RATING REPORT

NASDA Green Energy Limited

REPORT DATE:

August 08, 2023

RATING ANALYSTS:

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RATING DETAILS		
Rating Category	**Latest Rating**	**Previous Rating**
Entity	A-/A-2	A-/A-2
Rating Date (Entity)	*August 08, 2023*	*February 08, 2022*
Rating Outlook	Stable	Stable

COMPANY INFORMATION	
Incorporated in 2015	**External auditors:** M/S Grant Thornton Anjum Rahman Chartered Accountants
Public Limited Company (Unquoted)	**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 2023)*** ***https://docs.vis.com.pk/docs/CorporateMethodology.pdf*** ***Rating Scale & Definitions*** ***https://docs.vis.com.pk/docs/VISRatingScales.pdf***

NASDA Green Energy Limited (NGEL)

OVERVIEW OF THE INSTITUTION

NGEL Green Energy Limited (NGEL) was incorporated as a private limited company in 2015. The status of NGEL was converted to a public unlisted company on 22 October 2020. Main object of the company is to carry on business of generation and sale of power using wind energy. Registered office of the company is located in Karachi.

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

NASDA Green Energy Limited ('NGEL' or 'the company') was incorporated as a private limited company in 2015 and converted to a public limited company in 2020. The principal activity of the company is to build, operate and maintain a wind power generating project of 50 MW for generation and supply of electric power thereof. The wind farm is located at Jhimpir, District Thatta, Sindh, Pakistan. The complex started commercial operations on May 2, 2022.

Key Rating Drivers

Project Details: The wind farm comprises 25 Wind Turbine Generators (WTGs) of Siemens Gamesa, with a nameplate capacity of 2MW of each turbine and expected annual generation of 168.67 GWh. The wind power farm is located in Jhimpir wind corridor, providing power supply to the National Grid. The company achieved financial close dated November 18, 2019.

Dimensions	Details
Wind Turbine	Gamesa/G114 2.0 MW
Net annual capacity factor	38.51%
Rotor Diameter	114m
Hub height	93m
Name plate capacity of each turbine	2,000 KW
Approved Levelized Tariff (Rs. /KWh)	5.66
Wake Losses	12.6%
Net Capacity	47.9 MW

The project was awarded generation license by NEPRA on August 03, 2017 and later modified on the request of NGEL on August 13, 2020. The company signed a 25-year Energy Purchase Agreement (EPA) with the Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) on November 11, 2019 while the Implementation Agreement (IA) with Alternative Energy Development Board (AEDB) was signed on November 12, 2019. The levelized tariff was set to US Cents 4.7190/KWh. ROE (return on equity) component of 14% was allowed to the project company.

Import of the project machinery and tools was completed in March 2022 and after finishing construction in under three months, the Commercial Operations Date (COD) was achieved on May 02, 2022 after Covid-related delays of about 15 months while no party was held liable for payment of any liquidated damages. Total cost outlay for the project completion amounted to USD 70.35m.

EPC and O&M contracts: The equipment supply contract was signed with Power Construction Company of China Limited on October 24, 2019 which included procurement and supply of wind turbine generators (WTGs), electrical and mechanical equipment outside Pakistan whereas the onshore construction contract was signed with Hydrochina International Engineering Company Limited (HIECL) which included civil works, erection, commission, testing etc. The Company has signed a 2-year operations and maintenance contract with HydroChina International Engineering Company Limited Pakistan (HIEC), as per the initial agreements. Long-term operations and maintenance agreement has been signed with Siemens Gamesa Renewable Energy (Private) Limited and Orient Energy Services (Private) Limited (OES). Pre-COD sale of energy was allowed to NGEL as per the EPA excluding principal repayment of debt component and interest component.

Revenues and profitability: Revenues are calculated on the basis of net energy delivered (NED), multiplied with the reference tariff already approved by NEPRA on quarterly revision. The company filed for determination of true up tariff in April 2023 and expects it to be concluded in a year time.

