RATING REPORT

Lakeside Energy Limited (LEL)

REPORT DATE:

August 17, 2023

RATING ANALYSTS:

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RATING DETAILS		
	Initial Rating	
Rating Category	**Long-term**	**Short-term**
Entity	A-	A-2
Rating Date	*17th August, 2023*	
Rating Outlook	Stable	

COMPANY INFORMATION	
Incorporated in 2014	**External auditors:** A.F Ferguson & Co. Chartered Accountants
Public Limited Company	**Chairman/CEO:** Mr. Asif Riaz
Key Shareholders (with stake 5% or more): Naveena Exports Limited –75% Mr. Fawad Anwar – 25%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Industrial Corporates (May 2023) ***https://docs.vis.com.pk/docs/CorporateMethodology.pdf***
VIS Rating scale (2023) ***https://docs.vis.com.pk/docs/VISRatingScales.pdf***

Lakeside Energy Limited

OVERVIEW OF THE INSTITUTION

LEL was incorporated as a Private Limited Company in 2014 and converted into Limited Liability Company in 2020 under the repealed Companies Ordinance, 1984 (now Companies Act, 2017). The windfarm is located in Deh Kohistan, Tapo Jungshahi, District Thatta.

Profile of Chairman/CEO

Mr. Asif Riaz possesses over three decades of experience in the textile sector. He is currently the Chairman of Pakistan Denim Manufacturers and Exporters Association. Mr. Asif has been associated with Naveena Group since its Inception.

RATING RATIONALE

Lakeside Energy Limited (LEL or "the project") is a 50MW wind power plant located in Deh Kohistan 7/3 and 7/4 Tapo Jungshahi, District Thatta, Sindh. The wind farm is spread over 345 acres of land obtained on lease from Government of Sindh for a period of 30 years starting in May 2017. The company entered into an Energy Purchase Agreement (EPA) on November 11, 2019 with Central Power Purchasing Agency (Guarantee) Limited (CPPA-G) for a period of twenty-five years. Financial close was achieved on Nov 18, 2019 while the project started commercial operations on Apr 14, 2022.

The company signed implementation agreement (IA) with Government of Pakistan (GoP), represented through Alternative Energy Development Board (AEDB) on 8th November, 2019. Generation license was granted in November, 2017 by National Electric Power Regulatory Authority (NEPRA). The project was completed with an outlay of USD 63.806m (PKR. 10.5b), financed through debt to equity mix of 80:20, wherein local and foreign financing constituted equal proportion in debt mix. LEL was able to secure local borrowing through SBP concessionary refinancing scheme launched for development of wind power projects (WPPs).

Engineering, Procurement and Construction (EPC) contract has been signed with Hydrochina International Engineering Company Limited (HIECL) as onshore construction contractor and 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 Operations & Management (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 Orient Energy Systems (Private) Limited (OES) and Siemens Gamesa Renewable Energy (Private) Limited (SGRE). The company has adequate insurance coverages for cargo, operations, erection, liability, third party and terrorism.

<u>Key Rating Drivers</u>

<u>Sponsor profile</u>

Assigned ratings draw comfort from strong sponsor profile. The project is owned by Naveena Exports Limited (NEL) and Mr. Fawad Anwar holding 75% and 25% equity shares, respectively. NEL has been assigned a credit rating of 'A/A-1' respectively by VIS indicating high credit quality and strong protection factors. Mr. Fawad Anwar has been associated with 'Al-Karam Group' for over 25 years and has been serving as Managing Director of Al-Karam Textile Mills (Pvt.) Limited for more than two decades.

Project Details: The project comprises of 25 Wind Turbine Generators (WTGs) of Siemens-Gamesa Wind Energy Equipment Manufacturing Co. Limited, Model G114-2.0, with the nameplate capacity of 2MW of each turbine. The wind farm has total net capacity of 47.9 MW and expected annual generation of 166,440,000 kWh. The wind farm is remotely monitored and controlled (at site) through a Supervisory Control and Data Acquisition (SCADA) system. This system is called WTG SCADA and can be used for online operation monitoring, processing of user-defined reports and statistics as well as remote monitoring of the wind turbines.

Table 1: Project Brief

Nameplate Capacity	50 MW
Wind Turbines	Siemens-Gamesa Renewable Energy
Model	G114-2.0
Plant Capacity Factor	38%
Hub Height	93m
Rotor Diameter	114m
No. of blades	3
Power Regulation	Combination of blade pitch angle adjustment and generator/convertor control torque.

