



The Pakistan Credit Rating Agency Limited

Rating Report

Liberty Wind Power 1 Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
04-Mar-2021	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Liberty Mills Limited is setting up a 50MW wind power plant "Liberty Wind Power 1 Limited" in Jhimpir, District Thatta, Sindh. The ratings incorporate the Group's previous experience in successfully commissioning and operating a 200MW RFO based Power Plant (Liberty Power tech Limited). The required commercial operations date as defined under EPA is fifteen months from construction start date and till January'21, the construction of the project is ~43% completed. The Company operates in the regulated power sector. Liberty Wind Power 1 is awarded a cost plus tariff, with the payments to be received from CPPA-G backed by the sovereign guarantee. Currently, project is under construction phase; 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. So far, owners have injected 100% of equity which lends support to achieve timely completion. In case of delay in achieving the COD, the EPC contractors will be liable to pay the liquidated damages of \$ 30,500 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. Further, the company maintains the Debt Service Reserve Account (DSRA), which is 100% filled by 6 months SBLs, in total providing coverage of six months on its financial obligations till maturity. 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 and wind assessment by Mott MacDonald provide comfort that Liberty Wind Power 1 would be able to surpass the benchmark capacity factor and generate enough cash flows to keep its financial risk manageable.

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 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, which the management is confident to achieve, keeping in consideration the progress of project. Upholding financial discipline is also a consideration.

Disclosure

Name of Rated Entity	Liberty Wind Power 1 Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology IPP(Jun-20),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria Rating Modifier(Jun-20)
Related Research	Sector Study Power(Jan-21)
Rating Analysts	Saadat Mirza saadat.mirza@pacra.com +92-42-35869504

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Profile

Plant Liberty Wind Power-1 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 Liberty Wind Power-1 Ltd is awarded cost-plus tariff for wind power projects by NEPRA. Under NEPRA tariff determination for wind IPPs, the company has a generation tariff PKR 7.331 per Kilowatt hour (KWh) for years 1-10 and generation tariff of PKR 2.4026 per Kilowatt hour (KWh) for years 11-25. The levelized tariff for the project is US¢ 4.7824/KWh at the time of the financial close.

Return On Project The dollar IRR of Liberty power, as agreed with NEPRA, is ~14%.

Ownership

Ownership Structure Liberty Wind Power-1 wholly owned by Liberty Group.

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

Business Acumen Liberty Mills Limited incorporated in February 1965, is in the business of manufacturing and processing all kinds of textile fabrics and made-ups. Liberty group has gradually diversified in the power sector. They already running a 200MW RFO based IPP since June'11.

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

Governance

Board Structure The board is dominated by the sponsor's representatives. The company's board of directors comprises of three directors including CEO. All the board members are from Liberty Group.

Members' Profile Mr. Azam Sakrani, the Chairman and CEO, has been associated with the Group in different capacities and is currently chairing the Board with his visionary leadership and vast experience.

Board Effectiveness Company's board members conduct board discussions where important matters related to the plant's efficiency, and monthly budget are discussed. The board has been actively involved in providing strategic guidance to the company and implementing strong internal control framework.

Transparency Deloitte is the external auditor of the company. They have expressed an unqualified opinion on the company's financial statements at end-Jun20.

Management

Organizational Structure The management team comprises qualified professionals possessing sufficient experience in various sectors. The company has a well-defined organizational structure with the CEO reporting to the board.

Management Team Mr. Azam Sakrani, the CEO, carries with him over two decades of experience in the banking and finance industry and industrial finance. Mr. Kashif Hanif is appointed as CFO.

Effectiveness Over the years 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 robustness of control systems is considered a reflection of strong management, which is considered positive.

Control Environment The company takes advantage of advanced I.T. solutions to deliver comparatively better on many fronts. Moreover, Liberty Power quality of the I.T. Infrastructure and the breadth and depth of activities performed has remained well satisfactory.

Completion Risk

Engineering And Procurement Liberty Wind Power-1 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 45.94mln 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 Liberty Wind Power-1 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.

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 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 1,235MW and further of LOI 610 MW of wind energy, which have achieved financial close and 2,485MW power projects at different stages.

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

Fuel Supply Agreement Liberty Wind Power-1 is in Jhimpir whereby the average wind speed is 7.6 Meter/second. The wind speed in Jamshoro is on average is 7.3 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 approved under NEPRA is ~USD 63.90mln, consisting of 80% of debt (~USD 51.12ml) and 20% of equity (~USD 12.78mln). 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, although company have procured the facility of PKR 850mln.

