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
26-Dec-2019	A	A1	Stable	Maintain	-
26-Jun-2019	A	A1	Stable	Upgrade	-
27-Dec-2018	A-	A2	Stable	Maintain	-
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 ratings assigned take into account its strong ownership profile with Tapal Group, Ismail Group, and Akhtar Group, holding equal stake in the company. The commissioning of the plant was achieved on 7th October 2016. ACT Wind has an offtake agreement with NTDC. The project is established under the Policy for Development of Renewable Energy for Power Generation, 2006 which offers a guaranteed internal rate of return, cost indexation, and pass-through tariff structure. 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 management. Second; operational risk. The Company has to maintain the plant's capacity factor at 31% annually. Comfort is drawn from Hydrochina – the O&M operator – having both international and local market experience. The Company has adequate insurance coverage. Lately, the company has met all its required benchmarks (Efficiency and Availability). 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. The Company has been paying dividends which in times of need is an internal source of liquidity available. Ratings further draw comfort as the company is managing its working capital needs through internally generated cash flows while the utilization of short-term borrowings is nil. The ratings favorably factor in timely repayments of debt obligations since its commissioning date.

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 | IPP(Jun-19),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria | Rating Modifier(Jun-19)
Related Research	Sector Study | Power(Jan-19)
Rating Analysts	Arsalan Ahmed | arsalan.ahmed@pacra.com | +92-42-35869504

Profile

Plant The 30MW wind farm is set up on a Build, Own, and Operate (BOO) basis over 197 acres of land near Jhimpir village of Sindh. ACT Wind is a Renewable Energy Independent Power Producer (RE IPP) operating under the Renewable Energy Policy 2006 by the Alternative Energy Development Board (AEDB).

Tariff ACT WIND opted for the Upfront Tariff for Wind Power Projects by NEPRA. Under the 2013 NEPRA tariff determination for wind IPPs, the Company has a generation tariff (levelized tariff for years 1-20) of US¢ 16.6932 (PKR 16.2926) per Kilowatt hour (KWh) at the time of the financial close. The O&M, ROE, and interest components of the tariff are adjustable with the exchange rate and KIBOR on a quarterly basis, and insurance is adjustable on an annual basis. Upon COD of the project, the Company filed for tariff adjustment. adjustable on an annual basis. Upon COD of the project, the Company filed for tariff adjustment. On 9th November 2016, the new levelized tariff was adjusted upwards to PKR 18.45 per KWh. On 28th October 2019 the revised tariff of company is PKR 27.3036 per KWh.

Return On Project ACT WIND's key source of earnings is the revenue generated through the sale of electricity to the power purchaser, NTDC. The tariff is indexed to the Pakistan Rupee-US Dollar exchange rate and US CPI inflation. Debt Servicing comprises the non-escalable component while ROE, Insurance, Fixed and Variable O&M costs are part of the escalable component. The IRR of the project, as agreed with NEPRA, is 17%.

Ownership

Ownership Structure ACT WIND is equally owned by three groups; Tapal Group (33%), Ismail Group (33%), and Akhtar Group (33%).

Stability Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. The stability factor is considered strong.

Business Acumen The Tapal group is engaged in marketing of industrial plants and properties including power plant system, process plants and equipment, and mechanical and electrical products. The group has experience in power generation through TEL – a 126MW Residual Furnace Oil-based power plant that provides electricity to K-Electric. Ismail Industries Limited, one of the country's largest consumer goods company. It manufactures a wide range of confectionery; biscuits, snacks, and packaging films under the brand names of Candyland, Bisconni, SnackCity and Astro Films respectively. Akhtar group is engaged in the business of denim manufacturing through Akhtar Textile Industries (Private) Limited. The group is primarily engaged in textile and related products.

Financial Strength Company's sponsors have the ability to support the entity both on a continuing basis, and support in times of crisis. Additionally, financial strength of the sponsors is considered strong as the sponsors have well diversified profitable businesses.

Governance

Board Structure BoD comprises nine members including the CEO. Each sponsor has three representatives on the Board.

