RATING REPORT

NASDA Green Energy Limited

REPORT DATE:
December 04, 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	*December 04, 2020*	

COMPANY INFORMATION	
Incorporated in 2015	**External auditors:** EY Ford Rhodes
Public Limited Company	**Chief Executive Officer:** Mr. Shahid Rashid Soorty
Key Shareholders (with stake 5% or more):	
Shahid Rashid Soorty – 90.33% Asad Shahid Soorty- 9%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (May 2019) ***https://www.vis.com.pk/kc-meth.aspx***

NASDA Green Energy Limited (NGEL)

OVERVIEW OF THE INSTITUTION

NASDA Green Energy Limited (NGEL) was incorporated as a private limited company in 2015 The status of NGEL was converted to a public limited company w.e.f 22 October 2020. NGEL 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 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 CEO

Mr. Shahid Rashid Soorty is the CEO of the company. He is also the Managing Director of Soorty Enterprises (Pvt) Limited. He possesses over 30 years of experience in the textile sector.

RATING RATIONALE

Incorporated in 2015, NASDA Green Energy Limited (NGEL or the Company) plans to set up a 50MW wind power plant in Jhimpir, District Thatta, Sindh. The company is currently in construction phase has not commenced its operations. Brief project details are stipulated in the table below:

Dimensions	Details
Plant Name Plate Capacity	50 MW
Wind Turbine	Siemens Gamesa
Annual Generation	168.67 GWh
Net capacity factor	38.51%
Rotor Diameter	114m
Name plate capacity of each turbine	2,000 KW
Approved Levelized Tariff (Rs./Kwh)	5.66
Wake Losses	12.6%
Net Capacity	50 MW

The total cost of the project has been estimated at $63.9m which shall be financed in debt to equity ratio of 80:20 where debt component will comprise an approximate equal (51:49) mix of local and foreign lenders. The financial close for this project has been achieved in November 2019. The targeted commercial operations date is expected in December'21 while construction of the project has commenced in July'20. The project has an ROE of 14%.

The company has signed a twenty five year Energy Purchase Agreement (EPA) with Central Power Purchasing Agency (Guarantee) Limited (CPPA) in November'19. Implementation Agreement (IA) has also been signed in Nov'19 with Alternative Energy Development m Board (AEDB) (on behalf of GOP). Offshore Equipment Supply Contract (ESC) contract has been signed with Hangzhou Huachen Electric Power Control Company Limited (the Offshore Contractor) which primarily relates to procurement and supply of electrical and mechanical equipment outside Pakistan while onshore Construction Contract (CC) was signed with HydroChina International Engineering Company Limited (HIEC or the Onshore Contractor) on October 24, 2019 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

Exposure to wind risk.

Given cost plus tariff awarded to NGEL, the onus of wind risk lies on the power producer. 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. Sound track record and extensive experience of HIEC in renewable energy sector provides comfort to managing operations risk. Annual plant availability for the warranty period is as follows:

Measurement Period	Availability
Availability Guarantee - Start-up Season	95%
Availability Guarantee - 1st Year (rest months)	97%
Average availability of 1st year	96.5%
Availability Guarantee - 2nd Year	97%

Demand risk is mitigated through the presence of long term Energy Purchase Agreement with CPPA, along with a lower tariff consequently improving merit order position of the power producer. The company has procured insurance coverages for the construction period and for the first year of operations.

The company has signed a twenty five year EPA with CPPA. Sales revenue of the Company is dependent on energy purchased by the GoP. NGEL's lower tariff provides benefit in the merit order position consequently mitigating off-take risk. Lower tariff as compared to older wind power producers is a function of lower Engineering Procurement and Construction (EPC) cost, and higher efficiency of new plants having lesser O&M costs. Insurance coverage for the construction period and first year of operations are in place.

Project completion risk is partly mitigated by in-built performance bonds. Timely project completion will remain an important rating driver.

In case either, onshore or offshore 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 NGEPL. The EPC contractor will pay damages of USD 30,500/- per day of delay (both during construction period and equipment supply contract) which will be backed by performance bonds up to 15% of the EPC Contract Price. NGEPL has also obtained performance guarantees from the O&M contractors equivalent to the total value of the O&M contract. Annual plant availability and efficiency benchmarks have been set at 97% and 38.51% respectively. Both O&M and EPC contractors possess extensive experience to set up and operate various wind power projects.

Net annual plant capacity factor	% of prevalent tariff allowed to power producer
Above 38.51% up to 40.51%	5%
Above 40.51% up to 42.51%	10%
Above 42.51% up to 44.51%	20%
Above 44.51% up to 46.51%	40%
Above 46.51% up to 48.51%	80%
Above 48.51%	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. 2.1 trillion mark as at end-Oct'20 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 has formed a Debt Payment Account (DPA) whereby a portion of monthly revenues shall fall for quarterly debt payment. Under DPA, the company has also constituted a Debt Service Reserve Account (DSRA) whereby SBLC equivalent to two quarterly installments has been provided by the sponsors to secure debt 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 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 for renewable power producers while foreign currency portion will be arranged through ICD (Islamic Corporation for the Development of the Private Sector). Repayment tenure of long term foreign and local debt shall be 13 and 10 years, respectively. Till end-October'20, equity to the tune of Rs. 1.2b has been invested while debt amounting Rs. 1.3b has been drawn. The sponsors have arranged an SBLC worth $12.8m to secure equity investment and $7.4m for delays, contingencies, WHT, sales tax and DSRA. Leverage indicators are expected to improve over time owing to debt repayments and internal capital generation.

NASDA Green Energy (Pvt.) Limited (NGEPL) Annexure I

FINANCIAL SUMMARY *(amounts in PKR millions)*		
BALANCE SHEET	**FY19**	**FY20**
Paid Up Capital	0.5	0.5
Total Equity (including loan from director)	33.7	612.4
INCOME STATEMENT		
Net Sales	-	-
Profit/ (Loss) Before Tax	(14.1)	(6.1)
Profit/ (Loss) After Tax	(14.1)	(6.5)
RATIO ANALYSIS		
FFO	(11.9)	(3.1)
Current Ratio (x)	0.03	4.18
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	NASDA Green 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
04-Dec-20	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. Syed Ali Rizwan	Project Head	17-Nov-2020
2	Mr. Umair Anwar Khan	Head of Technical	17-Nov-2020
4	Mr. Waqas Ahmed, ACA	Head of Finance	17-Nov-2020