

RATING REPORT

EnerTech Water (Private) Limited

REPORT DATE:

June 06, 2024

RATING ANALYSTS:

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Rating Category	Assigned Rating	
	Long-Term	Short-Term
Entity	AA	A-1
Rating Outlook/Rating Watch	Stable	
Rating Action	Initial	
Rating Date	June 06, 2024	

COMPANY INFORMATION

Incorporated in 2019	External auditors: M/s. KPMG Taseer Hadi & Co.
Private Limited Company	Chairman: Mr. Abdullah Al Mutairi
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Yasser Malik (Sitara-e-Imtiaz)
EnerTech Holding Company - 100%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

EnerTech Water (Private) Limited

OVERVIEW
OF THE
INSTITUTION

RATING RATIONALE

EnerTech Water (Private) Limited, incorporated in Pakistan in December 2019, operates from its registered office at Office No. 712, 7th floor, Al Hafeez Business Centre, 89-B/III, Gulberg III, Lahore, Pakistan. The company's capital structure comprises equity, debt, and a long-term sukuk facility, structured as a quasi-equity sukuk instrument with embedded conversion and put options. This financial arrangement received four prestigious awards, including **'Pakistan Deal of the Year', 'Most Innovative Deal of the Year' from Islamic Finance News (IFN), 'The Asset Triple A Sustainable Infrastructure Awards – Water Deal of the Year 2021' and 'Best Islamic Project Finance Deal: Pakistan' by EuroMoney Islamic Finance Awards 2024.**

Profile of Chairman
Abdullah Al-Mutairi, CEO of EnerTech Holding Company, also chairs the Board for EnerTech Water Private Limited. EnerTech, owned by the National Technology Enterprises Company (NTEC), a subsidiary of the Kuwait Investment Authority (KIA), focuses its

Company Profile:

EnerTech Water (Private) Limited ('EnerTech' or 'the Company') is a Private Limited Company incorporated in Pakistan in December 2019. The Company's principal activities are to develop, own, operate and maintain a Water Supply System having a total capacity of 45 CUSECS consisting of 60.5 km long water pipeline from Nabisar to Vajihar in Thar, Sindh, Pakistan. The Company is a wholly owned subsidiary of EnerTech Holding Company Kuwait (the 'Holding Company'), which is a wholly owned subsidiary of National Technology Enterprise Company, and which is ultimately owned by Kuwait Investment Authority (the 'Ultimate Holding Company'). The Holding Companies are incorporated and registered in Kuwait. The registered office of the Company is located at Office No.712, 7th Floor, Al Hafeez Business Centre, 89-B/III, Gulberg III, Lahore, Pakistan.

Project Overview:

1. Background and Agreement Details:

- EnerTech Holding Company entered a Memorandum of Understanding (MoU) with the Government of Sindh (GoS) in July 2019 for foreign direct investment in Water Supply & Infrastructure Projects of Sindh.
- Following the MoU, a draft proposal was submitted in October 2019 for constructing water facilities and supplying water to GoS.
- GoS approved the proposal in December 2019, issuing a Letter of Interest (LOI) with a validity of 6 months, extending until 19th August 2020 due to the Covid-19 outbreak. Subsequently, the LOI expiry date was further extended till end-2021.
- A concession agreement, signed on 26th June 2021, stipulates that the Company will Build, Operate, and Transfer the project after 25 years of Commercial Operation Date (CoD) at PKR 1.
- Under the Concession Agreement, Water will be provided to the Company from a built for purpose 200 cusec CC channel drawing water along Hakro river. It will be treated at Nabisar and pumped via a 60.5km pipeline to Vajihar, with a pumping station and captive power generation facility at Nabisar. The Company will maintain cumulative storage of 75 days of water in its reservoirs in Nabisar and Vajihar.

2. Project Milestones:

- The project site license agreement was signed, allotting around 1,280 acres of land to the Company for 25 years.
- Technical feasibility study conducted by M/S ILF was approved by GoS.
- Approval from Sindh Environmental Protection Agency was obtained.
- Agreements for appointment of Independent Auditor and Engineer were executed.

venture capital and private equity investments on oil and gas, water, and clean technology sectors. Al-Mutairi previously served as senior investment manager for NTEC and was an investment analyst for KIA. He is Vice-Chairman of the Executive Committee and a founding member of the Kuwait Green Building Council (KGBC). Al-Mutairi sits on the boards of Morgan Solar, Helio Centris Energy Solutions AG, Control Power Technologies, Kinetic Renewable Energy Services, and Conduit Ventures. He holds an MBA from Kuwait University and a Bachelor of Science in Civil Engineering from California State University Long Beach.