Members' Profile Mr. Maqsood Ismail is currently the Chairman of the board. The Chairman shall be nominated on rotation from each Group for a term of two years commencing from the first BoD meeting. The next chairman will be from Akhtar Group, followed by one from Tapal Group. The board has a vast experience in various sectors including but not limited to finance, accounting, project management, and construction and manufacturing.

Board Effectiveness Company's board members conduct board discussions where important matters related to the plant's efficiency, and monthly budget are discussed.

Financial Transparency Company's external auditor, BDO Ebrahim & Co. ranked as "A" category auditor by SBP, expressed an unqualified opinion on the company's financial statements as at end-Jun18. Whereas the audit for the FY 2019 is in process.

Management

Organizational Structure IPPs are generally featured by a flat organizational structure, mainly comprising finance and technical staff, while the engineering, construction, and operations of the plant are outsourced.

Management Team 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. He is supported by the experienced management team. The CEO shall be elected by the BoD on rotation from each Group for a term of two years. The next CEO will be from Ismail Group, followed by one from Akhtar Group.

Effectiveness Company's effective management played a significant role in empowering the organization through its progressive results. Additionally, management's effective decision-making cause processes more systematic while the robustness of control systems is considered a reflection of strong management, which is positive.

Control Environment The company takes advantage of advanced I.T. solutions to deliver comparatively better on many fronts. Moreover, Companys' quality of the I.T. infrastructure and the breadth and depth of activities performed has remained well satisfactory.

Operational Risk

Power Purchase Agreement As per the agreement, if the plant is available at the contracted capacity of 31% and is ready to produce and sell electricity to CPPA-G, CPPA-G will be liable to pay the Company the whole of the tariff even if no purchase is done.

Operation And Maintenance 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.

Resource Risk Resource variability risk is unique to the RE IPPs. As the wind farm's key resource is wind, it is exposed to wind risk. Wind risk as defined under RE policy 2006 as the risk of the variability of wind speed, and therefore of the effective energy output of the wind IPP. As per the Upfront Tariff, the entire risk related to wind variability would be absorbed by the ACT WIND.

Insurance Cover The company has adequate insurance coverage for property damage and business interruption.

Performance Risk

Industry Dynamics The government has devised a concrete plan to enhance share of renewable energy in the existing energy mix by 30 per cent till 2030. According to NEPRA, the wind power potential of Pakistan is 50,000MW with current installed capacity is 1,186MW and further of LOI 1,014 MW of wind energy, which have yet to achieve financial close in near future.

Generation During FY19, the net electrical output generated is 86,541 MWh (FY18: 86,649MWh) at a monthly average wind speed of 6.1 m/s (FY18: 6.3 m/s).

Performance Benchmark The contracted efficiency of the plant is 31% and availability has been set up to 88%. The plant has performed up to the mark with greater availability of and efficiency factor than of its set benchmark.

Financial Risk

Financing Structure Analysis Debt financing constitutes 75% of the project cost i.e. PKR 6,008mln. It is priced at 3-month KIBOR plus 3% p.a. The debt has a ten year repayment period, started from Apr'17, with payments to be made in twenty consecutive semiannual installments. DSRA account is being maintained by the company through SBLC that is equal to one upcoming principal and Interest payment. As at end-Jun 19, the principal of PKR 730mln has been paid while PKR 5,278mln is outstanding.

Liquidity Profile As at end-Jun19, total receivables of the company stood at ~PKR 1,170 mln (FY18: ~PKR 917mln), increase by ~28%. IPPs, being dependent on the GoP for payments, have been facing strained cash flows to meet their working capital needs.

Working Capital Financing The company is managing its working capital efficiently which is evident from its average cash cycle days (FY19: 195 days, FY18: 194 days). Working capital requirements are being managed through internal cash generation; during FY 19 EBITDA is PKR 1,656mln whereas invested in working capital of PKR 254mln.

Cash Flow Analysis FCFO (FY19: PKR ~1,646mln, FY18: PKR ~1,262mln) of the company has improved by ~30% owing to an increase in profitability, which, in turn, has improved the coverages of the company [Interest coverage: FY19: 2.6x, FY18: 2.3x].

Capitalization The company has a leveraged capital structure and stood at ~69% at end-Jun 19 (FY18: ~70%).