After NEPRA's approval of the company's actual tariff, electricity sale price will be adjusted retrospectively from the day the company started to deliver energy to the national grid. Post commencement of operations till the close of financial year, the company delivered 52,309.43 MWh of energy while net revenues emanating from it amounted to Rs. 402.7m. NED during 9MFY23 was reported at 90,672.4 MWh with net revenues clocked at Rs. 714.7m. Average wind speed during this period was reported at 6.8m/sec (Pakistan's wind corridors have average wind speeds between 7.9 – 9.1 meters per second). The project achieved annualized net capacity factor of 37.90% against the targeted capacity factor of 38.51% mainly owing to curtailments faced by WPPs (wind power producers) caused by capacity constraints in national grid amidst cheaper alternative nuclear and coal projects coming online and the requirement to maintain base load.

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%

Cost of sales was recorded higher at Rs. 620.5m (FY22: Rs. 125.5m; FY21: nil) while increase was largely manifested in depreciation charges and O&M expenses in 9MFY23. The company was unable to sustain adequate margins owing to massive local currency depreciation while the reference tariff is based on Rs. 120/USD. Finance cost incurred amounted to Rs. 517.7m (FY22: Rs. 87.0m). The company earned profit on bank savings of Rs. 28.2m (FY22: Rs. 23.0m, FY21: Rs. 1.5m) during 9MFY23. Resultantly, the company incurred a loss of Rs. 410.4m in 9MFY23 vis-à-vis profit of Rs. 214.0m in FY22. Profitability profile is expected to improve going forward, given the management expects to receive interim relief from NEPRA till the determination of COD tariff as witnessed in case of other WPPs who have filed true-up tariff application.

Liquidity profile: The liquidity profile is supported by timely recovery of receivables from CPPA. As per management, the company generally receives around 98% of the outstanding amount within 30-45 days of invoicing. However, the company may require short-term lines to meet its working capital requirements given the invoices are drawn on basis reference tariff, which are quite lower than the actual cost of generation. Trade receivables amounted to Rs. 177.7m (FY22: Rs. 475.7m) at end-Mar'23. The trade debts are secured by a guarantee from the GoP under the IA. The overdue receivables are subject to interest on delayed payments at the rate of KIBOR plus 2% in accordance EPA. The receivables from CPPA are due on or before thirty days following the date of receipts of invoices by CPPA-G. Cash and bank balances stood at Rs. 797.3m (FY22: Rs. 1.1b; FY21: Rs. 41.1m) at end-Mar'23. The sponsors have also provided interest free loan amounting to Rs. 396.0m (FY22: Rs. 396.0m; FY21: Rs. 126.0m) on account of sales tax amount as per sponsors support agreement (SSA) to finance duties and taxes paid on import stage. This amount will be adjusted with sales tax refundable and the receipts related to sales tax on energy sales. Trade and other payables largely comprised amount payable to contractors. Funds from operations remained under stress owing to sizable losses. Debt service coverage ratio was reported less than one. However, the company has maintained a standby letter of credit (SBLC) equal to aggregate of principal and financing costs (for two outstanding installments) as per financing agreements for the entire term of the facilities.

Capitalization profile: The project was financed through debt to equity mix of 80:20. Debt component comprised an approximately equal (51:49) mix of local and foreign lenders. The local debt portion is financed by Meezan Bank Limited (MBL) while the Islamic Corporation for the Development of the Private Sector (ICD) acts as the foreign lender. Local financing was obtained under subsidized refinance facility of SBP for renewable projects, priced at 4.75% per annum and repayable in 40 equal quarterly installments commenced from Jun'22. Foreign financing carries markup at the rate of 3M LIBOR plus 4.25% per annum and repayable in 52 equal quarterly repayments, commenced from July'22. Total long-term loan stood lower at Rs. 8.86b (FY22: Rs. 8.70b; FY21: Rs.

1.02b) as of Mar'23. The company had paid first principal repayment to the tune of Rs. 112.9m in Jun'22 and subsequent scheduled repayments amounting Rs. 546.7m in 9MFY23.

The company's core equity decreased to Rs. 1.87b (FY22: Rs. 2.28b; FY21: Rs. 1.17b) due to losses in 9M'FY23. Resultantly, debt leverage and gearing rose to 5.67x (FY22: 4.92x, FY21: 2.02x) and 3.90x (FY22: 3.51x, FY21: 0.87x), respectively. Going forward, leverage indicators are expected to improve steadily on account of repayments of long-term loans and growth in equity base backed by enhanced internal capital generation.