Exposure to wind risk
Power produced and in turn cash flows are susceptible to seasonality and possible variance in wind speed. The site-specific Wind Resource Assessment and Energy Yield Evaluation Study conducted by Lahmeyer International Germany indicates adequate wind availability historically, which is considered a source of comfort.

EPA signed with CPPA-G on November 11, 2019 with 'take or pay' provision: 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. As per agreement, post achieving commercial operations, LEL 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. LEL cannot sell or deliver the electrical output of the complex to any entity other than CPPA-G, without the prior written consent. After the COD, the purchaser shall be liable to pay the energy payment to the seller, monthly in arrears. The EPA entailed the provision of 'take or pay' whereby LEL will be paid non-project missed volume payments (NPMV) in case CPPA-G purchases less than the contract capacity.

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 and cut-out wind speed for the generation and delivery of NED, which, however, the Complex is partially or wholly unable to generate and deliver for reasons solely attributable to the Seller (including non-availability of the Complex or any component thereof), such partial or complete non-availability of the Complex shall not constitute a Non-Project Event and the Net Delivered Energy not generated as a consequence shall be excluded in the computation of NPMV.

Return on equity of project has been allowed at 14%. 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. Adjustment of O&M, ROE, and ROE during construction shall be made on quarterly basis. Adjustment of Debt Servicing Component (if any) shall be made either quarterly or bi-annually depending upon the final terms approved by the NEPRA.

EPC and O&M Agreements: The company entered into onshore construction contract with Hydrochina International Engineering Company Limited (HIECL) for the construction of the wind power complex and offshore supplier with Hangzhou Huachen Electrical Power Control Co. Limited (HHEPCCL) for the supply of WTGs and other related equipment on October 17th, 2019. COD was achieved with a delay of one-year mainly due to the force majeure event related to Covid-19 leading to significant delays in importing equipment from China. However, in this regard neither the company nor the EPC contractors paid any liquidated damages and made settlement without any cash outlay.
O&M agreement was signed on October 17, 2019 with HIECL for the initial warranty period of 2 years after COD while the company has entered into long-term O&M contract with OES and SGRE.

Project financing comprised debt to equity mix of 80:20: Initially at the time of signing of EPA, the debt to equity mix was 75:25, with 100% local financing and equity was to be contributed equally by both sponsors. However, the approved financing structure has debt to equity ratio of 80:20. NEPRA determined total project cost of USD 63.906m and reference tariff was approved on the basis of 100% SBP financing. However, the company was able to secure only 50% of local financing through SBP subsidized refinancing scheme.

Table 2: Approved Financing Structure by NEPRA for Reference Tariff Determination

	Approved Reference Tariff
Levelized tariff (US cents/kwh	4.7154
Project Cost (in US $ Million)	
Project Cost other than IDC	61.945
IDC	1.961
Total Project cost	**63.906**
Debt: Equity	80:20

Project Debt Mix (for reference tariff calculation	
SBP financing	100%
Foreign Debt	0%
Reference exchange rate (PKR to USD)	120
Debt Repayment Period (years)	
SBP Financing	10
Foreign Debt	N/A

The sponsors have injected equity in full amounting to USD 12.76m (Rs. 2.04b—at a fixed exchange rate of PKR 159.59/USD) by end-CY19. Local facility and foreign financing facilities have been completely drawn down by April 12, 2022, respectively.

Determination of true-up tariff: NEPRA issued cost-plus tariff of 4.7154 US Cents/kWh on November 19, 2018. 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, with 100% reliance on SBP refinancing scheme for Wind power Projects (WPPs). However, in lieu of the change in debt mix, repayment terms and rupee depreciation, the company had applied for modification petition before achieving COD. Meanwhile, NEPRA decided that the requested revisions/adjustments in the reference tariff shall be made at the time of COD of the project. Further, NEPRA has decided to modify the Tariff Determination to add the following condition that after two years of operations, it may consider making revisions in the O&M cost, while capping the allowed prevailing O&M cost level, anytime during the tariff control period. Those revisions may also entail changing the mix of the approved O&M cost (local and foreign) as well as the indexation mechanism (indices, frequency etc.). For that purpose, NEPRA may direct the company to carry out the competitive bidding to select the contractor for the provision of the O&M cost.

