the approved Tariff, projected debt

coverage profile is considered sound. However, in view of growing energy sector's circular debt in the country which has reached Rs. 2.03 trillion mark as at end-Nov'20 and increasing capacity payments, delays in payments by CPPA may translate into some liquidity pressures. Comfort is drawn from commitment by the government for release of funds for timely debt repayment. Moreover, in order to facilitate in timely debt servicing, the Company will give a 6 month SBLC to lenders to ensure timely repayment.

The assigned rating incorporate elevated leverage indicators in line with project funding mix. Leverage indicators are expected to improve over time owing to debt repayments and internal capital generation.

Equity base of the company is expected to further improve over the next year on account of equity injection by the sponsors. Furthermore, given sizeable expected debt drawdown for project construction and completion, leverage indicators are projected to be elevated. At end-Dec'20, the sponsors have injected equity to the tune of Rs. 700m and total debt drawdown amounted Rs. 1.75b. Consequently, gearing of the company was reported on the higher side at 2.53(x). The company shall avail borrowings at concessionary rate offered by SBP for renewable power producers while foreign currency portion will be arranged through IFC. Repayment tenure of long term debt shall be 10 years. Leverage indicators are expected to improve over time owing to debt repayments and internal capital generation.

Artistic Wind Power (Pvt.) Limited (AWPPL)
Annexure I

| FINANCIAL SUMMARY <i>(amounts in PKR millions)</i> | | | | |
|---|-------------|-------------|-------------|---------------|
| <u>BALANCE SHEET</u> | FY18 | FY19 | FY20 | 1HFY21 |
| Paid Up Capital | 75.2 | 84.7 | 437.7 | 700.8 |
| Total Equity | 66.2 | 73.6 | 415.0 | 677.2 |
| <u>INCOME STATEMENT</u> | | | | |
| Net Sales | - | - | - | - |
| Profit/ (Loss) Before Tax | (8.0) | (2.1) | (11.1) | (0.7) |
| Profit/ (Loss) After Tax | (8.0) | (2.2) | (11.6) | (0.9) |
| <u>RATIO ANALYSIS</u> | | | | |
| FFO | (7.9) | 0.5 | (8.4) | NA |
| Current Ratio (x) | 9.78 | 0.27 | 43.48 | 129.58 |
| Gearing (x) | - | - | - | 2.58 |

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 Wind Power (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 |
| | 16-March-2021 | A- | A-2 | Stable | Reaffirmed |
| | 16-March-2020 | A- | A-2 | 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 | 26-February-2021 | |
| | 2 | Mr. Irfan Bashir | General Manager | 26-February-2021 | |
| | 4 | Mr. Ali Iqbal | Finance Manager | 26-February-2021 | |