The Pakistan Credit Rating Agency Limited

Rating Report

Hawa Energy (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Apr-2023	A	A1	Stable	Maintain	-
27-Apr-2022	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Hawa Energy Private Limited (HEPL) is operating a 49.735MW wind power plant, located in Jhimpir, District Thatta, Sindh. The project is established under the Renewable Energy Policy 2006 by the Alternative Energy Development Board (AEDB). The plant achieved its commercial operations date (COD) in March 2018. Under the signed PPA with CPPAG, the plant will provide electricity to the national grid for a period of 20 years from the COD. The Government of Pakistan has provided a sovereign guarantee against dues from CPPA-G. The project revenues and cash flows are exposed to wind risk and operational risk. The operational risk aspect is mitigated by achieving benchmarks of availability and efficiency as agreed in the Energy Purchase Agreement (EPA). The working capital requirements are fulfilled through in-house adequate cash flow generation. Net cash from operating activities of the Company stood at ~PKR 3,833mln for CY22 (CY21: ~PKR 2,034mln). During CY22, the plant delivered total energy of 140.4GWh (CY21: 160.9GWh) to the national grid. The change in output delivered is subject to wind speed pattern in the region. HEPL is successfully making repayments against its project debt (USD 95.3mln) that is entirely obtained from US International Development Finance Corporation (DFC). The company has successfully repaid approximately 40.55% of its long-term project debt which adds positively to the financial risk profile.

Upholding operational performance in line with agreed performance levels is important. Receipt pattern from power purchaser, debt repayment behavior and liquidity cushion would impact the directions of ratings. Going forward, timely repayment of significant portion of project debt along with meeting operational benchmarks will contribute towards driving the ratings upwards.

Disclosure

Name of Rated Entity	Hawa Energy (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22),Methodology | Independent Power Producer Rating(Jun-22)
Related Research	Sector Study | Power(Jan-23)
Rating Analysts	Hashim Yazdani | hashim.yazdani@pacra.com | +92-42-35869504

Profile

Plant Hawa Energy Private Limited (HEPL) owns a 49.735MW Wind Power Plant located in Jhimpir, District Thatta, Sindh. The plant achieved its Commercial Operations Date (COD) in March 2018.

Tariff As per the agreement signed with National Electric Power Regulatory Authority (NEPRA), the company is allowed to charge a levelized tariff of PKR 10.5733/kWh (US cents 10.4170/kWh) subject to applicable indexations and adjustments as per NEPRA Tariff determination.

Return On Project The IRR of the project as agreed with NEPRA is 17%.

Ownership

Ownership Structure HEPL is a wholly owned subsidiary of Hawa Holdings Limited, a company incorporated in British Virgin Islands. Hawa Holdings Ltd is in return owned by Hawa Investments Ltd (14%), EMA Power Investments (35%) and Indus Power Ltd (51%). Hawa Investments Ltd (BVI) is 100% owned by Mr. Bruno C. Bucari while EMA Power Investments (UAE) is owned by two international companies namely DL Energy (49%) and Asma Capital (51%). Indus Power Ltd (BVI) is 100% owned by JCM Power through its international holding companies.

Stability Stability is drawn from the international corporate sponsors having global presence in areas of renewable energy and asset management.

Business Acumen Both DL Energy and JCM Power have a proven history of implementing power projects globally. DL Energy has previously been involved in the ownership and construction of 50MW Wind Power projects operating in Pakistan. JCM Power has previously been involved in the construction and development of renewable projects in Asia and Africa.

Financial Strength The financial strength of the sponsors is considered strong with their global presence and other projects that are under construction.

Governance

Board Structure Board of Directors comprises of seven members from the sponsoring companies (4 Indus Power Ltd, 2 EMA Power Investments Ltd, 1 Hawa Investments Ltd). Furthermore, the board has formed 3 sub committees including Audit, Operations and HR to engage and oversee the management decisions.

Members' Profile The board consists of members from different backgrounds including Engineering, Finance and Investments, Banking, Law and Business Management. The Chairman, Mr. Muhammed Ali an Engineer, has over a decade of experience in the Energy Sector with exposure to key developments in the renewable energy industry. Similarly, remaining members bring vast experience and prerequisite qualifications to be on the board.