Table 3: Reference Tariff Components:

Tariff Component	Year 1-10	Year 11-25
O & M Cost	0.8175	0.8175
Insurance during construction (0.5% of EPC cost)	0.1648	0.1648
ROE	1.3867	1.3867
Debt Servicing	4.8594	-
Total	**7.2283**	**2.3689**
Levelized Tariff (US Cents/kWh)	**4.7154**	

The reference tariff will be limited to the extent of net annual generation supplied to CPPA-G up to 38.5% net annual plant capacity factor; excess of this will be charged at the following tariffs:

Table 4: Prevalent Tariff Allowed

Net Annual Plant Capacity factor	% of Prevalent Tariff Allowed to Power Producer
Above 38.5% up to 40.5%	5%
Above 40.5% up to 42.5%	10%
Above 42.5% up to 44.5%	20%
Above 44.5% up to 46.5%	40%
Above 46.5% up to 48.5%	80%
Above 48.5%	100%

Operating performance:

The wind farm has completed around fifteen months of successful operations with plant availability being compliant with parameters, as laid down in the EPA. The project achieved a net capacity factor of 37.88% against the benchmark annualized net capacity factor of 38.54% during the agreement year, mainly owing to curtailments faced by WPPs (wind power producers) caused by capacity constraints in national grid amidst cheaper alternative nuclear and coal projects coming online and the requirement to maintain base load. Plant availability remained at 99.5% above the 97% required threshold during the entire review period.

Post commencement of operations till end-FY22, the company delivered 73,549.6 MWh of energy while net revenues emanating from it amounted to Rs. 485.6m. NED during FY23 was reported at 139,459.1 MWh with net revenues clocked at Rs. 1.1b. Cost of sales was recorded higher at Rs. 834.8m (FY22: Rs. 172.1m; FY21: nil) while increase was largely manifested in depreciation charges and O&M expenses. The company was unable to sustain adequate margins owing to substantial local currency depreciation while the reference tariff is based on Rs. 120/USD. Finance cost incurred amounted to Rs. 740.8m (FY22: Rs. 114.1m; FY21: Rs. nil) during FY23. Other expenses were largely related to exchange losses on revaluation of foreign assets and liabilities. Resultantly, the company incurred a net loss of Rs. 616.8m vis-à-vis profit of Rs. 120.4m in FY22 (FY21: Rs. 32.0m). The profitability profile is expected to improve as NEPRA has allowed interim relief to the company on Aug 8, 2023. Accordingly, the relevant tariff components in respect of quarters from Apr-Jun'22 to Apr-Jun'23 have been revised on account of US CPI, CPI (local), exchange rate (PKR/USD), and LIBOR variations in accordance with the requisite indexation/adjustment mechanism. The indexation allowed is on interim basis and shall be subject to adjustments, if necessary, in the light of the final decision of the NEPRA with respect to LEL COD tariff adjustment.

Table 5: Project Performance

	FY22	9M'FY23
Availability	99.9%	99.5%

2022	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*
Net Energy Delivered (MW)	*2,474*	*18,674*	*27,069*	*25,334*	*16,961*	*13,394*	*14,915*	*7,232*	*5,292*	*7,004*
Plant Utilization Factor (%)	*7.08%*	*53.40%*	*77.41%*	*72.45%*	*48.51%*	*38.31%*	*42.66%*	*20.68%*	*15.14%*	*20.03%*

2023	*Jan*	*Feb*	*Mar*	*Apr*	*May*	*Jun*
Net Energy Delivered (MW)	*11,313*	*4,130*	*7,917*	*11,471*	*21,051*	*18,776*
Plant Utilization Factor (%)	*32.36%*	*11.81%*	*22.64%*	*32.81%*	*60.20%*	*53.70%*

Liquidity profile: Trade receivables of the project are secured and backed by the guarantee given by government of Pakistan (GOP). The overdue receivables are subject to interest on delayed payments at the rate of KIBOR plus 2% in accordance with EPA. The liquidity profile is supported by timely recovery of receivables from CPPA-G. As per management, receivables collection has remained robust since COD, with the same being duly cleared within one month of invoicing. Outstanding receivables from CPPA-G amounted to Rs. 409.1m (FY22: Rs. 447.6m; FY21: Rs. nil) at end-FY23. Funds from operations (FFO) were recorded negative due to losses incurred in FY23. Similarly, debt service coverage ratio was reported less than one. However, the company has maintained a standby letter of credit (SBLC) equal to the aggregate of two full quarterly payments as per financing agreements, for the entire term of the facilities.