PKR mln'

ACT Wind (Pvt.) Limited

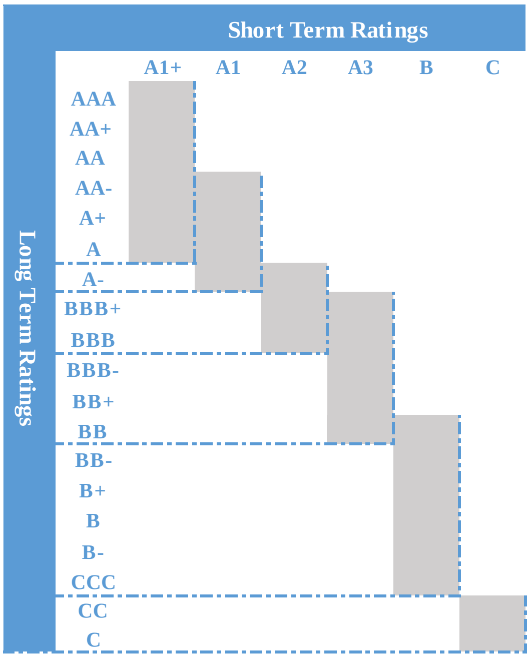
BALANCE SHEET	30-Jun-19	30-Jun-18	30-Jun-17	30-Jun-16
	FY19	FY18	FY17	FY16
Non-Current Assets	**6,373**	**6,740**	**7,107**	**6,940**
Investments (Others)				
Equity	0	216	401	-
Debt	-	-	-	-
Current Assets	**1,559**	**1,144**	**958**	**297**
Inventory	-	-	-	-
Trade Receivables	1,170	917	675	57
Other Current Assets	122	116	91	208
Cash & Bank Balances	267	111	192	32
Total Assets	**7,933**	**8,100**	**8,465**	**7,237**
Debt	**5,279**	**5,543**	**5,751**	**5,056**
Short-term	-	-	-	-
Long-term (Inlc. Current Maturity of long-term debt)	5,279	5,543	5,751	5,056
Other Short term liabilities (inclusive of trade payables)	230	159	275	548
Other Long term Liabilities	3	2	1	-
Shareholder's Equity	**2,420**	**2,396**	**2,438**	**1,633**
Total Liabilities & Equity	**7,933**	**8,100**	**8,465**	**7,237**
INCOME STATEMENT				
Turnover	**1,903**	**1,485**	**1,292**	**-**
Gross Profit	1,332	948	921	-
Operating Expense	(47)	(53)	(38)	(30)
Other Income	43	44	2	0
Financial Charges	(668)	(548)	(397)	-
Net Income	**660**	**384**	**488**	**(30)**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	1,646	1,262	1,161	(27)
Net Cash changes in Working Capital	(180)	(385)	(782)	475
Net Cash from Operating Activities	798	346	(16)	447
Net Cash from InvestingActivities	258	207	(844)	(5,034)
Net Cash from Financing Activities	(899)	(634)	1,020	4,570
Net Cash generated during the period	156	(81)	160	(16)
Ratio Analysis				
Performance				
Turnover Growth	28.2%	14.9%	0.0%	0.0%
Gross Margin	70.0%	63.9%	71.3%	-
Net Margin	34.7%	25.8%	37.8%	-
ROE	27.3%	16.0%	20.0%	-
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.7x	1.6x	1.9x	(0.1)x
Interest Coverage (X) (FCFO/Gross Interest)	2.6x	2.3x	2.9x	-
FCFO Pre-WC/Gross interest+CMLTD+Uncovered STB	1.7x	1.6x	1.9x	(0.1)x
FCFO POST-WC/Gross interest+CMLTD+Uncovered STB	1.5x	1.1x	0.6x	0.9x
Liquidity				
Current Ratio (X)	2.9x	3.2x	2.8x	0.4x
Short Term Adjusted Quick Ratio	26.0x	20.2x	3.6x	0.5x
Capital Structure				
Total Debt/Total Debt+Equity	68.6%	69.8%	70.2%	75.6%

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.

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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)
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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)

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(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)
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(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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