The Pakistan Credit Rating Agency Limited

MASTER WIND ENERGY LIMITED

	NEW [DEC-17]	PREVIOUS [MAY-17]
Long-Term	A	A
Short-Term	A1	A1
Outlook	Stable	Stable
Action	Maintain	Maintain

REPORT CONTENTS

DECEMBER 2017

Profile & Ownership

- Master Group, incorporated in 1963, is one of the most dynamic and diverse business group of Pakistan. Master Wind Energy Limited – a 52.8MW wind power plant in Jhimpir, Sindh is the group's first venture in power sector.
- Master Wind operates under the Renewable Energy Policy 2006
- Total actual cost of the project is USD 132.3mln with the Debt Equity Ratio of 75:25.
- Master Wind opted for the Upfront Tariff for Wind Power Projects by NEPRA. The Company has a generation tariff (levelized tariff for years 1-20) of PKR 14.7462 per Kilowatt hour (KWh).
- The Power Purchase Agreement is with National Transmission & Dispatch Company, and has a tenure of 20 years.

Governance

- Mr. Naveed Malik is currently the Chairman of the board.
- BoD comprises four members including the MD.
- Diverse experience of the Board Members over different industries in Master Group's portfolio is a comforting factor.

Management

- Mr. Shahzad Malik MD of MWEL, has 5 years of experience in energy sector.
- The management team is experienced and is ably handling the affairs of the company.

Operational & Wind Risk

- MWEL generated a total of net electricity output ~109,746 MWH of electricity during FY17 since its COD in October 2016.
- The O&M contractor for first two years are Zhejiang Huadong Engineering Science & Technology Development Company Ltd and subsequently the O&M contractor will be General Electric International Inc for remaining eight years term.
- MWEL's average availability of the wind farm was ~98.7% (Required: 95.5%) till Sept-17 since its COD.
- Under the Upfront Tariff, the IPP bears wind risk.
- Master Wind has an off take agreement with NTDC (through Central Power Purchasing Agency) for 20 years.
- If the plant is available at the contracted capacity and is ready to produce and sell electricity to NTDC, NTDC will be liable to pay the Company the whole of the tariff even if no purchase is done.
- MWEL's revenues will be exposed to seasonality due to variance in wind speeds during the year. March to September is high wind season.
- Upfront tariff is applicable to MWEL, under which the wind risk is borne by the IPP itself.

Financial Risk

- Debt financing constitutes 75% of the project cost; USD 99.2mln, financed from local and foreign financial institutions.
- Local Facility obtained from the consortium of banks amounting to PKR 5,456mln has a 10 year tenure starting Feburary-17 and are to be paid in 20 semi-annual payments. The foreign facility of USD 49.6mln are to be paid with the same repayment schedule as of local.
- Out of which PKR 5,245mln (local loan) and USD 47.683mln (foreign loan) is outstanding as on 30-Sept-17. Two installments have been made to date.
- The yearly debt payments can be made if the plant is operating at a minimum 25% capacity factor.
- Increased receivables reflecting higher trade debtor days due to seasonal variation of wind (June-17: 206 days, Dec-16: 158 days). MWEL is managing its working capital through internal cash flows.
- Both DSRA/PSRA are maintained by Master Wind to provide comfort to foreign and local lenders regarding debt repayments. DSRA is fully funded through cash and PSRA is funded via SBLC in an amount equal to debt servicing due for the upcoming nine months.

RATING RATIONALE

Master Group, pioneers of foam products, has set up a 52.8MW wind power plant – Master Wind Energy Limited. The rating incorporates the commissioning of the plant, achieved on 14th October 2016, tariff true up and commencement of billing/receipts mechanism. 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 Master Wind would be able to generate enough cash flows to keep its financial risk manageable. Moreover, it has DSRA mechanism to manage liquidity movements. Second; operational risk. Comfort is drawn from General Electric International Inc. – the O&M operator – having both international and local market experience. If the Company maintains its availability as per contract and is ready to deliver electricity to NTDC, NTDC is liable to pay the whole tariff even if no purchase is done. The Government of Pakistan has provided a sovereign guarantee against dues from NTDC. The Company has adequate insurance coverage. However, the Company's ability to manage contracted parameters over multiple wind cycles is yet to be seen. The company's reserve build-up mechanism, DSRA fully funded through cash and PSRA funded via SBLC providing coverage of more than one time on its financial obligations till maturity provides comfort to the ratings.