Cash and bank balances amounted to Rs. 239.1m (FY22: Rs. 834.6m; FY21: Rs. 1.6b). At end-FY22, these included Rs. 450.0m (FY21: nil) placed in term deposits having maturity upto 3 months and earning a mark-up of 11% per annum. Trade and other payables were recorded lower at Rs. 1.0b (FY22: Rs. 973.8m; FY21: Rs. 1.5b) at end-FY23, mainly consisting of payables to contractors amounting to Rs. 662.8m (FY22: Rs. 887.9m; FY21: Rs. 1.45b).

Capitalization profile:
Equity base of the company decreased to Rs. 1.6b (FY22: Rs. 2.2b; FY21: Rs. 1.7b) owing to losses in FY23. The long-term financing facility was obtained from the consortium of lenders under Common Term Agreement (CTA), signed between LEL, local banks (Faisal Bank Limited, Bank of Punjab) and foreign lenders FMO and DEG. Local financing has been obtained at base rate of 3% plus a margin of 1.5% while foreign financing is priced at 3M LIBOR + 4.25%. The facility is repayable in 52 quarterly installments starting from Sep 29, 2022. Outstanding long term financing (including current portion) was recorded higher at Rs. 10.2b (FY22: Rs. 8.6b; FY21: Rs. 4.77b) at end-FY23. Subordinated loan of Rs. 673.3m (FY22: Rs. 673.3m; FY21: nil) represents interest free loan from the sponsors of the company, under the sponsor support agreement (SSA) entered between the sponsors, the company and the lenders. The subordinated loan is unsecured and does not have any defined repayment period or equity conversion as per terms of SSA. Gearing and leverage were

reported higher at 6.93x (FY22: 4.32x; FY21: 3.09x) and 8.05x (FY22; 5.08x; FY21: 3.99x) due to the combined impact of higher borrowings and lower equity base at end-FY23. Going forward, leverage indicator are expected to improve steadily on account of expected enhanced internal cash flow generation along with scheduled repayment of long-term loan.

Lakeside Energy Limited Annexure I

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY20**	**FY21**	**FY22**	**FY23**
Property, Plant and Equipment	2,269.70	6,804.20	11,671.30	13,273.10
Stores and spares	0	0	88	88
Trade debts	0	0	447.6	409.1
Loan arrangement fee	69.9	38.3	0	0
Sales tax refundable	68.7	170.8	165	69.4
Cash and Bank Balances	12.8	1,634.70	834.6	239.1
Other Assets	21.1	29.1	25.7	35.4
Total Assets	**2,442.10**	**8,677.10**	**13,232.20**	**14,114.10**
Long-Term Borrowings *(Inc. current maturity)*	1,417.20	5,370.20	9,399.00	10,811.70
Subordinated loan	0	0	673.3	673.3
Trade and other payables	54.1	1,510.80	973.8	1,023.80
Other liabilities	2	57.2	9.4	45.4
Total Liabilities	**1,473.40**	**6,938.10**	**11,055.40**	**12,554.20**
Paid-Up Capital	1	1	1	1
Advances against issuance of shares	980	1,718.30	2,035.70	2,035.70
Total Equity/Tier 1 Equity	**968.7**	**1,739.00**	**2,176.80**	**1,559.90**
INCOME STATEMENT	**FY20**	**FY21**	**FY22**	**FY23**
Net Revenue	0	0	485.6	1,110.70
Gross Profit	0	0	313.6	275.8
Finance Cost	0	0	114.1	740.8
Other income/(expenses)	1.5	33.2	-75.5	-113.2
Profit before tax	-8.2	32	121.2	-602
Profit After Tax	-8.6	32	120.4	-616.8
FFO	-8.4	-1.3	540.3	-387.4
RATIO ANALYSIS	**FY20**	**FY21**	**FY22**	**FY23**
Gross Margin (%)	-	-	64.60%	24.80%
Net Margin (%)	-	-	24.80%	-
Current Ratio (x)	2.71	1.18	0.85	0.4
Net Working Capital	96.1	285.6	-263.1	-1,210.30
FFO to Long-Term Debt	-	-	0.06	-
FFO to Total Debt	-	-	0.06	-
Debt Servicing Coverage Ratio (x)	-	-	5.74	0.24
ROAA (%)	-	0.60%	1.10%	-4.50%
ROAE (%)	-	2.40%	6.10%	-33.00%
Gearing (x)	1.46	3.09	4.32	6.93
Debt Leverage (x)	1.52	3.99	5.08	8.05

REGULATORY DISCLOSURES					Appendix III
Name of Rated Entity	Lakeside Energy Limited (LEL)				
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				
	08/17/2023	**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. Arif Ali	Manager Finance	14th July, 2023	