RATING REPORT

Artistic Wind Power (Pvt.) Limited

REPORT DATE:
May 14, 2024

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	*May 14, 2024*		*April 18, 2023*	
Rating Outlook	Stable		Stable	
Rating Action	*Reaffirmed*		*Reaffirmed*	

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
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 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 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 AWPL. 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 Wind Power (Pvt.) Limited ('AWPPL' or 'the Company') is a wholly owned subsidiary of Artistic Milliners (Pvt.) Limited (AMPL). The assigned ratings incorporate the sound financial profile of the sponsor. The business risk profile is also supported by the long-term O&M contract in place with experienced contractors coupled with the long-term Energy Purchase Agreement (EPA) with the CPPA, mitigating offtake risk. Although 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 tariff petition for reflection of true-up costs in tariff is under review by NEPRA; approval of the same over the rating horizon will be an important rating consideration.

The Company's operational performance during FY23 was hampered owing to government-led curtailments on account of availability of cheaper power sources amid excess power generation in the winter season coupled with relatively lower wind resource during the high-generation summer months; however, improvement in offtake was exhibited during the ongoing year. Resultantly, profitability margins were impacted by variance in operational performance but remained sound; the same are also expected to improve following approval of true-up petition. The overall liquidity profile was satisfactory with adequate cash flow coverages and clearance of receivables by CPPA largely on time over the rating review period. Moreover, capitalization indicators depicted improvement on the back of profit retention but remained elevated; nonetheless, the same are expected to improve with in internal capital generation and debt repayments. Going forward, the ratings will remain sensitive to maintenance of profitability performance and liquidity metrics as well as improvement of capitalization levels.

Corporate Profile

Incorporated in 2015, AWPPL 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 comprises 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 Commercial Operations Date (CoD) was achieved on 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 has also been 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 Company Limited indicating high credit quality, strong protection factors and likelihood of support from sponsors, if required.

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, a 2-year O&M contract was signed 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 provides comfort to manage operational 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.

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 on Jan 16, 2023 under True Up Petition at COD. Subsequent to filing true-up petition, the company filed a request on Feb 1, 2023 to NEPRA to seek an interim relief by 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 was requested for five quarters between 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%.

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 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 based on USD 62.952m and the company has filed interim relief based on the latter. The increase in actual project cost is mainly owing to EPC contractor claims, duties and taxes and financial fee and charges. As per management, approval for true-up petition by NEPRA is expected by end-June'24; however, the Company has been receiving extensions on interim relief in the meanwhile with quarterly adjustments on tariff rates.

Operating performance hampered by curtailments during FY23

The wind farm has completed around two years of successful operations with plant availability remaining above the 95% threshold over the rating review period. However, the average capacity factor was reported at 32.77% during FY23 which is lower than the 38% requirement as stipulated in the O&M contract, mainly owing to government-led curtailments. As per NTDC, the same was due to availability of cheaper power sources amid excess power generation in winter. Additionally, relatively lower wind resource during high-generation summer months also impacted energy output. Nonetheless, the capacity factor depicted an uptick to 44.59% during 1HFY24 following higher offtake. Project performance metrics are tabulated below:

	FY22*	FY23	1HFY24
Availability	99.98%	99.10%	99.83%
Capacity Factor	48.72%	32.77%	44.59%
Output (kWh)	83,201	143,728,953	98,594,431

**Based on operations between Feb-June'22*

Sound profitability metrics despite impact of curtailments during FY23

The topline more than doubled YoY to Rs. 1.8b during FY23 (FY22: Rs. 843.3m) following full-year operations of the wind farm; however, impact of curtailments on output affected revenue generation. Therefore, gross and net margins declined to 59.3% and 15.7%, respectively (FY22: 63.8%, 37.9%). Moreover, higher financing charges amounting to Rs. 793.6m (FY22: Rs. 192.3m) on account of increase in debt levels coupled with policy rate hikes, both locally and internationally, added further pressure to the bottom-line.

During the ongoing year, the topline exhibited growth of about 65.9% on an annualized basis to Rs. 1.5b on the back of higher energy offtake coupled with revisions in tariff rates. Resultantly, profitability metrics depicted an uptick with gross and net margins standing at 73.7% and 43.0%, respectively. Going forward, profitability performance will be supported by approval of the Company's petition for true-up tariff adjustments coupled with higher energy output.

