RATING REPORT

Indus Wind Energy Limited

REPORT DATE:

May 16, 2022

RATING ANALYSTS:

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RATING DETAILS		
Rating Category	**Latest Rating**	**Previous Rating**
Entity	**A/A-2**	**A-/A-2**
Rating Date (Entity)	*May 16, 2022*	*March 19, 2021*
Rating Outlook	Stable	Stable

COMPANY INFORMATION	
Incorporated in 2015	**External auditors:** Yousuf Adil, Chartered Accountants
Public Limited (Unlisted) Company	**Chairman:** Mian Naveed Ahmad **CEO:** Mian Shahzad Ahmed
Key Shareholders (with stake 5% or more): Indus Dyeing & Manufacturing Company Limited (the Parent Company) --- 99.99%	

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

Indus Wind Energy Limited

OVERVIEW OF THE INSTITUTION

IWEL was incorporated as a Public Limited Company on February 4, 2015 under the repealed Companies Ordinance, 1984 (now Companies Act, 2017). The windfarm is located in Deh Kohistan, 7/3 & 7/4 Tapo Jungshahi Taluka & District Thatta. The registered office of the company is located at Office # 508, Beaumont Plaza, Beaumont Road, Civil Lines Quarters, Karachi.

Profile of Chairman

Mian Naveed Ahmad has done B.Sc Accounts from North Carolina State University, Raleigh, NC, USA. He has been associated with the Indus group for more than two decades.

Profile of CEO

Mian Shahzad Ahmed is also CEO of Indus Dyeing & Manufacturing Company Limited. He has done BBA Marketing from Syracuse University, New York, USA. He has around 30 years of experience of actively managing and monitoring the parent company.

RATING RATIONALE

Indus Wind Energy Limited (IWEL) is a 50 MW wind power project and is virtually a wholly owned subsidiary of Indus Dyeing & Manufacturing Company Limited. The ratings incorporate association of the project company with 'Indus Group' which comprises of one cotton ginning factory, four yarn spinning mills and one of the largest terry towel factories in Pakistan. The assigned ratings take into account low business risk profile of the company underpinned by inking of 25-year long Energy Purchase Agreement (EPA) with 'take or pay' provision with the Central Power Purchasing Agency (Guarantee) Limited (CPPA-G). Presence of long-term EPA with guaranteed capacity payments mitigates off-take risk as obligations of CPPA-G are backed by sovereign guarantee. The company is susceptible to wind risk; however, extensive wind study reflects very low potential risk to the operations. Further, given the energy generation of the company is from a low-cost renewable source, wind, it is expected to remain high on the electricity dispatch merit order. The long-term rating upgrade is underpinned by elimination of construction risk as the project achieved commercial operations on 25th March,2022.

The company signed an Implementation Agreement with the Government of Pakistan (GoP), represented through the Alternative Energy Development Board (AEDB) on November 12, 2019. The company was allocated land of 428 acres by the Government of Sindh in Jhimpir, Thatta through a lease agreement in May 2017 and Generation License was granted in August 2017 by the National Electric Power Regulatory Authority (NEPRA). The project cost is estimated at around USD 65m, which will be financed through debt to equity mix of 80:20, where debt comprises of an equal (50:50) mix of local and foreign lenders. IWEL has been able to secure local borrowing through SBP concessionary Refinancing scheme launched for development of wind power projects. The company has been awarded a cost-plus levelized tariff of Rs. 5.75/kWh (US Cents 4.79/kWh). Financial Close was achieved on November 18, 2019 while construction was started on July 24, 2020.

EPC contracts have been signed with Hydrochina International Engineering Company Limited (HIECL) as onshore construction contractor and with Hangzhou Huachen Electrical Power Control Co. Limited (HHEPCCL) as offshore supplier. HIECL is a subsidiary of 'Powerchina', one of the biggest construction group in the power sector with engagement in over 100 countries. HIECL is also the O&M contractor for the initial two years of warranty period while General Electric International Inc. (GE) is the long-term O&M contractor. The company has adequate insurance coverages for cargo, operations, erection, liability, third party and terrorism.

