The Pakistan Credit Rating Agency Limited

Rating Report

ACT Wind (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
13-Jun-2018	A-	A2	Stable	Maintain	-
22-Dec-2017	A-	A2	Stable	Maintain	-
20-Jun-2017	A-	A2	Stable	Maintain	-
30-Dec-2016	A-	A2	Stable	Upgrade	-
01-Mar-2016	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Tapal, Ismail, and Akhtar groups have set up a 30MW wind power plant – ACT Wind (Private) Limited. The commissioning of the plant was achieved on 7th October 2016. ACT Wind has offtake agreement with NTDC. The project revenues and cash flows are exposed to two main risks. First; wind risk. Under the upfront tariff regime, any variability in wind speeds is to be borne by the Company, due to which its cash flows may face seasonality. However, historical wind speeds provide comfort that ACT Wind would be able to generate enough cash flows to keep its financial risk manageable. Second; operational risk. The Company has to maintain plant's capacity factor at 31% annually. Comfort is drawn from Hydrochina – the O&M operator – having both international and local market experience. Moreover, if the Company maintains its availability as per contract and is ready to deliver electricity to NTDC, NTDC is liable to pay the Company the whole of the tariff even if no purchase is done. The Government of Pakistan has provided a sovereign guarantee against dues from NTDC. The Company has adequate insurance coverage. The Jhimpir wind corridor is home to various other operational wind power plants, which provides further confidence in regards to performance of ACT. Moreover, company has met all its required benchmarks (Efficiency and Availability) during 9MFY18. The company's reserve build-up mechanism through SBLC providing coverage of one time on its financial obligations till maturity provides comfort to the ratings.

Upholding operational performance in line with agreed performance levels would remain a key rating driver. Improving build-up of DSRA from internal sources, indeed aligning, and company's repayment behavior with its financial profile would be ratings positive. Furthermore, external factors such as any adverse changes in the regulatory framework and weakening of financial profile owing to delays in cash flow receipts, may impact the ratings.

Disclosure	
Name of Rated Entity	ACT Wind (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation between long-term and short-term rating scale(Jun-17),Methodology | Criteria Modifiers(Jun-17),Methodology | Independent Power Producers (IPP)(May-17)
Related Research	Sector Study | Power(Apr-18)
Rating Analysts	Faizan Arif | faizan.sufi@pacra.com | +92-42-35869504

ACT Wind (Pvt.) Limited Profile	
Incorporated	2010
Major business lines	Independent Power Producer
Legal status	Private Limited
COD	October 2016
Plant Specifications	Wind Turbines
Natural Fuel	Wind
Plant Location	Jhimpir, Sindh
Head Office	Karachi

Industry Snapshot

- Pakistan total power generation is increasing on the back of new power projects under CPEC
- Pakistan's energy mix is shifting towards Gas/RLNG and coal from Furnace Oil and other expensive sources
- Pakistan has potential to generate more than 50,000MW electricity through Wind.
- Going forward, cheap renewable electricity will be a challenge to viability of Gas based power plants.

Ownership

- Tapal group, Ismail group, and Akhtar group have jointly set-up ACT Wind (Private) Limited- a 30MW (10 x 3 MW) wind power plant with equal shareholding.
- The total cost of the project was US$ 81mln – comprising 75% debt and 25% equity.

Governance

- BoD comprises nine members including the CEO. Each sponsor has three representatives on the Board.
- Mr. Maqsood Ismail is currently the Chairman of the board.
- Detailed reports are presented to the board comprising information on operational performance, receivables position and debt repayments.

Management

- Mr. Adnan Tapal, the CEO, has been spearheading the company since assuming the management control of the company. Mr. Tapal, carries with him more than 18 years of experience in various fields of industry.
- ACT Wind has a lean management structure. It has separate teams at head office and at plant site. The CEO is supported by a team of qualified and experienced professionals.

Business and Operational Risk

- ACT Wind operates under the Renewable Energy Policy 2006.
- Power Purchase Agreement is with National Transmission & Dispatch Company, and has tenure of 20 years.
- ACT opted for the Upfront Tariff for Wind Power Projects by NEPRA. The Company has a generation tariff (levelized tariff for years 1-20) of PKR 18.45 per Kilowatt hour (KWh).
- ACT has negotiated O&M contract with HydroChina for a period of 10 years, which commenced from the COD in October 2016.
- HydroChina has extensive expertise in engineering, design, and operations of Renewable Energy projects both within and outside of China. It is already involved in various other wind power projects in Pakistan, thereby, giving it an enhanced learning curve in the country's alternative energy sector.
- The contracted efficiency of the plant is 31% and availability has been set up to 88%. Plant has performed up to the mark with greater availability and efficiency factor than of its set benchmark.
- ACT's revenues will be exposed to seasonality due to variance in wind speeds during the year. March to September is high wind season. Under the Upfront tariff, the IPP bears wind risk.