Cash Flow Analysis The stability and sustainability of future cash flows of Liberty Wind Power-1 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 two quarterly payments (6 months). PSRA will be filled by 6 months SBLC.

Capitalization As at end Dec-20 Liberty Wind Power-1 has availed local facility of PKR ~PKR 361mln (June'20: PKR~242mln) with leveraging at 18% as at end Dec-20 and the leverage of the company will increase further significantly as the project debt constitutes 80% (~USD 51.12ml) of total estimated project cost (~USD 63.90mln).



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Financial Summary
PKR mln

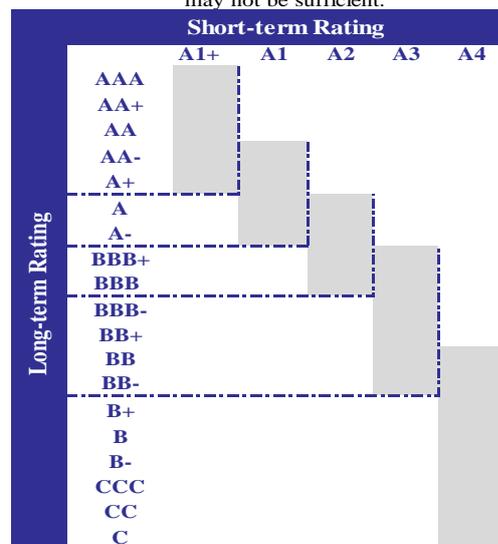
Liberty Wind Power 1 Ltd Power	Dec-20 6M	Jun-20 12M	Jun-19 12M	Jun-18 12M
A BALANCE SHEET				
1 Non-Current Assets	2,127	547	39	36
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	368	1,888	1	0
<i>a Inventories</i>	-	-	-	-
<i>b Trade Receivables</i>	-	-	-	-
5 Total Assets	2,496	2,434	40	37
6 Current Liabilities	21	21	1	0
<i>a Trade Payables</i>	-	-	-	-
7 Borrowings	382	263	-	-
8 Related Party Exposure	64	64	-	-
9 Non-Current Liabilities	2	2	1	1
10 Net Assets	2,027	2,085	38	36
11 Shareholders' Equity	2,028	2,085	38	36
B INCOME STATEMENT				
1 Sales	-	-	-	-
<i>a Cost of Good Sold</i>	-	-	-	-
2 Gross Profit	-	-	-	-
<i>a Operating Expenses</i>	(22)	(17)	(14)	(8)
3 Operating Profit	(22)	(17)	(14)	(8)
<i>a Non Operating Income or (Expense)</i>	(30)	(1)	-	-
4 Profit or (Loss) before Interest and Tax	(52)	(18)	(14)	(8)
<i>a Total Finance Cost</i>	(5)	-	-	-
<i>b Taxation</i>	-	(1)	-	-
6 Net Income Or (Loss)	(57)	(19)	(14)	(8)
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	(57)	(16)	(11)	(5)
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	(57)	(16)	(11)	(5)
<i>c Changes in Working Capital</i>	(8)	(192)	1	0
1 Net Cash provided by Operating Activities	(65)	(208)	(10)	(5)
2 Net Cash (Used in) or Available From Investing Activities	(1,581)	(501)	(5)	(9)
3 Net Cash (Used in) or Available From Financing Activities	119	2,371	16	13
4 Net Cash generated or (Used) during the period	(1,528)	1,663	0	(2)
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	N/A	N/A	N/A	N/A
<i>b Gross Profit Margin</i>	N/A	N/A	N/A	N/A
<i>c Net Profit Margin</i>	N/A	N/A	N/A	N/A
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	N/A	N/A	N/A	N/A
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	N/A	N/A	N/A	N/A
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	N/A	N/A	N/A	N/A
<i>b Net Working Capital (Average Days)</i>	N/A	N/A	N/A	N/A
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	17.7	90.9	0.6	4.0
3 Coverages				
<i>a EBITDA / Finance Cost</i>	-11.0	N/A	N/A	N/A
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	-5.1	-1.3	-26.3	N/A
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	-3.6	-20.3	0.0	0.0
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	18.0%	13.5%	0.0%	0.0%
<i>b Interest or Markup Payable (Days)</i>	10.1	N/A	N/A	N/A
<i>c Entity Average Borrowing Rate</i>	2.7%	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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- 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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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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- (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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- (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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