# RATING REPORT

# Din Energy Limited (DEL)

**REPORT DATE:**
April 1, 2021

**RATING ANALYSTS:**

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| RATING DETAILS | | | | |
|---|---|---|---|---|
| Rating Category | Latest Rating | | Initial Rating | |
| | Long-term | Short-term | Long-term | Short-term |
| **Entity** | A- | A-2 | A- | A-2 |
| **Rating Outlook** | Stable | | Stable | |
| ***Rating Date*** | *April 1, 2021* | | *June 15, 2020* | |

| COMPANY INFORMATION | |
|---|---|
| **Incorporated in 2015** | **External auditors:** M/s BDO Ebrahim & Co. 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/backupsqlvis/docs/Corporate-Methodology-201904.pdf |

# Din Energy Limited (DEL)

## OVERVIEW OF THE INSTITUTION

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

*Financial Statements of the company for FY20 were audited by M/s BDO Ebrahim & Co. 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 Jawed is a Business Graduate from USA. He is actively looking after Purchases of Din Group of Industries and weaving unit of DTML. He also a member of other Din Group Companies and local Corporates.*

## RATING RATIONALE

Incorporated in 2015, Din Energy 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 in comparison to other fuel based power producers, 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 November 2021.The construction of the plant is going as planned. The targeted commercial operations date is expected in mid-November 2021. 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**

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. Assigned ratings draw comfort from strong sponsor profile.

**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. Tenure of the O&M contract is 8 years and is extendible for another 5 years. O&M costs include expenses associated with services provided along with associated with local staff, administrative expenses, corporate fees, audit fees, advisory fees etc. Extensive experience of SiemensGamesa and HIEC in renewable energy sector and sound track record 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 50% of the O&M Component (Foreign), plus 50% of the O&M Component (Local) and 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. As per management, availability of the Grid and Plant both is expected in mid-November 2021.

**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 well-timed repayment. Moreover, a working capital funding line will also be arranged if the need arises.

**The assigned rating incorporate elevated leverage indicators going forward 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. Till end Feb'21, equity injection to the tune of $10.8m and debt drawdown of $5.4m has already been undertaken. During the ongoing month, another drawdown worth $3.0m is expected from IFC. Major portion of debt will appear on books following the arrival of key machinery in April-May 2021. 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 internal capital generation and debt repayments.

# Din Energy Limited (DEL)

**Annexure I**

| FINANCIAL SUMMARY | *(amounts in PKR millions)* | | |
|---|---|---|---|
| **BALANCE SHEET** | **FY18** | **FY19** | **FY20** |
| **Paid Up Capital** | 50.0 | 100.0 | 650.0 |
| **Total Equity** | 50.3 | 97.3 | 1,649.3 |
| | | | |
| **INCOME STATEMENT** | | | |
| **Net Sales** | - | - | - |
| **Profit/ (Loss) Before Tax** | 0.3 | (2.5) | (1.5) |
| **Profit/ (Loss) After Tax** | 0.3 | (3.1) | (1.1) |
| | | | |
| **RATIO ANALYSIS** | | | |
| **CFO** | 2.8 | (2.2) | (28.2) |
| **Current Ratio (x)** | 0.36 | 0.82 | 79.62 |
| **Gearing (x)** | - | - | 0.005 |

# 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 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 |
|---|---|---|---|---|
| **1-April-2021** | A- | A-2 | Stable | Reaffirmed |
| **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. |
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**Due Diligence Meetings Conducted**

| | Name | Designation | Date |
|---|---|---|---|
| 1 | Mr. Farhad Shaikh | Director Finance | 11-March-2021 |
| 2 | Mr. Sohail Rana | Chief Project Coordinator | 11-March-2021 |
| 3 | Mr. Asad Hafeez | Project Manager | 11-March-2021 |