Performance

- During 9MFY18, net electrical output generated to 56.667 GWh at a monthly average wind speed of 5.90 m/s (Oct16 to Jun17: 60.486 GWh @ 6.07 m/s average wind speed).
- ACT Wind turnover stood at ~PKR 684mln during 1HFY18 [1HFY17 [3M from COD]: PKR 278mln; FY17 [9M from COD]: PKR 1,292mln). Volatility in turnover reflects the variation in high/low wind season.
- Moreover, operating profit stood at PKR 400mln during 1HFY18 (1HFY17 [3M from COD]: PKR 221mln; FY17 [9M from COD]: PKR 883mln).

Financial Risk

- Debt financing constitutes 75% of the project cost; PKR 6,600mln.
- Commercial Facility of PKR 5,127mln and Musharika Financing of PKR 1,473mln have a 10 year tenure starting April-17 and are to be paid in 20 semi-annual payments. Three installments have been paid, with PKR 5,652mln till Dec-17.
- The yearly debt repayment can be made if the plant is operating at minimum 25% capacity factor.
- CPPA-G is invoiced in the first week of each month for the previous month's electricity. CPPA-G usually has 30 days to settle the payment from invoice date, and on average takes additional 40 days for complete settlement.
- DSRA SBLC is currently in place to maintain a minimum required balance in the DSRA, which will be equivalent to one semi-annual repayment.
- Increased receivables reflecting higher trade debtor days due to seasonal variation of wind (1HFY18: 236days, FY17: 191days). ACT is managing its working capital through internal cash flows.
- Interest and debt coverage ratios seen moderate amounting to 1.1x and 0.7x respectively during 1HFY18 (FY17: 1.9x; 1.3x)
- The company has a moderately leveraged capital structure (D/D+E: 1HFY18: 49%; 1HFY17: 74.6%; FY17: 47.4%).

ACT Wind (Pvt.) Limited

BALANCE SHEET	31-Dec-17	30-Jun-17	30-Jun-16	30-Jun-15
	6M	Annual	Annual	Annual
Non-Current Assets	**6,925**	**7,107**	**6,940**	**1,909**
Investments (Others)				
Equity	615	401	-	-
Debt	-	-	-	-
Current Assets	**937**	**958**	**297**	**70**
Trade Receivables	590	675	57	0
Other Current Assets	112	91	208	22
Cash & Bank Balances	235	192	32	48
Total Assets	**8,477**	**8,465**	**7,237**	**1,979**
Debt	**5,653**	**5,751**	**5,056**	**1,451**
Short-term	-	-	-	-
Long-term (Inlc. Current Maturity of long-term debt)	5,653	5,751	5,056	1,451
Other Short term liabilities (inclusive of trade payables)	254	275	548	47
Other Long term Liabilities	2	1	-	-
Shareholder's Equity	**2,568**	**2,438**	**1,633**	**481**
Total Liabilities & Equity	**8,477**	**8,465**	**7,237**	**1,979**
INCOME STATEMENT				
Turnover	**684**	**1,292**	**-**	**-**
Gross Profit	419	921	-	-
Operating Expense	(18)	(38)	(30)	(11)
Other Income	18	2	0	0
Financial Charges	(286)	(397)	-	-
Net Income	**129**	**488**	**(30)**	**(11)**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	303	766	(27)	(11)
Net Cash changes in Working Capital	67	(782)	475	27
Net Cash from Operating Activities	370	(16)	447	16
Net Cash from InvestingActivities	(203)	(844)	(5,034)	(1,860)
Net Cash from Financing Activities	(124)	1,020	4,570	1,867
Net Cash generated during the period	43	160	(16)	23
Ratio Analysis				
Performance				
Gross Margin	61.2%	71.3%	-	-
Net Margin	18.9%	37.8%	-	-
ROE	10.1%	21.6%	-	-
Liquidity				
Current Ratio (X)	3.2	2.8	0.4	1.5
Short Term Adjusted Quick Ratio	3.3	3.6	0.5	0.5
Capital Structure				
Total Debt/Total Debt+Equity	68.8%	70.2%	75.6%	75.1%

Rating Scale

Credit Rating Scale & Definitions

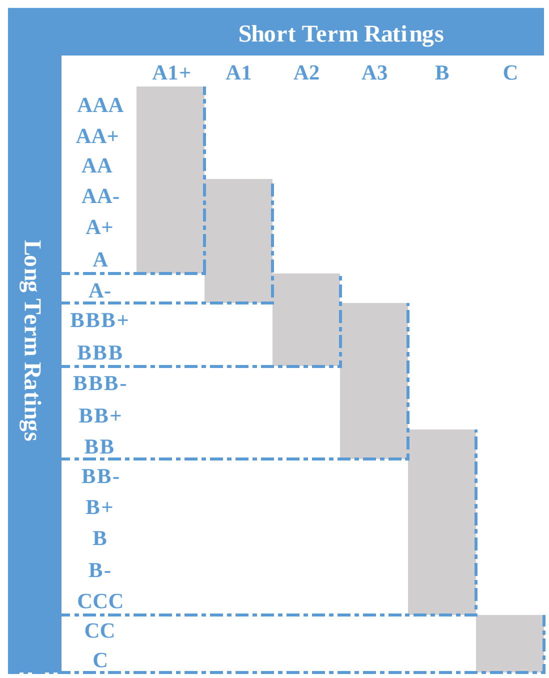
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short Term Ratings

A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

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