RATING REPORT

Indus Wind Energy Limited

REPORT DATE:
August 07, 2023

RATING DETAILS		
Rating Category	**Latest Rating**	**Previous Rating**
Entity	**A/A-2**	**A/A-2**
Rating Date	*August 07, 2023*	*May 16, 2022*
Rating Outlook	Stable	Stable

RATING ANALYSTS:

Husnain Ali
husnain.ali@vis.com.pk

Tayyaba Ijaz, CFA
tayyaba.ijaz@vis.com.pk

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 2023)*** ***https://docs.vis.com.pk/docs/CorporateMethodology.pdf*** ***Rating Scale & Definitions*** ***https://docs.vis.com.pk/docs/VISRatingScales.pdf***

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IWEL was incorporated as a Public Limited Company on February 4, 2015 under the repealed Companies Ordinance, 1984 (now Companies Act, 2017).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 located at Deh Kohistan, District Thatta, and is 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). The project achieved commercial operations on 25th March,2022. Presence of long-term EPA with guaranteed capacity payments mitigates off-take risk. The wind farm is susceptible to wind risk; however, extensive wind study reflects limited potential risk to the operations.

Key Rating Drivers

Project Details: The project comprises of 25 WTGs of General Electric Inc. (GE), with the nameplate capacity of 2MW of each turbine, having total net capacity of 50 MW and, under the EPA, 38% benchmark annual generation of 166,440 MWh. 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 has been 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.

The company signed an Implementation Agreement (IA) 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 was estimated in the Tariff determination dated 19th November 2018 by NEPRA with cost outlay of USD 64.07m, financed through debt to equity mix of 80:20, with 100% local debt (debt mix to be actualized at COD true-up tariff). Subsequently, IWEL was able to secure 50% of total debt as local borrowing through SBP concessionary refinancing scheme launched for development of wind power projects. Other half of the debt was secured from foreign lender, British International Investment Plc.

The "Construction Contract" was signed with Hydrochina International Engineering Company Limited (HIECL) as onshore construction contractor and the "Equipment Supply Contract" with Hangzhou Huachen Electrical Power Control Co. Limited (HHEPCCL) as offshore supplier. HIECL is a subsidiary of 'Powerchina', one of the biggest construction groups in the power sector with engagement in over 100 countries.

HIECL is also the O&M contractor for the initial warranty period of 2 years after the COD while the company has entered into a long-term O&M contract with GE for the 11 years starting after the completion of warranty period. The company has adequate insurance coverages for cargo, operations, erection, liability, third party and terrorism. 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. Owing to Covid-19 related disruptions the grid was made available to the company in Jan'22. As per management, 3 months delay in project outlay led to $5.5m losses claimed by IWEL whereas $6.0m in losses were claimed by HIECL. However, the claims were mutually settled without any payment made by any of the parties.

Determination of true-up tariff: NEPRA issued tariff determination for IWEL on November 18, 2018. The cost-plus levelized tariff for the concession period is 5.7517 Rupees/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. The company has applied for One Time adjustment of Tariff rates determined by NEPRA in Dec'22 which is expected to be concluded in 1QFY24.

The reference tariff was limited to the extent of net annual generation supplied to CPPA-G up to 38.00%; 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%

Operational update: Energy delivery by wind power projects was curtailed on account of capacity constraints at national grid level amidst availability of cheaper power supply from new nuclear and coal projects. Regular energy delivery to the CPPA-G from WPPs has been resumed from the March 2023 due to increase in demand in summer. There are 36 WPPs operating as of end-CY22, holding 4.5% share in the country's total power generation capacity and merely ~2.5% share in national energy pool. The impact of curtailments on the project company's financial health was minimal during its first full year of operations since first capacity factor was surpassed at 39.37% above the benchmark of 38.00%. Moving forward, the management expects seasonal factors to influence demand and subsequent delivery of power. The ratings will depend on efficient power generation and achieved capacity factor.

Revenues and profitability: In FY22, post starting commercial operations, the company earned net revenues of Rs. 850.8m largely emanating from energy purchase price (EPP) component. This also includes an estimated amount of Rs. 271.3m pertaining to one-time adjustment by NEPRA. During 9MFY23, the net energy delivered (NED) was recorded at 98,387 MWh; EPP from power generation stood at Rs. 1.04b. The revenues also included unbilled amount of Rs. 278.9m i.e., expected post true-up revenues over and above of billed invoices. Increase in operating cost was largely manifested in depreciation charge and O&M expenses during 9MFY23. As a result, gross profit amounted to Rs. 434.7m (9MFY22: Rs. 49.9m; FY22: Rs. 629.5m). In the backdrop of sharp local currency devaluation amidst lag in quarterly indexation adjustments, gross margins declined in 9MFY23. Finance cost was recorded at Rs. 514.2m (9MFY22: Rs. 2.5m; FY22: Rs. 141.9m). Resultantly, the company incurred net loss of 167.2m in 9MFY23 vis-à-vis profit of Rs. 86.3m in SPLY (FY22: 417.5m). The profitability profile of the company is expected to improve once it starts receiving quarterly indexation from NEPRA following the approval of COD tariff.

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 invoice due date. Trade debts amounted to Rs. 535.7m (FY22: Rs.

426.4m; FY21: nil) at end-9MFY23. 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 thirty days following the date of receipts of invoices by CPPA-G. Trade and other payables comprise mostly of obligations to O&M and EPC contractors. As the profitability weakened and the company started making scheduled quarterly repayments during 9MFY23, debt service coverage ratio was reported less than one. The company made three quarterly installments amounting to Rs. 568.5m during 9MFY23. 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 till the loans have been completely paid off. Current ratio also remained under pressure due to overall increase in current liabilities.

