The Pakistan Credit Rating Agency Limited

# Rating Report

## ACT2 Din Wind (Pvt) Limited ( formerly: ACT2 Wind (Pvt.) Limited )

**Report Contents**



**Rating History**

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|---|---|---|---|---|---|
| 16-Jan-2024 | A- | A2 | Stable | Maintain | - |
| 18-Jan-2023 | A- | A2 | Stable | Upgrade | - |
| 19-Jul-2022 | BBB+ | A2 | Stable | Maintain | - |
| 19-Jul-2021 | BBB+ | A2 | Stable | Upgrade | - |
| 29-Jul-2020 | BBB- | A3 | Developing | Initial | - |

### Rating Rationale and Key Rating Drivers

Act2 Din Wind (Pvt.) Limited (“Act2 Din Wind or the Plant”) is 50MW wind power plant located at Jhimpir, Sindh. Act2 Din Wind has signed Energy Purchase Agreement ("EPA") with CPPA-G for a period of 25 years from the date of COD, as per the EPA, in case of non-project missed volumes the power purchaser shall be liable to pay the missed volumes calculated using tariff rates. However, the project revenues and cash flows are exposed to wind risk, there is seasonal variation in the wind speed which affect the electricity generation, and ultimately cash flows may face seasonality. The plant successfully achieved its Commercial Operations (COD) On February 27, 2022 and has been supplying electricity to the national grid since then. The Company has adequate insurance coverage to cover the risk of business interruptions, marine & erection etc. During the period, FY23, Act2 Din Wind generated approx. 139Gwh of electricity and recorded topline of PKR ~1,960mln, with a Net Profit of PKR ~439mln respectively, being the first year of its operation. Working capital requirements of Act Wind are fulfilled through in-house adequate cash flow generation, without any utilization of short term borrowing lines. Free cash flows of the Company are in a comfortable position to make timely debt repayments. The Project is maintaining the Debt Service Reserve Account (DSRA), which is backed by 6 months SBLCs, in total providing coverage of six months on its financial obligations till maturity. The leveraging of Act2 Din Wind is yet sizeable and will gradually decline along with the life of the project as the repayment of project-related loan has started.

Comfort is drawn from the group association, having strong financial backing and relevant experience. Management has put forth the requisition for true up tariff to NEPRA, final decision in this respect is awaited. Upgrading operational performance in line with agreed performance levels is important. Sound cash flow generation remained congenial for the ratings.

**Disclosure**

| | |
|---|---|
| **Name of Rated Entity** | ACT2 Din Wind (Pvt) Limited ( formerly: ACT2 Wind (Pvt.) Limited ) |
| **Type of Relationship** | Solicited |
| **Purpose of the Rating** | Entity Rating |
| **Applicable Criteria** | Methodology \| Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology \| Independent Power Producer Rating(Jul-23),Methodology \| Rating Modifiers(Apr-23) |
| **Related Research** | Sector Study \| Power(Jan-23) |
| **Rating Analysts** | Muhammad Mubashir Nazir \| mubashir.nazir@pacra.com \| +92-42-35869504 |

## Profile

**Plant** ACT2 Din Wind Private Limited is a Renewable Energy Independent Power Producer (RE IPP) developed under the Renewable Energy Policy 2006. The company has setup 50MW wind power plant located in Jhimpir District Thatta, Sindh. The Company has achieved its COD on 27th February, 2022.

**Tariff** ACT2 Wind is awarded a cost-plus tariff for wind power projects by NEPRA. Under the 2019 NEPRA tariff determination for wind IPPs, the company has a generation tariff PKR 7.2340 per Kilowatt hour (KWh) for years 1-10 and a generation tariff of PKR 2.3790 per Kilowatt hour (KWh) for years 11-25. The levelized tariff for the project is US¢ 4.7212/KWh at the time of the financial close. Currently the tariff is indexed and is charged at PKR 14.6885 at Oct-Dec 2023 (Jan-March 2022: PKR 8.8230).

**Return On Project** The IRR of the project, as agreed with NEPRA, is 14%.

## Ownership

**Ownership Structure** ACT2 WIND is owned by Akhter Group, Ismail Group, Tapal Group and Din Group, which owns 15.50%, 20%, 15.5%, and 49% respectively.

**Stability** The group has strong presence in diversified business segments hence stability is considered strong.

**Business Acumen** The sponsor groups are engaged in the diversified business portfolios and this is their 2nd foray into the power sector (Wind Power).

**Financial Strength** The company's sponsors have the ability to support the entity both on a continuing basis, and support in times of crisis. Additionally, the 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 group has presence on the board.

**Members' Profile** Mr. Mustafa Tapal 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 Ismail Group. However the chairman can continue his duty for a longer term with the consensus of board members.