KEY RATING DRIVERS

Upholding operational performance in line with agreed performance levels is important. Improving, indeed aligning, build-up of DSRA from internal sources, receipt pattern from power purchaser, debt repayment behavior and liquidity cushion would impact the directions of ratings. External factors such as any adverse changes in the regulatory framework and weakening of financial profile may impact negatively.

Master Wind Energy Limited *PKR in mln*

BALANCE SHEET	*30-Jun-17*	31-Dec-16	30-Jun-16
	Annual	6M	Annual
Non-Current Assets	**11,554**	**12,028**	**10,535**
Current Assets	**4,274**	**3,524**	**687**
Inventory	-	-	-
Trade Receivables	971	286	-
Other Current Assets	213	212	272
Cash & Bank Balances	3,091	3,026	415
Total Assets	**15,828**	**15,552**	**11,222**
Debt	**10,177**	**10,376**	**7,241**
Short-term	-	-	-
Long-term (Inlc. Current Maturity of long-term debt)	10,177	10,376	7,241
Other Short term liabilities (inclusive of trade payables)	1,701	1,799	634
Other Long term Liabilities	-	-	-
Shareholder's Equity	**3,950**	**3,377**	**3,347**
Total Liabilities & Equity	**15,828**	**15,552**	**11,222**
INCOME STATEMENT			
Turnover	**1,724**	**332**	**-**
Gross Profit	1,201	257	-
Other Income	44	9	42
Financial Charges	(557)	(195)	-
Net Income	**603**	**30**	**(5)**
Cashflow Statement			
Free Cashflow from Operations (FCFO)	1,558	287	(1)
Net Cash changes in Working Capital	184	901	226
Net Cash from Operating Activities	1,060	881	225
Net Cash from InvestingActivities	(1,276)	(1,383)	(7,440)
Net Cash from Financing Activities	2,892	3,115	7,513
Net Cash generated during the period	2,676	2,613	297
Ratio Analysis			
Performance			
Gross Margin	69.6%	77.4%	n.a
Net Margin	35.0%	9.1%	n.a
ROE	15.3%	1.8%	n.a
Coverages			
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.1	0.7	0.0
Interest Coverage (X) (FCFO/Gross Interest)	2.8	1.5	n.a
FCFO Pre-WC/Gross interest+CMLTD+Uncovered STB	0.8	0.2	0.0
FCFO Post-WC/Gross interest+CMLTD+Uncovered STB	0.9	1.0	0.3
Liquidity			
Short Term Borrowings Coverage (Adjusted Quick Assets/Short Term Borrowing	n.a.	n.a.	n.a.
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	-816.1	-3952.0	n.a
Capital Structure			
Net Debt/Net Debt+Equity	72%	75%	68%

STANDARD RATING SCALES & 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 or 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.** "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.

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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

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'.

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, a suspended 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, or e) the entity/issuer defaults.

Regulatory and Supplementary Disclosure

Rated Entity	
Name of Rated Entity	Master Wind Energy Limited
Sector	Renewable Energy - IPP
Type of Relationship	Solicited
Purpose of the Rating	Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
22-Dec-17	A	A1	Stable	Maintain
30-May-17	A	A1	Stable	-

Related Criteria and Research: IPP's Viewpoint - Mar17

Methodology: IPP's Rating Methodology

Rating Analysts

Faizan Sufi
faizan.sufi@pacra.com
(92-42-35869504)

Rai Umar Zafar
rai.umar@pacra.com
(92-42-35869504)

Rating Team Statement

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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Rating Shopping

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PACRA ensures that the credit rating assigned to an entity or instrument should 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

Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

Reporting of Misconduct

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality

PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties

Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

Prohibition

Probability of Default (PD)

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.