RATING REPORT

Artistic Wind Power (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-2	A	A-2
Rating Date	*April 18, 2023*		*April 08, 2022*	
Rating Outlook	Stable		Stable	
Rating Action	*Reaffirmed*		*Upgrade*	

COMPANY INFORMATION	
Incorporated in 2015	**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:** Ms. Momina Yaqoob
Artistic Milliners (Pvt.) Limited (AMPL) – 100%	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Corporates (August, 2021)   **https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf**

Artistic Wind Power (Pvt.) Limited (AWPPL)

OVERVIEW OF THE INSTITUTION

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 FY22 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 AWPL. 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. 2.3b FY22: Rs. 2.2b; FY21: Rs. 1.7b; FY20: Rs. 415m

Assets:
1H'FY23: Rs. 12.4b FY22: Rs. 13.0b; FY21: Rs. 6.4b; FY20: Rs. 425.0b;

RATING RATIONALE

Incorporated in 2015, Artistic Wind Power (Pvt.) Limited ('AWPPL' or 'the Project') is a 50MW wind power plant project in Jhimpir, District Thatta, Sindh. The Project has been allocated 462 acres of land by the Government of Sindh. The total cost of the Project, estimated at $66.2m, has been financed through a 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 the project was achieved in November 2019, while the Project's CoD was achieved in February 16, 2022.

AWPPL has signed a 25-year Energy Purchase Agreement (EPA) with Central Power Purchasing Agency (CPPA), with the provision of 'take-or-pay', where the company will be paid non-project missed volumes in case CPPA purchases less than the contract capacity during off-peak season. Offshore Engineering, Procurement and Construction (EPC) contract was 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 comprises 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 CoD.

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 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. Site specific Wind Resource Assessment and Energy Yield Evaluation Study has confirmed 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.
As per initially agreed terms, the project has signed a 2-year O&M contract with HIEC. O&M costs include expenses associated with services provided domestically, 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. Annual plant availability and efficiency benchmarks have been set at 95% and 38% respectively.

Presence of long-term Energy Purchase Agreement with CPPA mitigates off-take risk while insurance coverages are in place
AWPPL has signed a 25-year EPA with CPPA. In case of any capacity issue with the grid due to Non Project Events (NPEs), the Project will continue to receive the revenues from CPPA under Non-Project Missed Volume (NPMV) i.e. compensation of loss of revenue. Relevant insurance coverages are in place.

Profit After Tax:
1H'FY23: Rs. 35.3m
FY22: Rs. 319.4m;
FY21: Rs. 34.3; FY20:
Rs. 11.6m

Interim Relief Application to NEPRA:

AWPPL achieved commercial operations on Feb 16, 2022. Thereafter, in accordance with the reference tariff determination, the company submitted its request for onetime adjustment of tariff at COD on Jan 16, 2023 under True Up Petition. Subsequent to filing true-up petition, the company filed a request on Feb 1, 2023 to NEPRA to seek an interim relief by applying allowing indexations on the tariff components during the period from COD till the announcement of NEPRA's decision on true-up petition. Accordingly, the interim relief is requested for five quarters relevant at this point of time i.e., Jan-Mar'22 to Jan-Mar'23. The premise for the application were based on that revenues recognized on the basis of reference tariff is not sufficient to service debt obligations and meet operating costs on account of extreme devaluation of PKR against USD while inflation (US CPI and Pak CPI) and high LIBOR are also contributing factor. Additionally, the debt financing assumed in reference tariff determination is based on 100% SBP refinancing whereas, 100% SBP financing was not available for the project and 50% of the debt requirement has been met through foreign debt at the rate of 3-Month LIBOR plus 4.25%. Changes in indices used in reference tariff determination are presented below:

	Reference Tariff Determination Value	Current Value (31st Jan 2023)	Increase (%)
PKR to USD 1	PKR 120	PKR 270.10	125%
Pak CPI (Rebased)	111.973 (229.270)	191.46	71%
US CPI	252.146	296.797	18%
SBP RE Refinance Rate	6%	6%	-
Foreign Debt Rate	N/A	9.07529% (3M LIBOR - 4.82529% + 4.25%	N/A

It is to be noted that monthly invoices on reference tariff are further reduced by insurance component which is not allowed by CPPA until it is not determined by NEPRA based on actual cost. The cost of the project claimed under true-up petition is USD 69.952m; meanwhile, reference tariff determination was USD 62.952m and the company has filed interim relief based on the latter. The increase in actual project cost is mainly attributable to EPC contractor claims, duties and taxes and financial fee and charges.