Satisfactory liquidity profile

Funds from Operations (FFO) improved during the ongoing year to Rs. 874.6m (FY23: Rs. 701.2m, FY22: Rs. 531.6m) in line with uptick in profitability metrics, resulting in enhancement of cash flow coverages. Debt-servicing coverage also increased 1.88x during 1HFY24 (FY23: 0.73x, FY22: 2.89x); nonetheless, debt repayments have been accounted in the approved tariff providing added comfort to debt repayment capacity. 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.

Outstanding receivables from CPPA amounted to Rs. 561.4m at end-Dec'23 (FY23: Rs. 906.3m, FY22: Rs. 661.2m). Overall aging of trade debts is satisfactory with the entirety of the same due within 2 months at end-FY23. As per management, receivables collection has remained largely on time over the rating review period.

High leverage indicators due to elevated debt levels; however, improvement depicted owing to higher internal capital generation

The Company's equity based increased to Rs. 3.1b by end-Dec'23 (FY23: Rs. 2.5b, FY22: Rs.2.2b) on the back of profit retention. Total long-term borrowings amounted to Rs. 9.9b (FY23: Rs. 9.8b, FY22: Rs. 8.4b) out of which about two-thirds pertained to foreign debt; the remaining debt is obtained from a consortium of local banks at concessionary rates under the SBP Islamic financing facility scheme for renewable energy investment entities. The Company has also obtained a subordinated, interest-free sponsor's loan (payable on demand) amounting to Rs. 352.6m at end-Dec'23 (FY23: Rs. 352.6m; FY22: Rs. 327.9m) mainly to service sales tax payments. Moreover, short-term borrowings were totally settled at end-Dec'23 (FY23: Rs. 429m, FY22: Rs. 172m) as internal capital was utilized to meet working capital needs.

With the augmentation in Tier-1 equity, leverage and gearing indicators over the rating review period to 3.28x and 3.27x, respectively (FY23: 4.46x, 4.21x, FY22: 4.81x, 3.98x). Going forward, capitalization 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	**FY21**	**FY22**	**FY23**	**1HFY24**
Property, Plant and Equipment	4,543	11,077	12,515	12,230
Trade Debts	0	661	906	561
Loan and Advances	1,055	-	-	-
Short-term investments	-	-	136	358
Cash and Bank Balances	484	1,060	63	38
Other Assets	270	200	99	184
Total Assets	**6,351**	**12,999**	**13,719**	**13,371**
Long-Term Borrowings *(Inc. current maturity)*	3,783	8,411	9,795	9,864
Short-Term Borrowings	-	172	429	-
Loans from Sponsors	168	328	353	353
Total Borrowings	3,951	8,911	10,577	10,216
Other Liabilities	725	1,851	627	28
Total Liabilities	**4,676**	**10,762**	**11,204**	**10,244**
Paid-Up Capital	0	1,975	1,975	1,975
Total Equity/Tier-1 Equity	**1,676**	**2,237**	**2,515**	**3,127**
INCOME STATEMENT	**FY21**	**FY22**	**FY23**	**1HFY24**
Total Revenue (incl. Tariff Adjustment)	N/A	843	1,766	1,465
Gross Profit	N/A	538	1,047	1,049
Finance Cost	5	192	794	475
Profit Before Tax	(14)	321	281	614
Profit After Tax	(15)	319	278	612
FFO	(31)	532	701	875
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**	**1HFY24**
Gross Margin (%)	-	63.8	59.3	73.7
Net Margin (%)	-	37.9	15.7	43.0
Current Ratio (x)	7.89	0.88	0.79	1.36
Short-term Borrowing Coverage (x)	-	3.84	2.11	-
FFO to Long-Term Debt (x)	-	0.06	0.07	0.17
FFO to Total Debt (x)	-	0.06	0.07	0.17
Debt Servicing Coverage Ratio (x)	-	2.89	0.73	1.88
Gearing (x)	2.36	3.98	4.21	3.27
Debt Leverage (x)	2.79	4.81	4.46	3.28
ROAA (%)	-	3.3	2.1	9.0
ROAE (%)	-	16.3	11.7	43.4

REGULATORY DISCLOSURES					Annexure II
Name of Rated Entity	Artistic Wind Power (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**
	14-May-2024	A	A-2	Stable	Reaffirmed
	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.				
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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		