

RATING REPORT

Din Energy (Pvt.) Limited

REPORT DATE:

June 15, 2020

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Entity Rating	
	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	June 15, 2020	

COMPANY INFORMATION

Incorporated in 2015	External auditors: M/s Deloitte Yousuf Adil Chartered Accountants
Public Limited Company	Chairman of the Board: Mr. Shaikh Mohammad Pervez
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Fawad Jawed
Din Corporation (Pvt.) Limited – 31.66%	
Din Ventures (Pvt.) Limited – 31.66%	
Mr. Shaikh Mohammad Pervez – 15.83%	
Mrs. Ghazala Pervez – 15.83%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (April 2019)

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

Din Energy (Pvt.) Limited (DEL)

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Incorporated in 2015, Din Energy (Pvt.) Limited (DEL) plans to set up a 50MW wind power plant in Jhimpir, District Thatta, Sindh.

Financial Statements of the company for FY19 were audited by M/s Deloitte Yousuf Adil Chartered Accountants. Auditors belong to category ‘A’ on the approved list of auditors published by the State Bank of Pakistan (SBP).

Profile of Chairman

Shaikh Mohammad Pervez is the Non-Executive Director of Din Textile Mills Limited (Unit of Din Group of Companies). After completion of his academics, he joined his family business in 1971. He has played a vital role in the growth and success of the Group.

Profile of CEO

Mr. Fawad Javed is a Business Graduate from USA. He is actively looking after Purchases of Din Group of Industries. He also a member of other Din Group Companies and local Corporates.

Incorporated in 2015, Din Energy (Pvt.) Limited (DEL) plans to set up a 50MW wind power plant in Jhimpir, District Thatta, Sindh. The sponsors received an LOI from the Energy Department, Government of Sindh (EDGOS) in July 2015 and the project has been allocated 325 acres of land by the Government of Sindh in January 2016 through official land allocation letter. The generation license was awarded by NEPRA in 2017 while tariff for the project was notified in 2019. Given the low tariff, Wind Farms are categorized as must run IPPs. Brief project details are stipulated in the table below:

Dimensions	Details
Plant Name Plate Capacity	50 MW
Wind Turbine	SiemensGamesa Renewable Energy
Annual Generation	166.44 GWh
Model	GW 114-2.0
Net capacity factor	38%
Hub height	93m
Rotor Diameter	114m
Name plate capacity of each turbine	2.0 MW
Wind Cut in Speed	3m/sec
Approved Levelized Tariff (Rs./Kwh)	5.665

The total cost of the project has been estimated at \$67.1m 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 mid-November 2021 while construction of the project is expected to commence in July 2020. 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) 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) which comprise of civil works, erection, commissioning, testing etc.

Key Rating Drivers

Strong sponsor profile

Assigned ratings draw comfort from strong sponsor profile. DEL is a part of the Din Group which has diversified presence in textiles, leather, farm products and real estate development. Din Group employees more than 5,000 employees across Pakistan and also has representation on Board of other leading local companies. Sponsor support is also evident from SBLC to the tune of \$4.2m which will be available during the construction period for funding cost overruns.

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. Average wind speed at 7.6m/sec is significantly higher than wind cut in speed of 3m/sec.

Operational risk is considered manageable given long-term O&M contract in place with experienced O&M operator. Adequate insurance coverage is expected to be in place

O&M of the project will be jointly handled by SiemensGamesa and HIEC. WTG will be operated by SiemensGamesa while Electrical Balance of Plant (EBOP) shall be operated by 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. Sound track record and extensive experience of SiemensGamesa and HIEC in renewable energy sector provides comfort to managing operations risk.

The Company has also acquired insurance cover from Adamjee General Insurance and EFU General Insurance. The insurance cover includes coverage of both during construction (Construction Material Damage, Delay in Start Up, Third Party Liability, Marine Insurance, Marine Insurance Delay in Start Up, Terrorism & Sabotage and Miscellaneous) and operations phase (Physical Damage, Business Interruption Insurance, Terrorism & Sabotage, Third Party Liability and Miscellaneous).

Presence of long term Energy Purchase Agreement with CPPA mitigates off-take risk.

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. Resultantly, offtake risk is considered manageable.

Project completion risk is partly mitigated by in-built guarantees and liquidated damages. Timely project completion and commencement of dispatch 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 DEL. 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. The liquidated damages are sufficient to pay penalties to CPPA and cover financial and operating expenses of the Company. DEL 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. Construction risk is inherent in the project and management's ability to effectively manage the same is considered important from ratings perspective.

Net annual plant capacity factor	% of prevalent tariff allowed to power producer
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%

In case of delay due to non-availability of grid, DEL will be eligible for liquidated damages

If Purchaser i.e. CPPA fails to provide the grid on time, then the Purchaser shall pay to the Seller Monthly, in arrears, an amount equal to Carrying Costs, plus fifty percent (50 %) of the O&M Component (Foreign), plus fifty percent (50 %) of the O&M Component (Local) and fifty percent (50 %) of the Insurance Component multiplied by the Average Daily Energy for the number of Days of such delay. The Return on Equity Component during the extended construction period on account of such delay shall be accrued and payable through the Term by updating of the Reference Tariff Table.

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 crossed Rs. 2 trillion mark and increasing capacity payments, delays in payments by CPPA may translate into some liquidity pressures. In order to facilitate in timely debt servicing, the Company will give a SBLC amounting \$3.095m to lenders to ensure timely repayment. Moreover, a working capital funding line will also be arranged.

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 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. The company shall avail borrowings at concessionary rate offered by SBP (Through Meezan Bank and Bank Alfalah) 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.

Din Energy (Pvt.) Limited (DEL)
Annexure I

FINANCIAL SUMMARY		<i>(amounts in PKR millions)</i>	
<u>BALANCE SHEET</u>	FY18	FY19	
Paid Up Capital	50.0	100.0	
Total Equity	50.3	97.3	
<u>INCOME STATEMENT</u>			
Net Sales	-	-	
Profit/ (Loss) Before Tax	0.3	(2.5)	
Profit/ (Loss) After Tax	0.3	(3.1)	
<u>RATIO ANALYSIS</u>			
CFO	2.8	(2.2)	
Current Ratio (x)	0.36	0.82	
Gearing (x)	-	-	

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	Din 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
	15-June-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. Asad Hafeez	Manager Projects	8-June-2020	