RATING REPORT

Lucky Renewables (Private) Limited (Formerly: Tricom Wind Power (Pvt.) Limited)

REPORT DATE:
December 29, 2022

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 Outlook	Stable		Stable	
Rating Date	*Dec 29, 2022*		*Nov 08, 2021*	

COMPANY INFORMATION

Incorporated in 2015

Private Limited Company
Key Shareholders (with stake 5% or more):
Lucky Textile Mills Limited- 51%
Lucky Energy (Private) Limited- 49%

External auditors: Grant Thornton Anjum Rahman Chartered Accountants
Chief Executive Officer: Abdul Sattar Jumani

APPLICABLE METHODOLOGY(IES)

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

Lucky Renewables (Private) Limited (*formerly Tricom Wind Power (Private) Limited (TWPPL)*)

OVERVIEW OF THE INSTITUTION

Lucky Renewables (Private) Limited (LRPL) formerly Tricom Wind Power (Private) Limited (TWPPL) was incorporated as a private limited company in 2015. LRPL 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

The ratings assigned to Lucky Renewables (Private) Limited (*formerly Tricom Wind Power (Private) Limited (TWPPL)*) incorporate association of the project company with 'Yunus Brother Group' a reputable conglomerate with strong financial profile and presence in diversified sectors including cement, power generation, building materials, real estate, textile, chemicals, pharmaceuticals, food and automotive sectors. 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 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. Assessment of financial risk profile incorporates sound projected debt coverage metrics and fair cash flows in relation to outstanding obligations indicating satisfactory projected debt servicing ability; however, inconsistent payment cycle exhibited by power purchaser may translate into some liquidity pressures. The assigned ratings incorporate elevated leverage indicators in line with project funding mix. Leverage indicators are expected to improve going forward owing to debt repayments and internal capital generation. Ratings remain dependent on maintaining satisfactory operating parameters and achieving projected improvement in leverage indicators over the rating horizon.

Project Design & Cost: Incorporated in 2015, Lucky Renewables (Private) Limited (LRPL 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 comprises companies belonging to the Yunus Brother Group. Financial close of the project was achieved on November 18, 2019. 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 comprises an equal mix of local and foreign lenders. 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. The project has an ROE of 14%. 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)	7.3311
Net Capacity	50 MW

The company 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 was primarily related to procurement and supply of electrical and mechanical equipment outside Pakistan while onshore Construction Contract (CC) was signed with Hydrochina International Engineering Company Limited (HDEC) which comprise of civil works, erection, commissioning, testing etc. Moreover, HDEC is also the Operations and Maintenance (O&M) operator for an initial warranty period of 2 years commencing from COD. 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 LRPL, 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 is in place with experienced O&M operator.

The company has signed a 2-year warranty period O&M contract with HDEC. 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, LRPL 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 98.78% and 38% respectively; currently the plant is achieving both availability and efficiency benchmarks. Both O&M and EPC contractors possess extensive experience to set up and operate various wind power projects. The annual O&M contract price is around Rs. 210m; the same is expected to be reduced for the ongoing year after negotiations with the O&M contractor.

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. LRPL'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.

Tariff is yet to be finalized: NEPRA has determined the tariff for LRPL for 25 years; the proposed annual insurance cost (construction & operation) is calculated at 1.0% of the EPC Cost. The levelized tariff has been decided at Rs. 7.4/ kWh. Currently, the billing of the company is being made on provisional tariff; however, IDC component and forex impact will be adjusted in true-up tariff. As per the management, due to increase in the aforementioned, the true-up tariff is expected to be higher by Rs.2/unit at Rs. 9.4/unit. The application for finalization of tariff was sent to NEPRA in August, 2022 therefore the tariff is expected to be finalized in the next nine to twelve months.

Repayments made during the rating review period: LRPL first four debt installments (local & foreign) amounting to Rs. 675.5m falling due within the rating review period were partially serviced by project's internal generation coupled with running finance facility obtained amounting to Rs. 670m.