**Board Effectiveness** The board has a vast experience in various sectors including but not limited to finance, accounting, project management, and construction and manufacturing. Company's board members conduct regular board discussions where important matters related to the plant's efficiency, and monthly budget are discussed.

**Financial Transparency** The company's external auditor, BDO Ebrahim & Co. ranked as "A" category auditor by ICAP, expressed an unqualified opinion on the company's financial statements as at end-Jun23.

## 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. Khurshid Akhter, the CEO, has been spearheading the company since assuming the management control of the company. Mr. Akhter carries with him over two decades 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 Tapal Group. However, the term of existing CEO will be extended with the mutual consensus of the members.

**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, the Company's quality of the I.T. infrastructure and the breadth and depth of activities performed has remained well satisfactory.

## Operational Risk

**Power Purchase Agreement** ACT2 Wind is being developed under the Renewable Energy Policy 2006. EPA is with CPPA-G, and has tenure of 25 years.

**Operation And Maintenance** The Company has signed the O&M contract with Hydro China who has extensive expertise in engineering, design, and operations of Renewable Energy projects both within and outside of China.

**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 Company.

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

## Performance Risk

**Industry Dynamics** The total installed generation capacity of the country is above 40,000MW. Thermal energy mix contributes 61% to the installed power generation capacity followed by hydel electricity capacity which stands at 24%. Total generation during FY22 was recorded at 153,360GWh (FY21: 143,090GWh), witnessing a 7% increase.

**Generation** During FY23, the net electrical output generated is 138,669 MWh (FY22: 81,655) against the benchmark generation of 438,000MWh (FY22; 148,800 MWh) with the load factor of 31.66% (FY22" 54.88%)

**Performance Benchmark** The capacity factor is 38% by NEPRA. During FY23 the average generation achieved more than benchmark by ACT2 due to increasing wind speed and managing the plant.

## Financial Risk

**Financing Structure Analysis** The total project cost is USD 62.95mln, consisting of 80% of debt (USD 50.36ml) and 20% of equity (USD 12.59mln). The debt financing constitutes foreign loan of USD 25mln (3MLIBOR+4.25%) and local loan of PKR 4.5bln (SBP refinancing rate of 3%+2%). The local loan is eligible for refinancing under the State Bank of Pakistan (SBP) Financing Scheme for Renewable Energy. The foreign loan has a maturity of 13 years while the local loan has maturity of 10 years. Both the local and foreign loans are repayable in quarterly installments. The loan balance outstanding as of June 20233 is PKR 10,458mln.

**Liquidity Profile** As at end-June23, total receivables of the company stood at PKR 790mln (FY22: PKR 436mln). Government pays IPPs as per agreement and the Company also receives its share against outstanding receivables which improves the liquidity of the Company.

**Working Capital Financing** The company is managing its working capital decently which is evident from its average cash cycle days FY23 at 114 days (FY22: 266 days). Working capital requirements are being managed through internal cash generation. Although cash cycle days are on a higher side but are very much aligned with the industry averages.

**Cash Flow Analysis** FCFOs of the Company has increased and stood at PKR 903mln (FY22: 482mln; FY21: -23mln; FY20: PKR -11mln) owing to increasing EBITDA due to profit in summer although it was lost in winter. The Company reported Profit after tax of PKR 438mln (June 2022: PKR 299mln).

**Capitalization** The company has a leveraged capital structure and stood at 79.6% at end-June23 (FY22: 80.4%; FY21: 80.7%). The leveraging only represent project related loan and with timely repayments the gearing indicators will be diluted in coming years.