Key Rating Drivers

EPA signed with CPPA-G with 'take or pay' provision; COD achieved during the rating review period: EPA was signed for 25 years starting from achievement of the COD. As per the agreement, the targeted maximum construction period was 15 months after the financial close. The company started construction eight months after the financial close, in July, 2020, as the government scheduled the availability of grid by end-Dec'21. After grid availability, the company had 45 days for energization of the project. Owing to Covid-19 related disruptions the grid was made available to the company in Jan'22 post which IWEL completed the remaining construction related work within the stipulated timeframe that was 45 days. Test run of the project began in Feb'22 while the commercial operations (COD) was achieved on 25th March, 2022. In addition, first billing was carried out in the second week of April'22. As per the agreement, IWEL will sell and deliver and CPPA-G will purchase and accept all Net Energy Delivered (NED) generated by the complex and delivered at the interconnection point. IWEL cannot sell or deliver the electrical output of the complex to any entity other than CPPA-G. on the other hand, the purchaser is liable to pay the energy payment to the seller, monthly in arrears. The purchase agreement entailed the provision of 'take or pay' where IWEL will be paid non-project missed volume payments (NPMV) in case CPPA-G purchase less than the contract capacity during off-peak season.

As per the EPA, the company will be responsible for the availability of the complex for generation and delivery of NED and the provision of ancillary services throughout the term.

The company will be responsible, at any time that the speed of the wind is within the cut-in wind speed and cut-out wind speed for the generation and delivery of NED, except when the generation and delivery of power is hampered partially or completely on account of a force majeure event, scheduled maintenance outage, forced outage, partial forced outage or non-project event (which will be included in NPMV). However, if the complex is partially or completely unavailable solely due to the company, it will not be taken as non-project event.

Engineering, Procurement and Construction Contract (EPC): The company inked an onshore Construction Contract with Hydrochina International Engineering Company Limited (HIECL) and offshore Equipment Supply Contract with Hangzhou Huachen Electrical Power Control Co. Limited (HHEPCCL) on July 4, 2019. As per terms of agreement, the contractor was bound to complete the entire work within the stipulated time, including achieving the passing of completion tests. In addition, the Contractor will ensure the achievement of the Taking-Over Date on or prior to agreed date. However, among other reasons and a force majeure event, the Contractor was entitled to extension of completion time in case the delay is directly linked to material failure of IWEL to fulfil its obligations under the EPC contract, or if the Contractor is unable to erect WTG or erect tower on a scheduled day due to wind speeds exceeding specific limit as measured by Anemometry System, on any day for a continuous period of six hours, for which the Contractor will be provided an extension of one-half day. Owing to supply chain disruptions arising amid pandemic crisis, EPC contractor has demanded payment of incremental expenses pertaining to increase in freight charges and high standard operating procedures costs from IWEL; the amounts in this regard have not yet been finalized as negotiations are being carried out with the ECP contractor.

In case the contractor failed to complete the project in time including any extension or force majeure, the contractor would have had to pay liquidity damages (LDs) of USD 28,000 for each day, which would elapse between the completion time and COD. However, given the COD was achieved during the specified timeframe no risk of LDs pertaining to completion stand.

The Contractor guarantees that the project will conform to and be in accordance with the performance guarantees. In case of failure to do so, the Contractor will have to pay LDs to the company. These LDs are cumulative and are for each performance guarantee/s and the invoiced amounts will be payable by the Contractor within twenty days of the delivery of such invoice. IWEL will issue Taking Over certificate within twenty-eight days after receiving the Contractor's application, except for any specified reasons. On the other hand, the total amount due under all LDs will not exceed 10% of the Contract price.

