The Pakistan Credit Rating Agency Limited

ACT WIND (PRIVATE) LIMITED

	NEW [DEC-17]	PREVIOUS [JUN-17]
Long-Term	A-	A-
Short-Term	A2	A2
Outlook	Stable	Stable
Action	Maintain	Maintain

REPORT CONTENTS

DECEMBER 2017

Profile & Ownership

- Tapal group, Ismail group, and Akhtar group have jointly set-up ACT Wind (Private) Limited– a 30MW (10 x 3 MW) wind power plant in Jhimpir, Sindh, with equal shareholding.
- ACT Wind operates under the Renewable Energy Policy 2006
- Total estimated cost of the project is USD 81mln with the Debt Equity Ratio of 75:25
- ACT 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 18.45 per Kilowatt hour (KWh).
- The Power Purchase Agreement is with National Transmission & Dispatch Company, and has a tenure of 20 years.

Governance

- Mr. Maqsood Ismail is currently the Chairman of the board.
- BoD comprises nine members including the CEO. Each sponsor has three representatives on the Board.
- Diverse experience of the Board Members over different industries is a comforting factor.

Management

- Mr. Adnaan Tapal, CEO of ACT Wind, has more than 17 years of experience in engineering and project management.
- Mr. Adnaan Tapal is supported by a professional and an experienced team.

Operational & Wind Risk

- The O&M contractor for ACT Wind is HydroChina. The contract is over a 10 year term.
- Under the Upfront Tariff, the IPP bears wind risk.
- Offtake agreement with NTDC.
- The contracted efficiency of the plant is 45% and availability has been set up to 88%. Plant has performed up to the mark with greater availability and efficiency factor than of its set benchmark.
- ACT's revenues will be exposed to seasonality due to variance in wind speeds during the year. March to September is high wind season.
- HydroChina has extensive expertise in engineering, design, and operations of Renewable Energy projects both within and outside of China. It is already involved in various other wind power projects in Pakistan, thereby, giving it an enhanced learning curve in the country's alternative energy sector.
- In the nine months of operations from COD till June-17, 60.486GWh of net electrical output has been produced.

Financial Risk

- Debt financing constitutes 75% of the project cost; PKR 6,600mln.
- With the extension in RCOD of three months, the first debt repayment date also got extended by three months, to April 2017, with second payment in June 2017.
- Commercial Facility of PKR 5,127mln and Musharika Financing of PKR 1,473mln have a 10 year tenure starting April-17 and are to be paid in 20 semi-annual payments. Two installments have been paid till June-17.
- The yearly debt payments can be made if the plant is operating at a minimum 25% capacity factor.
- CPPA-G is invoiced in the first week of each month for the previous months electricity. CPPA-G usually has 30 days to settle the payment from invoice date, and on average takes additional 40 days for complete settlement.
- DSRA SBLC is currently in place to maintain a minimum required balance in the DSRA, which will be equivalent to one semi-annual repayment.
- Interest and debt coverage ratios seen moderate amounting to 1.9x and 1.3 times respectively during FY17.
- However, FCFO post WC / Gross Interest +CMLTD+Uncovered STB turned negative to 0.03x, on account of increased working capital requirement amounting to PKR 782mln during FY17.

RATING RATIONALE

Tapal, Ismail, and Akhtar groups have set up a 30MW wind power plant – ACT Wind (Private) Limited. The commissioning of the plant was achieved on 7th October 2016. ACT Wind has offtake agreement with NTDC. 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 ACT Wind would be able to generate enough cash flows to keep its financial risk manageable. Second; operational risk. The Company has to maintain plant's capacity factor at 31% annually. Comfort is drawn from Hydrochina – the O&M operator – having both international and local market experience. Moreover, if the Company maintains its availability as per contract and is ready to deliver electricity to NTDC, NTDC is liable to pay the Company the whole of the 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. The Jhimpir wind corridor is home to various other operational wind power plants, which provides further confidence in regards to performance of ACT. Moreover, company has met all its required benchmarks (Efficiency and Availability) during FY17. The company's reserve build-up mechanism through SBLC providing coverage of 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 would remain a key rating driver. Improving, indeed aligning, the Company's repayment behavior with its financial profile would be ratings positive. Furthermore, external factors such as any adverse changes in the regulatory framework and weakening of financial profile owing to delays in cash flow receipts, may impact the ratings.

ACT Wind (Pvt.) Limited

BALANCE SHEET	30-Jun-17	30-Jun-16	30-Jun-15
	Annual	Annual	Annual
Non-Current Assets	**7,107**	**6,940**	**1,909**
Current Assets	**1,334**	**297**	**70**
Inventory	-	-	-
Trade Receivables	731	57	0
Other Current Assets	411	208	22
Cash & Bank Balances	192	32	48
Total Assets	**8,441**	**7,237**	**1,979**
Debt	**5,751**	**5,056**	**1,451**
Short-term	-	-	-
Long-term (Inlc. Current Maturity of long-term debt)	5,751	5,056	1,451
Other Short term liabilities (inclusive of trade payables)	250	548	47
Other Long term Liabilities	1	-	-
Shareholder's Equity	**2,439**	**1,633**	**481**
Total Liabilities & Equity	**8,441**	**7,237**	**1,979**

INCOME STATEMENT	30-Jun-17	30-Jun-16	30-Jun-15
Turnover	**1,292**	-	-
Gross Profit	921	-	-
Operating Expense	(38)	(30)	(11)
Other Income	2	0	0
Financial Charges	(397)	-	-
Net Income	**488**	**(30)**	**(11)**

Cashflow Statement	30-Jun-17	30-Jun-16	30-Jun-15
Free Cashflow from Operations (FCFO)	766	(27)	(11)
Net Cash changes in Working Capital	(782)	475	27
Net Cash from Operating Activities	(16)	447	16
Net Cash from InvestingActivities	(844)	(5,034)	(1,860)
Net Cash from Financing Activities	1,020	4,570	1,867
Net Cash generated during the period	160	(16)	23

Ratio Analysis	30-Jun-17	30-Jun-16	30-Jun-15
Performance			
Gross Margin	71.3%	-	-
Net Margin	37.8%	-	-
ROE	21.5%	-	-
Liquidity			
Current Ratio (X)	2.9	0.4	1.5
Short Term Adjusted Quick Ratio	2.9	0.5	0.5
Capital Structure			
Total Debt/Total Debt+Equity	70.2%	75.6%	75.1%

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	ACT Wind (Private) 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-	A2	Stable	Maintain
20-Jun-17	A-	A2	Stable	Maintain
31-Dec-16	A-	A2	Stable	Upgrade
01-Mar-16	BBB+	A2	Stable	Initial

Methodology: IPP Rating Methodology

Sector Research: Sector Study | Independent Power Producers (Mar-17)

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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.

Disclaimer

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.