Operating Performance

The wind farm has completed around one year of successful operations with plant availability remaining compliant with parameters, as laid down in the EPA. However, during the period under review i.e., Feb'22-Jan'23, average capacity factor was reported at 36.75% being lower than 38% as stipulated in EPA, mainly due to government led curtailments since Oct'22. AWPPL among several other wind power projects have been facing curtailments since Oct'22, which according to NTDC has been due to availability of cheaper power sources amid excess power generation in winter. Plant availability remained above 95% during the review period. Despite lower capacity factor, gross margins improved during 1HY'23 owing to higher tariff adjustments in line with exchange rate and benchmark interest rate variations vis-à-vis CPLY. Going forward, profit margins will be supported by higher tariff adjustments largely emanating from the positive impact of rupee devaluation amid dollar indexation of tariff. Project performance metrics are provided in the table below:

Table 1: Project Performance

	Feb'22	*Mar'22*	*Apr'22*	*May'22*	*Jun'22*	*Jul'22*	*Aug'22*	*Sep'22*	*Oct'22*	*Nov'22*	*Dec'22*	*Jan'23*
Net Energy Delivered (MW)	*4,354*	*11,607*	*17,074*	*25,282*	*24,882*	*15,874*	*12,206*	*14,750*	*6,371.4*	*4,952*	*7,545*	*11,048*
Plant Utilization Factor (%)	*27.9%*	*31.2%*	*47.4%*	*67.96%*	*69.1%*	*42.7%*	*32.8%*	*40.97%*	*17.1%*	*13.8%*	*20.3%*	*29.7%*

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 adequate. However, the ongoing and recurring circular debt may translate into some liquidity pressures. Comfort is drawn from commitment by GoP for release of funds for timely debt repayment. As per the management, all outstanding receivables are cleared by CPPA-G at the end of every quarter. The company is exempted from recording expected credit losses against Govt. receivables pertaining to circular debt under IFRS 9. Moreover, in order to facilitate in timely debt servicing, the company has issued a Debt Service Reserve Account (DSRA) LC of USD 3.12m to lenders to ensure timely repayment. Going forward cash flow position is expected to improve, on the back of higher tariff adjustments after approval of interim relief application.

High leverage indicators due to elevated debt levels

Tier-1 equity amounted to Rs. 2.3b (FY22: Rs.2.2b; FY21: Rs. 1.7b) at end-1H'FY23, following the required equity contribution as stipulated in the EPA. At end-1HY'23, gearing was reported at 4.02x (FY22: 3.98x, FY21: 2.36x). As part of the project financing deal, sponsors loan amounting to Rs.335.3m is utilized by AWPPL to service sales tax payments that will ultimately be charged to CPPA as a pass through item. Going forward, leverage indicators are expected to improve steadily on account of scheduled debt repayments and growth in equity base due to internal capital generation.

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

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY20**	**FY21**	**FY22**	**1H'FY23**
Property, Plant and Equipment	201.3	4,542.5	11,076.9	10,843.2
Trade Debts	0.0	0.0	661.2	690.8
Sales tax refundable	7.9	185.9	173.8	137.7
Loan and Advances	0.5	1,054.6	0.0	0.0
Other Receivable	0.0	72.0	16.1	0.0
Short term investments	0.0	0.0	0.0	5.0
Cash and Bank Balances	117.3	484.5	1,060.5	592.6
Other Assets	97.5	11.9	10.1	148.5
Total Assets	**424.5**	**6,351.4**	**12,998.6**	**12,417.8**
Long-Term Borrowings *(Inc. current maturity)*	0.0	3,782.8	8,410.9	8,794.7
Other Payables	4.6	3.8	1,258.9	1,008.3
Taxation net	0.3	0.2	0.2	0.6
Short-Term Borrowings	0.0	0.0	172.0	0.0
Loans from Sponsors	0.0	0.0	0.0	335.3
Other liabilities	4.7	174.2	336.2	8.1
Total Liabilities	**9.6**	**4,675.7**	**10,761.5**	**10,147.1**
Paid-Up Capital	0.1	0.1	1,974.7	1,974.7
Total Equity/Tier 1 Equity	**415.0**	**1,675.7**	**2,237.1**	**2,270.7**
INCOME STATEMENT	**FY20**	**FY21**	**FY22**	**1H'FY23**
Revenue	N/A	N/A	843.3	449.9
Tariff Adjustment	0.0	0.0	0.0	307.5
Gross Profit	N/A	N/A	537.2	357.1
Finance Cost	0.0	5.0	192.3	327.6
Other Income	1.8	6.6	11.8	22.3
EBIT	-11.1	-28.2	513.4	365.4
Profit After Tax	-11.6	-34.3	319.4	35.3
FFO	-8.4	-31.2	531.6	117.9
RATIO ANALYSIS	**FY20**	**FY21**	**FY22**	**1H'FY23**
Gross Margin (%)	N/A	N/A	63.7%	79.4%
Net Margin (%)	N/A	N/A	37.9%	37.9%
Current Ratio (x)	43.48	7.89	0.92	1.55
Net Working Capital	207.9	1,570.6	-155.8	553.2
FFO to Long-Term Debt	N/A	-0.01	0.07	0.03*
FFO to Total Debt	N/A	-0.01	0.06	0.03*
Debt Servicing Coverage Ratio (x)	N/A	N/A	3.76	0.89
ROAA (%)	-4.5%	-1.0%	3.3%	0.6%*
ROAE (%)	-4.8%	-3.3%	16.3%	3.1%*
Gearing (x)	N/A	2.36	3.98	4.02
Debt Leverage (x)	0.02	2.79	4.81	4.47
Inventory + Receivable/Short-term Borrowings (x)	N/A	N/A	3.8	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 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
18-April-2023	A	A-2	Stable	Reaffirmed
08-April-2022	A	A-2	Stable	Upgrade
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.
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	