Project Details: The project comprises of 25 Wind Turbine Generators (WTGs) of General Electric Inc.(GE), Model GE116-2.0, with the nameplate capacity of 2MW of each turbine, having total net capacity of 50 MW and expected annual generation of 166,440,000 kWh. The project company has also acquired GE Power & Water wind plant Supervisory Control and Data Acquisition (SCADA) system. Furthermore, a dedicated remote data connection to a wind farm network will be deployed for the GE's Customer Support Center (CSC) to monitor and perform remote operations; the company is responsible for the availability and reliability of the remote connection. Brief project details are presented in the table below:

Nameplate Capacity	50 MW
Wind Turbines	General Electric
Model	GE116-2.0
Plant Capacity Factor	38%
Hub Height	94m
Rotor Diameter	116m
Power Regulation	Combination of blade pitch angle adjustment and generator/convertor control torque.

Liquidated Damages by CPPA-G on delay of COD: The management has accounted for cost overrun of USD 0.898m in financial model to incorporate any delay due to timing difference in grid availability and project testing. Moreover, if IWEL is in breach of achieving its COD (unless such breach is linked to breach or default by CPPA-G, or by GoP under the

Implementation Agreement, breach or default by provincial government under the site lease, a non-project event or force majeure event) then for each month (prorated daily) thereafter until COD is actually achieved, the seller shall pay the LDs of an amount equal to USD 2.5 per kW of the contract capacity. No LDs were imposed on IWEL by CPPA-G in reference to delay in COD as the delay was on account of non-availability of the grid that the purchaser had to provide. Late payment by either party of amounts due and payable under EPA, except for interest charge shall bear interest at rate per annum equal to KIBOR as of due date *plus* 2% per annum, prorated daily. Further, given IWEL has a maintenance agreement with EPC contractor that provides annual maintenance and necessary overhauls, the company does not require to maintain any reserve fund on or before COD for payment of expenses.

Liquidated Damages by CPPA-G on account of reduction in contract capacity: As outlined in EPA the seller may reduce the contract capacity before COD maximum by 10% of the specified contract capacity (i.e. 38%) when necessitated by unforeseen circumstances. However, if the reduction in contract capacity is greater than 5% and less than or equal to 10% of the contract capacity, IWEL has to pay CPPA-G in immediately available funds within five business days after the notice to reduce the contract capacity, as liquidated damages, an amount equal to USD 350,000 multiplied by number of MW of the reduction in contract capacity. However, the contract capacity remained unchanged at COD, therefore no LDs are applicable.

Construction of the interconnection facilities: If CPPA-G had not completed its interconnection works fifteen days after the required date and it causes delays in commissioning of the complex as certified by the engineer, CPPA-G would have had to pay IWEL monthly in arrears, an amount equal to carrying costs plus fifty percent of the local O&M component, fifty percent of the foreign O&M component and fifty percent of the insurance component multiplied by the average daily energy for the number of days of such delay. However, payment of such amounts by CPPA-G and extension of COD was subject to issuance of certificate of readiness for energization of interconnection facilities and a simultaneous certificate of the delay in commissioning tests caused by the CPPA-G. IWEL had to provide the certificate of readiness of energization by end-Dec'21; failure to do so for each month prorated daily thereafter, until the provision of such certificate, the company was supposed to pay liquidated damages of USD 1 per kW of the contract capacity per month, prorated daily. Nevertheless, given the interconnection facilities were constructed on time and the certificate of readiness of energization was provided on 20th Dec, 2021, no LDs were lodged against the company during the review period.

Operations & Maintenance (O&M): HIECL is also the O&M contractor for the initial warranty period of 2 years after COD while the company has entered into long-term O&M contract with GE for the 11 years starting after the completion of 2 years' warranty period. As per EPA, O&M cost is USD 23,000 per MW per year while EPC cost of USD 58.1m was approved. Further, return on equity (ROE) of 14% was allowed initially but the actual ROE is expected to come down to 11% due to cost overruns. The EPC cost will be adjusted at actual on achieving commercial operations considering the approved amount as maximum limit. Applicable foreign portion of the EPC cost will be adjusted at COD on account of variation in PKR/USD parity. IDC will be recomputed at COD on the actual timing of debt drawdowns for the project construction period. Further, adjustments of O&M, insurance, ROE after COD, ROE during construction, loan repayment, and interest charges will be made on quarterly basis based on the latest available information.