Board Effectiveness The board conducts regular meetings with the presence of all members to discuss the matters relating to the plant and company's operations. Proper minutes of the board meetings are maintained covering the detailed discussion during the meetings.

Financial Transparency The company maintains proper financials for each period. The auditors of the company, A. F. Ferguson & Co Chartered Accountants have expressed an unqualified opinion on the financial statements for the year ended December 2022.

Management

Organizational Structure HEPL has an integrated organizational structure that is segregated into 2 broad departments: (i) Finance, (ii) Site Operations. The finance division is responsible for billing, taxation, treasury, invoices, compliance, financial planning and analysis, audit and reporting. On the other side, the operations division is headed by General Manager Operations who oversees matters relating to the plant site.

Management Team Each of the individuals carry adequate and relevant experience. The CEO is Mr. Muhammed Ali who has previous experience of working in the renewable energy sector.

Effectiveness The CEO involved in day-to-day operations and spearheads the senior management of the Company at all levels. Daily/Weekly/ monthly meetings are conducted between the CEO and relative Head of Departments. The agenda of the meeting includes strategic matters and matters related to ongoing projects (financial & operations).

Control Environment The management is supported by a team of individuals from the sponsors who provide global support. Under the senior management, the company has appointed different individuals for each role. The company has well organized finance division while the O&M of the plant is outsourced. The operation site team ensures safety of the site along with monitoring O&M contractor in order to minimize any risk that could potentially damage the plants performance.

Operational Risk

Power Purchase Agreement HEPL operates under the Renewable Energy Policy 2006. Energy Purchase Agreement is with CPPA-G, and has tenure of 20 years starting from the COD.

Operation And Maintenance The Company has signed an agreement with General Electric International Inc (G.E) for the Operation and Maintenance Services in relation to their Wind Power Plant valid till March 2028. General Electric has a significant presence globally, and possesses requisite experience to carry out O&M activities effectively.

Resource Risk Wind risk as defined under Renewable Energy RE policy 2006 is the risk of variability of wind speed, and therefore of the effective energy output of the wind IPP. As per the EPA, HEPL shall be responsible for the delivery of energy.

Insurance Cover Insurance is attained for material damage, third party liability, terrorism and business interruptions affecting the profits. O&M contractors will be liable to pay Liquidated Damages (LDs) as per the contract if benchmark availability is not achieved.

Performance Risk

Industry Dynamics The total installed capacity of the country as at End-FY22 stood at ~43,775MW per hour with contributions from Hydro (24%), Thermal (61%), Nuclear (8%) and Renewables (7%). The Installed generation capacity of wind IPPs stood at 1,838MW as at end June 2022. Out of the total electricity generation of 153,874GWh during FY22, wind IPPs contributed approx. 3% to the national grid.

Generation During CY22 the plant generated Net Electrical Output of 140.4 GWh (CY21: 160.9 GWh). The total energy delivered by the plant is dependent on the electricity demand from the power purchaser.

Performance Benchmark The plants availability and efficiency during the year was above required benchmarks of 95% and 35% as per EPA

Financial Risk

Financing Structure Analysis Debt financing constitutes 75% of the project cost of USD 127.1mln. The company has obtained 100% Foreign Debt Financing from DFC amounting to USD 95.3mln priced at 3MLIBOR plus 4.0% per annum with the maturity of 10 years with semi-annual repayments. Further, the equity portion of the project cost amounts to USD 31.8mln, which is injected through the sponsoring companies.

Liquidity Profile Circular debt continues to be an issue for companies operating in power sector. Though Wind IPPs don't need to procure raw material therefore they rely on internal cash flows. Receivables from CPPAG stood at PKR 3,086mln for CY22 (CY21: PKR 3,246mln).

Working Capital Financing Renewable IPPs do not have to pay for fuel which minimizes its working capital needs. HEPL's Net Working Capital Days stood at 275 days for CY22 (CY21: 301 days) which is a function of its receivables days.

Cash Flow Analysis Net cash generated from operations for CY22 stood at ~PKR 3,833mln (CY21: PKR2,034mln). Interest coverage ratio (EBITDA/Finance Cost) as of CY22 clocked at 5.3x (CY21: 5.6x).