ESG (Environmental, Social and Corporate Governance) Framework: NGEL measures and actions are based on the risks and impacts identified as part of the assessments as well as based on the conditions laid down by the Sindh Environmental Protection Agency (SEPA) in its No Objective Certificate (NOC) conditions, ISO 14001 and IFC requirements for wind energy projects. With respect to ESG, some of the key initiatives taken by NGEL include, environment impact assessment, environment management system, preserving the ecosystem and waste management.

NGEL Operational Phase Environment and Social Management Plan (ESMP) includes Environmental and Occupational Health & Safety and Social Impacts and their Management and related plans. The wastewater produced by the complex is disposed off by a local contractor and is not recycled/treated. Depending upon the nature of job requirements, NGEL and its O&M Operator provides trainings to its employees. The company's total staff strength stands at 12 employees. Most of the staff is permanently stationed at the plant site. Given the plant site is located in a very remote location with very challenging working environment, it is not management's preference to have female employees. NGEL, in collaboration with Independent Monitoring Consultant (IMC), have incorporated annual training plan that covers environmental and occupational health & safety standards. The complex will be migrated to ORACLE business suite, being implemented in FY24 for solidifying ESG measures and actions.

NASDA Green Energy Limited (NGEL) Annexure I

FINANCIAL SUMMARY				(amounts in PKR millions)
BALANCE SHEET	**FY20**	**FY21**	**FY22**	**9MFY23**
Plant and equipment	348.1	3,375.9	11,732.4	11,378.7
Trade and other receivable	0.5	0.1	475.7	177.7
Sales tax refundable	40.0	128.8	215.7	134.2
Cash and bank balances	215.7	41.1	1,108.4	797.3
Income tax refundable	0	0	2.9	7.6
Other Assets	92.4	1.5	2.6	3.3
Total Assets	**696.7**	**3,547.4**	**13,537.7**	**12,498.8**
Due to Director	40.0	126.0	396.0	396.0
Employee retirement benefits	1.0	3.2	4.3	4.0
Long Term Loan (including lease liabilities and current maturity)	0	1135.2	9,408.7	8,862.0
Accrued and other liabilities	83.3	1,110.2	1,443.6	1,362.3
Total Liabilities	**124.4**	**2374.6**	**11,252.7**	**10,624.3**
Paid-Up Capital	0.5	0.5	0.5	0.5
Share Deposit Money	607.3	1,217.3	2,115.3	2,115.3
Net Equity	**572.4**	**1,173.0**	**2,285.0**	**1,874.6**
INCOME STATEMENT	**FY20**	**FY21**	**FY22**	**9MFY23**
Net Sales	0	0	402.7	714.7
Gross Profit	0	0	277.2	94.2
Finance Cost	0	(0.1)	87.0	517.6
Profit/(Loss) Before Tax	(6.1)	(9.3)	213.9	(410.4)
Profit After Tax	**(6.5)**	**(9.4)**	**213.9**	**(410.4)**
RATIO ANALYSIS	**FY20**	**FY21**	**FY22**	**9MFY23**
Gross Margin (%)	n.m.	n.m.	68.84%	13.18%
Net Margin (%)	n.m.	n.m.	53.13%	n.m.
ROAA (%)	n.m.	n.m.	2.50%	n.m.
ROAE (%)	n.m.	n.m.	12.37%	n.m.
FFO (Funding from operations)	1.6	(6.6)	265.8	(56.5)
FFO/Long-term Debt (x)	n.m.	n.m.	0.03	n.m.
FFO/Total Debt (x)	n.m.	n.m.	0.02	n.m.
Gearing (x)	0.00	0.87	4.12	4.73
Debt Leverage (x)	0.22	2.02	4.92	5.67
Current Ratio (x)	0.03	2.82	0.71	0.49
DSCR (Debt service coverage ratio) (x)	n.m.	n.m.	1.76	0.43

REGULATORY DISCLOSURES						Annexure II
Name of Rated Entity	NASDA Green 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**	
	08-Aug-23	A-	A-2	Stable	Reaffirmed	
	08-Feb-22	A-	A-2	Stable	Reaffirmed	
	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	18-Jul-2023		