Profile of CEO
Yasser Malik, CEO of EnerTech Pakistan and Head of Emerging Markets at EnerTech Holdings, has over 18 years of professional experience. He oversees execution from technical partnerships to capital raising. Previously, he led the Strategic Solutions Group for CEEMEA at Bank of America Merrill Lynch. Earlier, he was Director and Partner heading the Strategy Group at ePlanet Capital, a top-ranked Venture Capital firm. Notably, ePlanet's top three investments achieved a combined market capitalization of \$20 billion (Baidu, Skype, Focus Media). He attained the position of Vice President at Merrill Lynch in 2008

- Engineering, Procurement and Construction (EPC) agreement was signed with HydroChina International Engineering Co. Limited and HDEC Middle East Co. DMCC for onshore and offshore contracts respectively on 11 April 2022.
 - The Company secured a mezzanine loan of USD 10 mln on 17 March 2023 from the Holding Company.
 - Warranty Period O&M Contract was signed with HDEC Engineering Private Limited for operations and maintenance services on 16 May 2023.
 - Amended and Restated Concession agreement and Equity Funding and Utilization agreement were signed with the GoS on 01 December 2023 and 20 December 2023 respectively.
 - Sukuk agreement for Rs.2 bln with Meezan Bank Limited and Diminishing Musharika Agreement was signed on 27 December 2023.
 - Senior Finance Facility of PKR 51.5 bln was secured from a consortium of 11 Banks with Meezan Bank Limited as Mandated Lead Arranger and Advisor, with agreements signed on December 27, 2023.
3. Project Implementation:
- The Company fulfilled conditions precedents (CPs) as per the concession agreement, and construction commenced on February 16, 2024.
 - The first disbursement from the senior finance facility of a syndicate loan of PKR 7.017 bln was received in February 2024.

Project Financing:

The total project cost amounts to PKR 69.1 bln. Approximately 74% of this, equal to PKR 51.5 bln, will be financed through a senior secured finance facility obtained by the Company with a tenor of 11.25 years (including a senior facility availability period of 1.25 years). The remaining ~26% will be funded through equity from various sources, including foreign equity from the Holding Company of USD 15 mln and its sponsor, mezzanine debt of USD 10 mln, local long-term subordinated sukuk from a local financial institution of PKR 2 bln, and equity funding from the Government of Pakistan (GoS) of PKR 9.6 bln. Furthermore, 50% of the Company's debt profile is secured by GoS through SBLC from National Bank of Pakistan, covering the senior secured finance facility and the mezzanine debt. Per the sponsor support agreement, the sponsor shall fund or procure funding in case of any cost overrun between the trigger date and project completion. The investment agent (Meezan Bank Limited), in consultation with financiers and advisors, will determine cost overruns, after which lenders will call for the SBLC covering the amount.

Capacity Charges Structure:

The revenue stream of the Company will encompass capacity charges to be received from the GoS, covering the variable and fixed costs of the Company. The capacity charges include the following components:

- Financing Component: Component that relates to the repayment and servicing of financing dues (i.e. both principal repayment and interest/markup payments).
- O&M Component (Fixed): Component related to the fixed operations and maintenance expenses.
- Insurance Component: Component related to the insurance expenses/premiums

and has prior experience with JP Morgan Chase, PricewaterhouseCoopers (PwC), and Hewitt Bacon & Woodrow.

- ROE Component: Component related to the return on the shares and sukuk invested equity based on the base case equity IRR and the repayment of the shares and sukuk invested equity.
- Security Component: Component related to the security expenses/costs
- Fixed Energy Component: Component related to the fixed fuel expenses.
- Taxation Component: Component related to the taxes/duties, corporate taxes and withholding taxes applicable during the operations period of the project.

Notably, these components are subject to adjustments to account for fluctuations in economic variables such as inflation, interest rates, and exchange rates, thereby mitigating cost pressures emanating from the same.

Insurance Coverage:

The Company has ensured protection against potential losses through adequate insurance coverage. A construction all-risk policy covers all construction risks until project completion. The total project cost of Engineering, Procurement, and Construction (EPC) activities is fully insured. Additionally, a marine policy covers shipments from overseas. Moreover, a delay in start policy mitigates the risk of revenue loss due to project completion and operation delay. This policy covers one year's revenue in such instances, providing further assurance to the Company.

Key Rating Drivers

Ratings take into account the inherent Government to Government nature of the transaction.

Even though the transaction has been structured as a Public-Private Partnership under the PPP Act 2016 of Pakistan, the transaction is inherently between GoS and Government of Kuwait through Enertech Holding Company. The entity rating incorporates element of sponsor support, with the Ultimate Holding Company, Kuwait Investment Authority, being the sovereign wealth fund for the State of Kuwait. Kuwait's sovereign rating is AA- by Fitch, A+ by S&P, and A1 by Moody's. In contrast, Pakistan's sovereign rating is currently CCC by Fitch and S&P, while Moody's has assigned Caa3. Therefore, on Pakistan's national scale, Kuwait's rating would equate to a rating equal to or higher than the sovereign rating, capped at AAA. This provides support to assigned ratings.

