RATING REPORT

NASDA Green Energy Limited

REPORT DATE
October 10, 2024
RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long Term	Short Term
Entity	A-	A-2	A-	A-2
Rating Date	*October 10, 2024*		*August 08, 2023*	
Rating Outlook/ Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION

Incorporated in 2015	**External auditors:** BDO Ebrahim & Co. Chartered Accountants
Public Unlisted Company	**Chief Executive Officer (CEO):** Mr. Shahid Rashid Soorty
Key Shareholders (with stake 5% or more):	
Mr. Shahid Rashid Soorty ~ 90.3% *Mr. Asad Shahid Soorty ~ 9.0%*	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Corporates:
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

NASDA Green Energy Limited

OVERVIEW OF THE INSTITUTION	RATNG RATIONALE

NASDA Green Energy Limited *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.*

Company Profile:

NASDA Green Energy Limited ('NGEL' or 'the Company') was incorporated in Pakistan on June 11, 2015, as a private limited company. On October 20, 2022, the Company was converted into a public unlisted company. The main object of the Company is to carry on business of generation and sale of power using wind energy. The registered office of the Company is located at 26-A, S.M.C.H.S, Off Shahrah-e-Faisal, Karachi. The principal place of business of the Company is located at Jhimpir District Thatta, Sindh, Pakistan.

Overview of Operations and Maintenance (O&M) Contract and Availability Guarantees for FY23 and FY24

The O&M contract includes provisions for ensuring the availability of the wind power facility, with specific availability guarantees in place for both FY23 and FY24. As per the new long-term O&M contract, the operators—Siemens Gamesa Renewable Energy (Operator A) and Orient Energy Systems (Operator B)—are responsible for maintaining the wind turbine generators (WTGs) and the balance of plant (BOP), respectively. The availability factors, as outlined in the contract, are critical for operational efficiency, with any deviations leading to liquidated damages (LDs) as per the availability guarantees. These LDs are calculated based on the unavailability of the equipment and capped at an amount equivalent to the contract price for each year. If the facility operates below the guaranteed availability, the operators are required to compensate the employer for the shortfall.

Operational Performance:

Capacity and Utilization	FY22	FY23	FY24
Plant Capacity (KWH)	438,000,000	438,000,000	438,000,000
Actual Production (KWH)	57,514,680	148,170,802	118,511,331
Capacity Utilization (%)	13.1%	33.8%	27.0%

The business operations of the Company started in May 2022 reflected through its lower capacity utilization in FY22. Production improved in FY23 due to full year operation of the wind turbine. However, FY24 saw a decline due to the curtailment.

Key Rating Drivers:

Business Risk Profile

VIS categorizes the business risk profile of the renewable energy sector as medium-to-low. The overall power demand is closely driven by population growth, urbanization rate, lifestyle preferences, and industrial activity. While weakening in macroeconomic conditions and increasing tariff prices over the rating review period have impacted industrial activity, household demand is expected to remain stable given the inelastic nature of individual power consumption and the rising population.

Moreover, government support for the renewable energy sector is present to reduce reliance on costly thermal energy. The Alternative Renewable Energy (ARE) Policy 2019 aims for 30% of total generation capacity to come from renewable sources (excluding hydel power) by 2030, while the Integrated Generation Capacity and Expansion Plan 2022 (IGCEP) targets increasing the share of renewable energy (including hydel power) from 33% to 62% by 2031. Nonetheless, the industry faces significant barriers to entry due to uncertain political and macroeconomic conditions, price regulated operating environment and significant capital investment required.

Energy Purchase Agreement (EPA)

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.

Sales improved on account of higher NPMV and DPI on receivables of CPPA while profitability impacted by finance cost burden

The Company's revenue structure is composed of energy sales, non-project missed volume (NPMV), and delayed payment interest (DPI) on the receivables of Central Power Purchasing Agency (CPPA). In FY24, NGEL's revenue increased by 27.3%, primarily driven by a 439.3% rise in NPMV and a 560.9% growth in DPI. During the same period, NGEL's gross margin improved to 59.9% (FY23: 55.7%) in FY24. Despite the gains at the gross and operating profit levels, NGEL's net profit declined by 12.1% in FY24 due to a 22.6% increase in finance costs. Consequently, the net margin fell to 22.7% (FY23: 25.8%) in FY24.

Going forward, the Company's profitability is expected to benefit from favorable adjustments stemming from exchange rate gains, contingent on the approval of revised tariffs by NEPRA.

Strengthening in coverage profile due to improvement in profitability

The Company reported an improvement in its debt servicing profile, with its Debt Service Coverage Ratio (DSCR) increasing to 1.1x (FY23: 0.6x) in FY24. This change was driven by a 14.0% rise in funds from operations (FFO) at NGEL, largely due to enhanced operational performance during the period.

Improvement in the capitalization profile with increase in the equity base

NGEL's capitalization metrics improved in FY24, as reflected by reductions in the gearing and leverage ratios to 2.9x (FY23: 4.1x) and 3.0x (FY23: 4.8x), respectively. The improvement is mostly attributed to an increase in the equity base and the settlement of short-term debt utilized in the previous year. The remaining short-term debt pertains to the "Due to Director", which is payable on demand. Approximately 96% of NGEL's debt profile consists of long-term debt.

Liquidity profile constrained by high current portion of long-term debt. Expected to normalize on a timeline basis as cashflow continues to materialize going forward.

The Company's liquidity position remained constrained in FY24, as reflected by a current ratio of 0.6x (FY23: 0.7x). The liquidity profile is affected by the elevated current portion of long-term debt, resulting in higher current liabilities relative to available current assets. The liquidity position is expected to improve in subsequent periods as operating cash flows from guaranteed offtake would materialize, thereby addressing the current asset-liability mismatch.

NASDA Green Energy Limited Appendix I

REGULATORY DISCLOSURES

Name of Rated Entity	NASDA Green Energy Limited
Sector	Power
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Rating Watch	Rating Action
RATING TYPE: ENTITY				
10/10/24	**A-**	**A-2**	**Stable**	**Reaffirmed**
08/08/23	A-	A-2	Stable	Reaffirmed
08/02/22	A-	A-2	Stable	Reaffirmed
04/12/20	A-	A-2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Waqas Ahmed	Head of Finance	20th September, 2024