



The Pakistan Credit Rating Agency Limited

Rating Report

ACT2 Wind (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
19-Jul-2021	BBB+	A2	Stable	Upgrade	-
29-Jul-2020	BBB-	A3	Developing	Initial	-

Rating Rationale and Key Rating Drivers

The rating recognizes that ACT2 Wind is now clearly heading towards achieving the commercial and sustainable operations. The project has also taken significant strides towards completion and management is committed to achieve the milestone. Akhter Group, Ismail Group and Tapal Group is setting up a 2nd JV of 50 MW wind power plant - ACT2 Wind (Pvt) Limited. The ratings incorporate the Group's previous experience in successfully commissioning and operating a 30MW Wind Energy Power Plant (ACT Wind Pvt Limited). ACT2 Wind is awarded a cost plus tariff, with the payments to be received from CPPA-G backed by the sovereign guarantee. The required commercial operations date as defined under EPA is fifteen months from construction start date (July'20). The project has completed 80% of off-shore and 64% of on-shore work. Hydrochina International Engineering Company Limited & Hangzhou Huachen Electric Power Control Company are the EPC contractors, comfort is drawn that they have ~40 years of worldwide experience in the wind power technology. In case of delay in achieving the COD, the EPC contractors will be liable to pay the liquidated damages of \$ 28,000 per day backed by irrevocable bank guarantee of 15% of EPC cost. The construction contractor will be the O&M operator for two years after COD; it will provide the warranty bond (10% of EPC cost) in the form of irrevocable bank guarantee for 24 months after COD. These bank guarantees provide additional cushion for the sustainable financial risk profile. The project will be financed through debt to equity mix of 80:20, where debt comprises an equal mix of local and foreign lenders. So far owners have injected equity of PKR 869mln and debt quantum is USD 3.4mln and PKR 3.1bln of foreign and local facility respectively. The company will maintain the Debt Service Reserve Account (DSRA), which will be backed by 6 months SBLCs, in total providing coverage of six months on its financial obligations till maturity. Further, the project revenues and cash flows are exposed to wind risk, there is seasonal variation in the wind speed which effect the electricity generation, and ultimately cash flows may face seasonality. However, historical wind speeds provide comfort that ACT2 Wind would be able to generate enough cash flows to keep its financial risk manageable. Comfort is drawn from the group association, having strong financial backing and relevant experience as well.

The Company has signed Energy Purchase Agreement ("EPA") with CPPA-G, 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. The Government of Pakistan has given payment guarantee against dues from CPPA-G. The Company has adequate insurance coverage to cover the risk of business interruptions, marine & erection etc. Furthermore, external factors such as any adverse changes in the regulatory framework or prolonged delay in achieving COD may impact the ratings. Upholding financial discipline is also a consideration.

Disclosure

Name of Rated Entity	ACT2 Wind (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Independent Power Producer Rating(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Power(Jan-21)
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Profile

Plant ACT2 Wind Pvt Limited is a Renewable Energy Independent Power Producer (RE IPP) developed under the Renewable Energy Policy 2006. The company is setting up 50MW wind power plant located in Jhimpir District Thatta, Sindh.

Tariff ACT2 Wind is awarded 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 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.

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

Ownership

Ownership Structure ACT2 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.

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

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. 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. 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.

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. Khurshed Akhtar, the CEO, has been spearheading the company since assuming the management control of the company. Mr. Akhtar 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 Tapal 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, Company's quality of the I.T. infrastructure and the breadth and depth of activities performed has remained well satisfactory.

Completion Risk

Engineering And Procurement ACT2 Wind has signed an Onshore Contract with HydroChina International Engineering Company Limited and Offshore supply contract with Hangzhou Huachen Electric Power Control Company of ~USD 12mln and ~USD 45mln respectively. Wind power projects' cost is mainly comprised of wind turbines and other instruments, hence cost of offshore EPC contract is major component of total EPC cost. HydroChina is responsible for the overall management, coordination, and implementation of the project.

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.

Pre-Commissioning Progress HydroChina International Engineering Company Limited has extensive expertise in Engineering and Design of Renewable Energy projects both within and outside of China. Subject Company is already involved in other wind power projects in Pakistan. As of April'21, company has completed 64% of construction work.

Performance Default Risk Insurance is attained for material damage, third party liability, and delay in startup affecting the profits. EPC contractors will be liable to pay Liquidated Damages (LDs) as per the contract if benchmark performance ratio is not met or in the event that plant is not functional by the Required COD.