PKR mln

| ACT2 Din Wind Pvt. Limited | Jun-23 | Jun-22 | Jun-21 | Jun-20 |
|---|---|---|---|---|
| Power | 12M | 12M | 12M | 12M |
| **A BALANCE SHEET** | | | | |
| 1 Non-Current Assets | 12,702 | 11,161 | 5,104 | 266 |
| 2 Investments | - | - | - | - |
| 3 Related Party Exposure | - | - | - | - |
| 4 Current Assets | 1,658 | 2,047 | 1,074 | 226 |
| *a Inventories* | - | - | - | - |
| *b Trade Receivables* | *790* | *436* | - | - |
| **5 Total Assets** | 14,360 | 13,208 | 6,178 | 492 |
| 6 Current Liabilities | 880 | 1,415 | 30 | 12 |
| *a Trade Payables* | *757* | *1,388* | *28* | - |
| 7 Borrowings | 10,458 | 9,226 | 4,829 | 10 |
| 8 Related Party Exposure | 257 | 245 | 128 | - |
| 9 Non-Current Liabilities | 11 | 8 | 6 | - |
| **10 Net Assets** | 2,753 | 2,314 | 1,185 | 470 |
| **11 Shareholders' Equity** | 2,753 | 2,314 | 1,185 | 470 |
| **B INCOME STATEMENT** | | | | |
| **1 Sales** | 1,960 | 599 | - | - |
| *a Cost of Good Sold* | *(778)* | *(267)* | - | - |
| **2 Gross Profit** | 1,182 | 332 | - | - |
| *a Operating Expenses* | (43) | (24) | (28) | (4) |
| **3 Operating Profit** | 1,139 | 308 | (28) | (4) |
| *a Non Operating Income or (Expense)* | *45* | *156* | *5* | *3* |
| **4 Profit or (Loss) before Interest and Tax** | 1,184 | 464 | (23) | (2) |
| *a Total Finance Cost* | *(740)* | *(163)* | *(2)* | *(0)* |
| *b Taxation* | *(6)* | *(2)* | *(2)* | - |
| **6 Net Income Or (Loss)** | 439 | 299 | (27) | (2) |
| **C CASH FLOW STATEMENT** | | | | |
| *a Free Cash Flows from Operations (FCFO)* | *903* | *482* | *(23)* | *(11)* |
| *b Net Cash from Operating Activities before Working Capital Changes* | *905* | *484* | *(22)* | *(11)* |
| *c Changes in Working Capital* | *(717)* | *906* | *(218)* | *11* |
| **1 Net Cash provided by Operating Activities** | 188 | 1,390 | (240) | (1) |
| **2 Net Cash (Used in) or Available From Investing Activities** | (2,166) | (6,238) | (4,840) | (211) |
| **3 Net Cash (Used in) or Available From Financing Activities** | 1,242 | 5,342 | 5,692 | 415 |
| **4 Net Cash generated or (Used) during the period** | (736) | 494 | 612 | 203 |
| **D RATIO ANALYSIS** | | | | |
| **1 Performance** | | | | |
| *a Sales Growth (for the period)* | 227.3% | -- | N/A | N/A |
| *b Gross Profit Margin* | 60.3% | 55.4% | N/A | N/A |
| *c Net Profit Margin* | 22.4% | 49.9% | N/A | N/A |
| *d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)* | 9.5% | 231.8% | N/A | N/A |
| *e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh* | 16.6% | 17.6% | N/A | N/A |
| **2 Working Capital Management** | | | | |
| *a Gross Working Capital (Average Days)* | 114 | 266 | N/A | N/A |
| *b Net Working Capital (Average Days)* | -86 | -166 | N/A | N/A |
| *c Current Ratio (Current Assets / Current Liabilities)* | 1.9 | 1.4 | 35.5 | 18.4 |
| **3 Coverages** | | | | |
| *a EBITDA / Finance Cost* | 1.2 | 3.0 | -13.5 | N/A |
| *b FCFO / Finance Cost+CMLTB+Excess STB* | 0.6 | 0.6 | -0.1 | N/A |
| *c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)* | 65.4 | 29.6 | -199.9 | -0.9 |
| **4 Capital Structure** | | | | |
| *a Total Borrowings / (Total Borrowings+Shareholders' Equity)* | 79.6% | 80.4% | 80.7% | 2.0% |
| *b Interest or Markup Payable (Days)* | 0.0 | 0.0 | 0.0 | N/A |

## Credit Rating

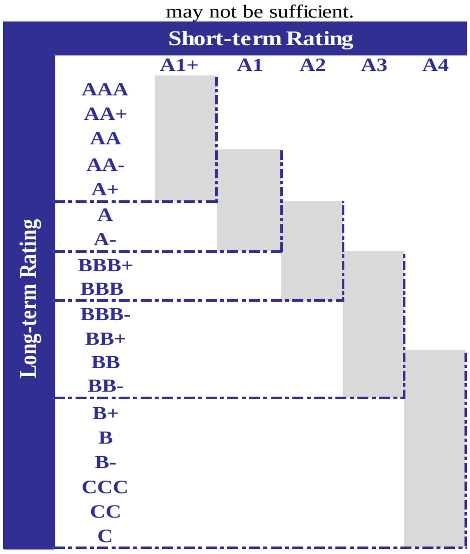
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

### Long-term Rating

| Scale | Definition |
|---|---|
| AAA | **Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments |
| AA+<br>AA<br>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+<br>A<br>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+<br>BBB<br>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+<br>BB<br>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+<br>B<br>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<br>CC<br>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 Rating

| Scale | Definition |
|---|---|
| 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 |
| A4 | The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient. |




**The correlation shown is indicative and, in certain cases, may not hold.*

**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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) 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.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

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(Credit Rating Companies Regulations,2016)

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(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**
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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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(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 | Clause 11-(A)(p).
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(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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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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(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 | 17-(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 | 17-(d)
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(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 | 14-3(f)(vii)
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