High leveraged capital structure: The project financing comprised 50% foreign financing from the British International Investment (formerly CDC Group UK) and 50% local financing through SBP concessionary refinancing facility at SBP rate plus a margin of 1.75%. Foreign component of financing carry markup at rate of LIBOR plus 4.25% payable over a tenor of 13 years. 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.

The entire debt financing has also been obtained. Total outstanding long-term debt financing as of 9MFY23 stood at Rs. 10.9b. This includes foreign loan of Rs. 7.1b (FY22: Rs. 5.3b), equivalent to USD 24.9m, and local currency loan amounting Rs. 3.8b (FY22: Rs. 4.2b). IWEL also recorded Rs. 25.6b in lease liabilities pertaining to the development of the wind power plant and the Company's registered office (FY22: Rs. 28.2b, FY21: Rs. 28.5b). The company has a sanctioned limit of running finance facility to the tune of Rs. 1.0b to meet working capital requirements out of which Rs. 354.0m were availed by the company as of Mar'23. A loan from parent company stood at Rs. 65.2m (FY22: Rs. 241.1m, FY21: Rs. 157.4m). Financial risk is elevated given that gearing and debt leverage ratio increased to 4.79x (FY22: 3.75x, FY21: 2.87x) and 5.12x (FY22: 4.13x, FY21: 3.0x), respectively by end-9MFY23. Going forward, capitalization indicators are expected to improve in line with scheduled repayments of long-term financing along with equity growth on the back of profit retention.

Environmental, Social and Governance (ESG) Framework: IWEL and its O&M contractor have set up operational phase Environmental and Social Monitoring and Management Plan ("ESMMP") to incorporate environmental, occupational health & safety and social impacts in accordance with the requirements of the international lenders, investors and NEPRA. In addition, Stakeholder Engagement Plan ("SEP"), Biodiversity offset plan, Biodiversity Management & Monitoring Plan ("BMMP") are also in place. The O&M contractor is responsible for managing EHS (environmental health & safety) inspection of WTGs, emergency and preparedness drill, training plan and EHS audit. The project company is responsible for overall EHS inspection and reporting to lenders. Further, an Independent Monitoring Consultant (IMC) will share responsibility with the project company and O&M contractor to implement and monitor BMMP.

Indus Wind Energy Limited **Annexure I**

FINANCIAL SUMMARY				(amounts in PKR millions)
BALANCE SHEET	**FY20**	**FY21**	**FY22**	**9MFY23**
Property, Plant & Equipment	324.7	7,531.0	11,153.5	12,783.7
Right of Use Assets	39.0	-	-	28.7
Trade Debts	-	-	726.4	535.7
Loans and Other Receivables	44.6	247.9	309.6	154.6
Bank Balance	10.0	584.3	662.4	820.7
Other Assets	15.8	3.1	3.9	4.6
Total Assets	**434.0**	**8,366.6**	**12,855.8**	**14,327.9**
Trade & other Payables	18.5	60.0	654.6	663.8
Long-Term Loan (inc. current portion)	31.0	6,000	9,404	10,859.1
Short-term Borrowings	-	-	-	354.0
Total Markup Bearing Loan	31.0	6,000	9,404	11,213.1
Loan from Parent Company	28.3	157.4	241.1	65.2
Other Liabilities	3.3	59.3	49.2	316.1
Total Liabilities	**81.1**	**6,276.7**	**10,348.9**	**11,988.2**
Paid-Up Capital	460.0	2,260.3	2,507.0	2,339.7
Total/Tier-1 Equity	3,52.8	2,089.9	2,260.3	2,260.3
INCOME STATEMENT	**FY20**	**FY21**	**FY22**	**9MFY23**
Net Revenues	-	-	850.8	1,044.8
Gross Profit	-	-	629.5	434.7
Finance Cost	2.6	3.3	141.9	514.2
Profit/(Loss) Before Tax	(43.1)	(63.0)	417.5	(167.2)
Profit After Tax	(43.2)	(63.1)	417.0	(167.2)
RATIO ANALYSIS	**FY20**	**FY21**	**FY22**	**9MFY23**
Gross Margin (%)	NA	NA	74.0%	41.6%
Net Margin (%)	NA	NA	49.1%	n.m.
ROAA (%)	NA	n.m.	3.9%	n.m.
ROAE (%)	NA	n.m.	18.2%	n.m.
FFO (Funding from operations)	(36.9)	(50.5)	314.3	189.3
FFO/Long-term Debt (x)	n.m.	n.m.	0.03	0.02
FFO/Total Debt (x)	n.m.	n.m.	0.03	0.02
Gearing (x)	0.09	2.87	3.75	4.79
Debt Leverage (x)	0.23	3.00	4.13	5.12
Current Ratio (x)	1.40	1.69	0.90	0.78
DSCR (x)	n.m.	n.m.	3.14	0.67

REGULATORY DISCLOSURES	Appendix II				
Name of Rated Entity	Indus Wind Energy Limited				
Sector	Power				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
			RATING TYPE: ENTITY		
	08/07/2023	**A**	**A-2**	**Stable**	**Reaffirmed**
	05/16/2022	**A**	**A-2**	**Stable**	**Reaffirmed**
	03/19/2021	**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. Saleem Bandukda	Chief Operating Officer	26th June, 2023
	2	Mr. Hassaan Ahmad Chishti	Manager Finance & Integrity Control	26th June, 2023