Rating incorporates critical importance of the project to Thar Coal Block I and GoS

Rating takes into account the critical importance of the Nabisar-Vajihar water supply project to the operations of power plants in Thar Coal Block I (TCB I). The Water Supply fulfills the requirements at Shanghai Electric's 660MW Coal Power Plant. However, the quantum of water supply would be ample enough to cater to other power projects in TCB I. The significance of the water project can be established from the fact that TCB-I itself is an investment of USD 1,912.12 mln and supply of water is key element for their sustainability. As such, the demand risk is mitigated by projected energy needs of the country, wherein running of TCB-I is critical to support the power grid. The GoS has already earmarked PKR 9.6 bln to inject in the project through both

equity and debt injections in the Company. The provincial government will acquire 49% of the share of the Company over the rating horizon. However, controlling rights will remain with the Holding Company.

Ratings incorporate operational track record of EPC contractor and O&M services provider.

The EPC contract, for the project, is undertaken by HydroChina International Engineering Limited (HIEL) and HDEC Middle East Co. DMCC while O&M Contract is undertaken by HDEC Engineering Private Limited. HDEC Middle East Co DMCC (HDEC) and HydroChina International are ultimately owned by Power Construction Corporation of China (POWERCHINA), a prominent state-owned company administered by the State-owned Assets Supervision and Administration Commission. In 2022, POWERCHINA ranked 100th among the Fortune 500, 1st among the Top 150 Global Design Firms by Engineering News-Record 'ENR', and 5th among the Top 250 Global Contractors by ENR.

Rating takes into account the secure financial structure of the Company.

The senior secured financing facility of the Company is 50% secured through GoS's SBLC, guaranteed by the Government through NBP. Upon utilizing 90% of the GoS's SBLC, the government will inject equity into the project. Additionally, the Company holds 37% of the bonds from the EPC contractor, comprising 22% advance payment and 15% performance bond, available to the project Company and senior lenders. Consequently, the bank's exposure remains secure for 9 months. Following this period, the GoS will deposit one year's revenue in advance, covering two financing repayments inclusive of markup. This ensures continued security of the bank's exposure while mitigating the risk of delayed payments on the financing facility.

Rating takes into consideration the cost over-run risk amidst high inflation and the mechanism in place.

The EPC agreements are turnkey contracts without any escalation clauses, meaning there is no provision for price increase thereby significantly reducing the risk of cost overruns.

Moreover, the project's financing was based on an average assumed exchange rate of 330 USD/PKR and a KIBOR rate of 22% during the construction phase. However, three months into construction, 37.68% of the total offshore contract of \$67 mln USD has already been paid, with an additional 11.47% scheduled for payment by mid-June. This results in 49% of the offshore contract being settled at an average exchange rate of 264 USD/PKR. The onshore portion of USD 72.5 mln USD has been locked at a fixed rate of 279.6838 USD/PKR, eliminating any risk of cost increase in this segment. Additionally, favorable exchange rate and the anticipated decrease in the KIBOR rate over the remaining construction period provide further support to assigned ratings.

The risk of project construction delay is addressed by performance bonds provided by EPC contractors. In case of political risks, the cost of construction delay shall be borne by GoS.

Any cost overruns owing to increase in exchange rate and interest rate or due to extension in time on account of relief events in the Contract are classified as positive cost overruns. The primary responsibility to cover these cost overruns is provided by GoS. Furthermore, there is strong sponsor support for the completion of the project provided by Enertech Holding Company.

Rating incorporates adequate insurance/takaful arrangements in place.

The Company has ensured protection against potential losses through adequate insurance coverage. This includes a construction all-risk policy for construction risks until project completion, full insurance of EPC project costs, a marine policy for overseas shipments, and a delay in start policy to mitigate revenue loss in case of project delays. These measures provide additional reassurance to the Company. The insurance policies have been arranged through Adamjee Insurance Company Limited, Alfalah Insurance Company Limited, UBL insurers Limited & Atlas Insurers Limited which has an Insurer Financial Strength (IFS) rating of 'AA+' by PACRA. The Reinsurers of the project include Swiss Re, Starr International Insurance (Asia Limited), ADNIC, Munich Re etc. with IFS ratings ranging from A to AA- by S&M/Moody's/AM Best)

REGULATORY DISCLOSURE						Appendix I
Name of Rated Entity	EnerTech Water (Private) Limited					
Sector	Infrastructure Development					
Type of Relationship	Solicited					
Purpose of Rating	Entity Ratings					
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action	
	June 06, 2024	AA	A-1	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		
	Mr. Imran Saeed	Director Finance		May 27, 2024		