Project financing comprised debt to equity mix of 80:20 with equal local and foreign financing: The approved financing structure has debt to equity ratio of 80:20. NEPRA determined total project cost of USD 64.1m and tariff on the basis of 100% SBP financing at markup rate of 6%. However, the company was able to secure 50% foreign financing from the British International Investment (formerly CDC Group UK) and 50% local financing through SBP concessionary refinancing facility at base rate of 3% plus a margin of 1.75%. Due to foreign component of financing charged at LIBOR plus margin of 4.25% with a tenor of 13 years along with some additional buffer created for cost escalation, lenders estimated the project cost to increase to USD 68.5m. Meanwhile, as per agreement, savings in the approved spreads would be shared between the power purchaser and the seller in the ratio of 60:40. The company has to maintain a minimum FSCR equals to aggregate of principal and financing costs during 6 months period (including two payments) as per agreement. A snapshot of project costs and financing mix is given below:

(USD million)	NEPRA Approved	Lender's Estimated
Offshore EPC	46.000	46.987
Onshore EPC	12.098	12.098
Total EPC	58.098	59.085
Project Development Cost	2.500	2.500
Insurance during construction	0.290	0.290
Financing Fee & Charges	1.218	1.758
Interest During Construction (IDC)	1.966	4.840
Total	64.072	68.473
Project Financing-Debt: Equity 80:20		
Equity	12.814	13.800
Total Debt	51.258	55.200
Local Financing (Syndicate-HBL Lead Bank)	51.258	27.600
Foreign Financing	-	27.600
SBP Financing—Base Rate	2.0%	3.0%
SBP Financing Margin	4.0%	1.75%
Foreign Financing-- Base Rate	-	0.25%
Foreign Financing Margin	-	4.25%
Tenor:		
Local SBP	10	10
Foreign	-	13

The sponsors injected equity in full amounting to USD 13.8m (Rs. 2.26b—weighted average exchange rate of PKR163.79/USD) on 29th July, 2020. Meanwhile, the entire debt component has also been availed; local facility loan amounting to Rs. 4.2b and foreign facility amounting to USD 26.0m were procured by end-Mar'22. In addition, the first repayment of local and foreign debts amounting to Rs. 103.9m and USD 356,000 respectively was supposed to be serviced at end-June'22; however, in line with delay in COD the lenders have approved, in principle, three-month extension of both payments till end-Sep'22. Given that now the project has achieved COD and sale of electricity has initiated, the company is comfortably placed to meet the obligation falling due in Sep'22. Moreover, the projected FFO for FY23 and FY24 is reported at $5.4m and $ 10.3m respectively, therefore IWEL is expected not to face any liquidity stress during the rating review period. On the other hand, as the second line of defense, if by any case the company is unable to arrange the funds, running finance facility amounting to Rs. 1.0b is available against lien on receivables from a local commercial bank.

NEPRA issued tariff determination for IWEL on November 18, 2018. The cost-plus levelized tariff for the concession period is 5.7517 Rs. /kWh or 4.7931 US Cents/kWh. The reference tariff was determined on basis of interest cost of 6% with ten-year repayment period and reference exchange rate of Rs. 120/USD. While the tariff has been determined on debt-to-equity ratio of 80:20, the same will be adjusted on actual debt to equity mix at the time of COD, subject to equity share of no more than 20%. Moreover, as the forex estimation for upfront tariff does not present an accurate picture of current rupee value; therefore, the forex and inflation cost will be adjusted in true up tariff. Given the project has achieved COD, the company is now gathering data and the same will be presented to NEPRA for calculation of true-up tariff; as per the management the procedure will be completed by this year-end. The Pre-COD sale of electricity was allowed to the project company, subject to terms defined in EPA at the applicable tariff excluding principal repayment of debt and interest components. However, pre-COD sale will not change the required COD in any manner. Breakup of tariff components is given as follows:

