RATING REPORT

Tricom Wind Power (Private) Limited

REPORT DATE:
November 08, 2021

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	*November 08, 2021*	

COMPANY INFORMATION

Incorporated in 2015	**External auditors:** Grant Thornton Anjum Rahman Chartered Accountants
Private Limited Company	**Chief Executive Officer:** Abdul Sattar Jumani
Key Shareholders (with stake 5% or more):	
Lucky Textile Mills Limited- 51% Lucky Energy (Private) Limited- 49%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Tricom Wind Power (Private) Limited (TWPPL)

OVERVIEW OF THE INSTITUTION

Tricom Wind Power (Private) Limited (TWPPL) was incorporated as a private limited company in 2015. TWPPL is principally engaged in generating electricity and supplying the same to the Government through wind power. Registered office of the company is located in Karachi.

Financial Statements of the company for FY21 were audited by Grant Thornton Anjum Rahman Chartered Accountants Auditors belong to category 'A' on the approved list of auditors published by the State Bank of Pakistan (SBP).

RATING RATIONALE

Incorporated in 2015, Tricom Wind Power (Private) Limited (TWPPL or the Company) has set up a 50MW wind power plant in Jhimpir, District Thatta, Sindh. The company commenced commercial operations on September 1, 2021. Current pattern of shareholding comprise companies belonging to the Yunus Brother Group. Financial close of the project was achieved on November 18, 2019. Brief project details are stipulated in the table below:

Dimensions	Details
Plant Name Plate Capacity	50 MW
Wind Turbine	Siemens Gamesa
Annual Generation	166.44 GWh
Net capacity factor	38%
Approved Levelized Tariff (Rs./Kwh)	7.33
Net Capacity	50 MW

The total cost of the project was around $67m (Rs. 10.5b) which has been financed in debt to equity ratio of 80:20 where debt component comprise an equal mix of local and foreign lenders. 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) on November 11, 2019. Implementation Agreement (IA) has also been signed in Nov'19 with The President of the Islamic Republic of Pakistan (on behalf of GOP). Offshore Equipment Supply Contract (ESC) contract has been signed with Hangzhou Huachen Electric Power Control Company Limited which primarily related to procurement and supply of electrical and mechanical equipment outside Pakistan while onshore Construction Contract (CC) was Hydrochina International Engineering Company Limited (HIEC) which comprise of civil works, erection, commissioning, testing etc. Moreover, HIEC is also the Operations and Maintenance (O&M) operator for an initial warranty period of 2 years commencing from commercial operations date. Post completion of warranty period, Siemens Gamesa Renewable Energy & Orient Energy Systems (Private) Limited will be the O&M operators.

Key Rating Drivers

Exposure to wind risk.
Given cost plus tariff awarded to TWPPL, 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, 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 warranty period O&M contract with HIEC. O&M costs include expenses associated with services provided for WTG (wind turbine generator) and EBOP (Electrical Balance of Plant). Sound track record and extensive experience of HIEC in renewable energy sector provides comfort to managing operations risk. During the warranty period, TWPPL has also obtained performance guarantees from Equipment Supply Contract and Construction Contractor as follows:

- Guaranteed Power Curve, Limitation of Liability: 5% of the Supply Contract and Construction Contract Prices.

- Availability Guarantee, Limitation of Liability: 6% of the Supply Contract and Construction Contact Prices.

Annual plant availability and efficiency benchmarks have been set at 97% and 38% respectively. Both O&M and EPC contractors possess extensive experience to set up and operate various wind power projects.

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 sufficient insurance coverages for the project including all risks and terrorism.

The company has signed a twenty-five year EPA with CPPA. Sales revenue of the Company is dependent on energy purchased by the GoP. TWPPL'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. The company has procured sufficient insurance coverages for the project including all risks and terrorism.

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. 2.28 trillion mark as at end-June'21 and increasing capacity payments, delays in payments by CPPA may translate into some liquidity pressures.

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 years on account of profit retention. Furthermore, given sizeable debt drawdown, leverage indicators are elevated. The company has availed borrowings at concessionary rate offered by SBP for renewable power producers while foreign currency portion has been arranged through IFC (International Finance Corporation). Repayment tenure of long term foreign and local debt is 13 and 10 years at a rate of 3M LIBOR+4.25% & 5% respectively. Leverage indicators are expected to improve over time owing to debt repayments and internal capital generation.

Tricom Wind Power (Pvt.) Limited (TWPPL) Annexure I

FINANCIAL SUMMARY *(amounts in PKR millions)*		
BALANCE SHEET	**FY20**	**FY21**
Paid Up Capital	700.0	2,213.4
Total Equity	688.8	2,374.2
Long term debt	1,806.9	7,078.0
Short term debt	-	-
Total Debt	1,806.9	7,078.0
INCOME STATEMENT		
Net Sales	-	-
Profit/ (Loss) Before Tax	11.6	172.6
Profit/ (Loss) After Tax	7.0	172.1
RATIO ANALYSIS		
FFO	(63.8)	10.1
Current Ratio (x)	43.67	0.72
Gearing (x)	2.62	2.98

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	Tricom Wind Power (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**
	08-Nov-21	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.				
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.				
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Due Diligence Meetings Conducted		**Name**	**Designation**	**Date**	
	1	Mr. Maqsood Bawany	Senior Manager Finance and Accounts	25-Oct-2021	