Revenue recording initiated: In line with achievement of COD the company has recorded revenue recognition based on provisional tariff. LRPL booked revenue worth Rs. 955.1m (FY21: nil) during FY22; the same represents revenue of ten months and constitutes solely of capacity payments. As per the EPA, CPPA-G is required to pay invoice amount on or before 30th day following the day the invoice is received. The interest on delayed payments from CPPA-G amounted to Rs. 6.5m for FY22. The company incurred direct cost of Rs. 552.1m, which mainly pertained to operations & maintenance (O&M) fees, staff salaries, and deprecation charge. The gross margin of the company was recorded sizable at 45.3% (FY21: nil) in line with entire revenue accounting for CPP payments. The administrative expenses were recorded higher at Rs. 30.3m (FY21: Rs. 1.9m) during FY22 primarily owing to incurrence of employee related expenses and legal & consultancy fee in line with the project becoming operational. On the other hand, LRPL reported lower other income at Rs. 25.7m (FY21: Rs. 175.6m) in line with higher funds kept in the foreign currency fixed account entailing lower mark-up as opposed to local currency fixed account during FY22. The finance cost increased sizably to Rs. 390.7m in FY22 in comparison to negligible Rs. 1.2m in previous year as a combined impact of significant increase in average total borrowings along with benchmark rate being at the high end of the spectrum during the reporting period. Moreover, as per Finance Act 2021, income from generation and sale of electricity is exempt from tax while tax is payable on income from other sources, therefore, taxation expense was nil for FY22. Primarily stemming from decline in other income and recording of operating and financial expenses, the company reported lower bottom line of Rs. 37.6m (FY21: Rs. 172.1m) during FY22.

Sound liquidity profile. Debt servicing component in built in tariff; however, inconsistent payment cycle exhibited by CPPA may translate into some liquidity pressures:

In line with sizable adjustments for exchange loss (Rs. 1.2b) and non-cash depreciation expenses (Rs. 315.2m) made during FY22, funds from operations (FFO) increased significantly to Rs. 1.6b (FY21: negative) at end-FY22. Subsequently, FFO to total debt was recorded at 0.16x (FY21: negative) at end of the outgoing year. Moreover, given the company's short-term debt is insignificant in terms of value of total debt, FFO to total debt is almost equivalent to FFO to long-term debt; the same was recorded at 0.17x (FY21: negative) at end-FY22. In addition, the debt service coverage was comfortable at 2.21x (FY21: negative) at end-FY22.Given that debt repayments have been accounted for in the approved Tariff, projected debt coverage profile is considered sound. However, in line with mounting energy sector's circular debt in the country which has reached Rs. 2.6 trillion mark as at end-Oct'21 and increasing capacity payments, delays in payments by CPPA may translate into some liquidity pressures.

The assigned rating incorporates 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.

LRPL's equity base, albeit increased slightly during the rating review period in line with commencement of operations, is expected to improve going forward on account of internal capital generation along with finalization of tariff. On the flip side, given debt drawdown was completed during the outgoing year, the long-term debt increased to Rs. 9.2b (FY21: Rs. 7.1b) by end-FY22. The long-term funding includes loan extended by associates to LRPL to the tune of Rs. 240.5m (FY21: Rs. 53.9m); the same carries mark-up rate of 1M- KIBOR per annum and is payable on demand of the lenders. As a result of significant debt drawdown, leverage indicators are elevated. Leverage indicators are project to scale downwards in the future owing to debt repayments and internal capital generation.

Growth in asset base: The property plant and equipment increased to Rs. 11.3b (FY21: Rs. 9.2b) by end-FY22; the same represents project related expenditures incurred by the company on establishment of 50 MW wind power project. Trade debts receivable from CPPA-G secured by the guarantee of GoP were recorded at Rs. 443.8m; the same carry interest on delayed payment at repurchase rate for six-month T-Bills as announced by SBP plus 4% per annum compounded semi-annually.

ISSUE/ISSUER RATING SCALE & DEFINITION Annexure I

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 II
Name of Rated Entity	Lucky Renewables (Pvt) Ltd *(formerly: 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
29-Dec-22	A	A-2	Stable	Reaffirmed
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.
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. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. 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.

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Maqsood Bawany	Senior Manager Finance and Accounts	15-Dec-2022