Tariff Component	Year 1-10	Year 11-25
O & M Cost	0.8291	0.8291

Insurance during construction (0.5% of EPC cost)	0.1675	0.1675
ROE	1.4100	1.4100
Debt Servicing	4.9413	-
Total	**7.3480**	**2.4067**
Levelized Tariff (PKR/kWh)	**5.7517**	
Levelized Tariff (US Cents/kWh)	**4.7931**	

The reference tariff will be limited to the extent of net annual generation supplied to CPPA-G up to 38% net annual plant capacity factor; excess of this will be charged at the following tariffs:

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%

Key take-outs from latest financial available: The property, plant & equipment increased exponentially to Rs. 9.4b (FY21: Rs. 7.5b; FY20: Rs. 324.7m) by end-HY22; the same represents project related expenditures incurred by the company at the 50 MW wind farm project. Further, loan and other receivables also increased to Rs. 292.5m (FY21: Rs. 238.1m; FY20: Rs. 44.6m) at end-HY22 in line with higher sales tax refundable. The long-term funding has increased on a timeline basis in line with incremental drawdowns during the review period. In addition, the company has procured loan from parent company amounting to Rs. 209.2m; the loan is interest free and repayable on demand. Moreover, IWEL reported profit of Rs. 26.2m during HY22 as opposed to negative bottom line in the preceding periods on account of sizable other income of Rs. 56.2m booked on savings deposits.

Indus Wind Energy Limited **Annexure I**

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**HY22**
Property, Plant & Equipment	13.0	324.7	7,521.0	9,440.2
Right of Use Assets	-	39.0	35.3	33.4
Loans and Other Receivables	3.0	44.6	238.1	292.5
Bank Balance	0.3	10.0	584.3	507.4
Other Assets	22.0	15.8	15.9	3.7
Total Assets	**38.3**	**434.0**	**8,3941.6**	**10,227.0**
Trade & other Payables	-	18.5	60.0	54.9
Long-Term Loan	-	-	5,248.2	7,068.3
Lease Liabilities including current portion	-	31.4	31.4	29.5
Loan from parent Company	-	28.3	157.4	209.2
Deferred Income	-	-	745.3	745.3
Other Liabilities	2.0	21.5	59.3	53.8
Total Liabilities	**2.0**	**81.1**	**6,301.7**	**8,161.0**
Paid-Up Capital	40.0	460.0	2,260.3	2,260.3
Total/Tier-1 Equity	36.3	352.8	2,089.9	2,116.6
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**HY22**
Profit/(Loss) Before Tax	(15.9)	(43.1)	(63.0)	26.2
Profit After Tax	(16.2)	(43.4)	(63.1)	26.2
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**HY22**
Gross Margin (%)	-	-	-	-
Net Margin (%)	-	-	-	-
ROAA (%)	-	-	-	-
ROAE (%)	-	-	-	-
Gearing (x)	-	0.17	2.69	3.45
Debt Leverage (x)	0.05	0.23	3.02	3.86
Current Ratio (x)	25.3	1.4	2.55	0.97

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix 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	Appendix III
Name of Rated Entity	Indus Wind Energy Limited
Sector	Power
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
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.
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2022 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.
Due Diligence Meetings Conducted	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
05/16/2022	A	A-2	Stable	Reaffirmed
03/19/2021	A-	A-2	Stable	Initial

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Saleem Bandukda	Chief Operating Officer	11th Apr, 2022
3	Mr. Hassaan Ahmad Chishti	Manager Finance & Integrity Control	11th Apr, 2022