Performance Risk

Industry Dynamics Pakistan has the potential to generate more than 50,000 MW electricity through Wind. GoP tasked AEDB to produce 5% of total generation through RE by 2030.

Operation And Maintenance The long term O&M contract is yet to be finalized.

Resource Risk Act2 Wind is successfully operating one wind power project in Jhimpir whereby the average wind speed is 7.6 Meter/second. The wind speed in Jhimpir on average is 7.6 Meter/second. The risk is considered low.

Performance Benchmark The required availability and the capacity factor is 97% and 38% by NEPRA.

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 the maturity of 13 years while the local loan has maturity of 10 years. Both the local and foreign loan are repayable in quarterly installments. The repayment of loan will begin after the first draw down to be expected in July-20.

Liquidity Profile As circular debt continues to be an issue for companies operating in power sector. Consequently, IPPs have to manage their liquidity requirements from short-term borrowings.

Working Capital Financing Renewable IPPs do not have to pay for fuel which minimize their working capital needs.

Cash Flow Analysis The stability and sustainability of future cash flows of ACT2 Wind depends completely on continuous performance of its wind turbines. The company would have to make quarterly principal repayments of debt, which also includes foreign debt. The company will maintain the Payment Service Reserve Account (PSRA), which will be equivalent to three quarterly payments(9 months). PSRA will be filled by 6 months SBLC and 3 months cash flows.

Capitalization As at end Dec-20 ACT2 Wind has availed local facility of PKR ~PKR 1,700mln (June'20: nil) but the leveraging of the company will increase significantly as the project debt constitutes 80% (~USD 50.36ml) of total estimated project cost (~USD 62.95mln).



The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Act2 Wind Pvt Ltd Power	Dec-20 6M	Jun-20 12M	Jun-19 12M	Jun-18 12M
A BALANCE SHEET				
1 Non-Current Assets	838	263	52	45
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,669	226	12	2
a Inventories	-	-	-	-
b Trade Receivables	-	-	-	-
5 Total Assets	2,507	489	64	47
6 Current Liabilities	4	12	1	0
a Trade Payables	-	-	-	-
7 Borrowings	1,700	-	-	-
8 Related Party Exposure	48	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	754	477	63	47
11 Shareholders' Equity	754	477	63	47
B INCOME STATEMENT				
1 Sales	-	-	-	-
a Cost of Good Sold	-	-	-	-
2 Gross Profit	-	-	-	-
a Operating Expenses	(20)	(4)	(3)	(0)
3 Operating Profit	(20)	(4)	(3)	(0)
a Non Operating Income or (Expense)	2	3	-	-
4 Profit or (Loss) before Interest and Tax	(19)	(2)	(3)	(0)
a Total Finance Cost	(0)	(0)	(0)	(0)
b Taxation	-	-	-	-
6 Net Income Or (Loss)	(19)	(2)	(3)	(0)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	(17)	(11)	(4)	(0)
b Net Cash from Operating Activities before Working Capital Changes	(19)	(11)	(4)	(0)
c Changes in Working Capital	(1,527)	11	1	0
1 Net Cash provided by Operating Activities	(1,546)	(1)	(4)	(0)
2 Net Cash (Used in) or Available From Investing Activities	(575)	(211)	(6)	(11)
3 Net Cash (Used in) or Available From Financing Activities	1,997	415	19	9
4 Net Cash generated or (Used) during the period	(124)	203	9	(2)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	N/A	N/A	N/A	N/A
b Gross Profit Margin	N/A	N/A	N/A	N/A
c Net Profit Margin	N/A	N/A	N/A	N/A
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	N/A	N/A	N/A	N/A
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh	N/A	N/A	N/A	N/A
2 Working Capital Management				
a Gross Working Capital (Average Days)	N/A	N/A	N/A	N/A
b Net Working Capital (Average Days)	N/A	N/A	N/A	N/A
c Current Ratio (Current Assets / Current Liabilities)	422.2	18.4	15.9	6.8
3 Coverages				
a EBITDA / Finance Cost	N/A	N/A	N/A	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	N/A	N/A	N/A	N/A
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-51.2	0.0	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	69.9%	0.0%	0.0%	0.0%
b Interest or Markup Payable (Days)	N/A	N/A	N/A	N/A
c Entity Average Borrowing Rate	0.0%	--	--	--

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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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)

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- 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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- (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

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- (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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- (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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- (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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