Capitalization HEPL's leveraging at end Dec 22 stood at 59.3%(CY21: 59.4%). The company has been paying its principal and interest instalments as per their agreement with the financing authority.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Hawa Energy Power Limited	Dec-22	Dec-21	Dec-20	Dec-19
Power	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	16,538	14,471	14,123	14,521
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	7,411	6,666	5,522	5,158
a Inventories	-	-	-	-
b Trade Receivables	*3,086*	*3,247*	*2,891*	*2,348*
5 Total Assets	23,949	21,137	19,645	19,679
6 Current Liabilities	651	485	442	647
a Trade Payables	*244*	*283*	*267*	*455*
7 Borrowings	13,819	12,271	12,403	13,237
8 Related Party Exposure	-	-	1	0
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	9,479	8,382	6,798	5,795
11 Shareholders' Equity	9,479	8,382	6,798	5,795
B INCOME STATEMENT				
1 Sales	3,853	3,389	3,164	3,259
a Cost of Good Sold	*(1,653)*	*(1,306)*	*(1,289)*	*(1,165)*
2 Gross Profit	2,200	2,083	1,875	2,094
a Operating Expenses	(115)	(90)	(163)	(105)
3 Operating Profit	2,085	1,993	1,712	1,990
a Non Operating Income or (Expense)	*789*	*184*	*46*	*189*
4 Profit or (Loss) before Interest and Tax	2,875	2,177	1,758	2,179
a Total Finance Cost	*(888)*	*(585)*	*(753)*	*(987)*
b Taxation	*(39)*	*(9)*	*(1)*	*(6)*
6 Net Income Or (Loss)	1,947	1,583	1,003	1,185
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*4,257*	*2,840*	*2,498*	*2,886*
b Net Cash from Operating Activities before Working Capital Changes	*3,661*	*2,355*	*1,793*	*2,025*
c Changes in Working Capital	*173*	*(321)*	*(764)*	*(1,037)*
1 Net Cash provided by Operating Activities	3,833	2,034	1,028	987
2 Net Cash (Used in) or Available From Investing Activities	207	(1)	(3)	(3)
3 Net Cash (Used in) or Available From Financing Activities	(3,204)	(1,261)	(1,262)	(1,114)
4 Net Cash generated or (Used) during the period	836	771	(237)	(130)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	13.7%	7.1%	-2.9%	--
b Gross Profit Margin	57.1%	61.5%	59.3%	64.3%
c Net Profit Margin	50.5%	46.7%	31.7%	36.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	115.0%	74.3%	54.8%	56.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	300	331	302	263
b Net Working Capital (Average Days)	275	301	261	212
c Current Ratio (Current Assets / Current Liabilities)	11.4	13.8	12.5	8.0
3 Coverages				
a EBITDA / Finance Cost	5.3	5.6	3.7	3.3
b FCFO / Finance Cost+CMLTB+Excess STB	1.5	1.4	1.2	1.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	4.0	5.3	6.8	6.6
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	59.3%	59.4%	64.6%	69.6%
b Interest or Markup Payable (Days)	67.5	47.8	37.7	44.1

Credit Rating

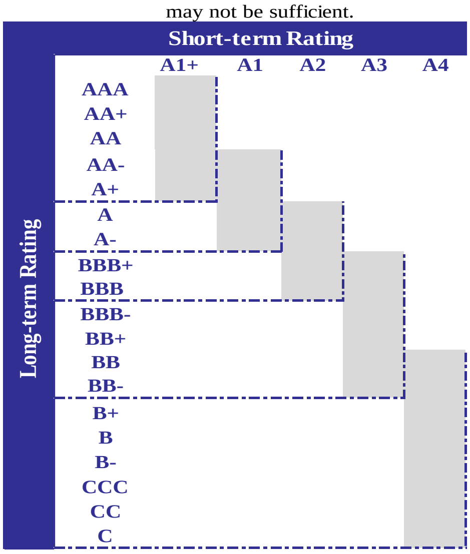
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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+ 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 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

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 | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(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)
(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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