The Pakistan Credit Rating Agency Limited

Rating Report

ACT Wind (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Jun-2023	A+	A1	Stable	Maintain	-
23-Jun-2022	A+	A1	Stable	Upgrade	-
25-Jun-2021	A	A1	Positive	Maintain	-
24-Dec-2020	A	A1	Stable	Maintain	-
26-Dec-2019	A	A1	Stable	Maintain	-
26-Jun-2019	A	A1	Stable	Upgrade	-
27-Dec-2018	A-	A2	Stable	Maintain	-
13-Jun-2018	A-	A2	Stable	Maintain	-
22-Dec-2017	A-	A2	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Tapal, Ismail and Akhtar groups has set up a 30MW wind power plant - Act Wind (Pvt) Limited ("Act Wind" or "the Company") in Jhimpir, under the Policy for Development of Renewable Energy for Power Generation, 2006 which offers a guaranteed internal rate of return, cost indexation, and pass-through tariff structure. 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. Second; operational risk. The Company has to maintain the plant's capacity factor at 31% annually, and is ready to deliver electricity to CPPA-G, CPPA-G is liable to pay the whole tariff even if no purchase is done. Comfort is drawn from HydroChina – the O&M operator – having both international and local market experience. The Company has adequate insurance coverage. During the period, 6MFY23 & FY22, Act wind recorded sales revenue of PKR ~678mln & PKR ~2,125mln along with a Net Loss / Profit of PKR ~(59)mln & PKR ~905mln respectively. The loss in 6MFY22 representing the generation below the agreed benchmark of 31% owing to lesser wind speed, though the liquidity of the company remains in comfortable position to service its debt obligation timely. Working capital requirements of Act Wind are fulfilled through in-house adequate cash flow generation, without any utilization of short term borrowing lines. Free cash flows of the Company are in a comfortable position to make timely debt repayments. Act Wind has repaid ~70% of its debt on time without availing benefit of forbearance period, facet of strong financial profile and working capital management. During FY22 the Company has paid dividend to its sponsors reflecting strong equity base.

Sustained good financial discipline and upholding strong operational performance in line with agreed performance levels remain key rating drivers. The company's repayment behavior, from internally generated cashflows, would be considered positive for ratings.

Disclosure

Name of Rated Entity	ACT Wind (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	Muhammad Mubashir Nazir | mubashir.nazir@pacra.com | +92-42-35869504

Profile

Plant The 30MW wind farm is set up on a Build, Own, and Operate (BOO) basis over 197 acres of land near Jhimpir village of Sindh. ACT Wind is a Renewable Energy Independent Power Producer (RE IPP) operating under the Renewable Energy Policy 2006 by the Alternative Energy Development Board (AEDB).

Tariff ACT WIND opted for the Upfront Tariff for Wind Power Projects by NEPRA. Under the 2013 NEPRA tariff determination for wind IPPs, the Company has a generation tariff (levelized tariff for years 1-20) of US¢ 16.6932 (PKR 16.2926) per Kilowatt hour (KWh) at the time of the financial close. Upon COD, on 9th November 2016, the Company filed for tariff adjustment the new levelized tariff was adjusted upwards to PKR 18.45 per kWh. Currently, the updated tariff is PKR 33.018 after indexation for the quarter April-June 2023.

Return On Project ACT WIND's key source of earnings is the revenue generated through the sale of electricity to the power purchaser. Debt Servicing comprises the non-escalable component while ROE, Insurance, Fixed and Variable O&M costs are part of the escalable component. The IRR of the project, as agreed with NEPRA, is 13%.

Ownership

Ownership Structure ACT 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. The stability factor is considered strong.

Business Acumen The Tapal group is engaged in marketing of industrial plants and properties including power plant systems, and mechanical and electrical products. The group has experience in power generation through TEL – a 126MW Residual Furnace Oil-based power plant that currently provides electricity to K-Electric. Ismail Industries Limited, one of the country's largest consumer goods company. It manufactures a wide range of confectionery; biscuits, snacks, and packaging films under the brand names of Candyland, Bisconni, SnackCity and Astro Films respectively. Akhtar Group is primarily engaged in the business of denim manufacturing through Akhtar Textile Industries (Private) Limited. Akhtar group has also entered in dairy field in 2009 (Dayfresh).

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. Maqsood Ismail is currently the Chairman of the board. he 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, expressed an unqualified opinion on the company's financial statements as at end-Jun22.

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. Adnan Tapal, the CEO, has been spearheading the company since assuming management control of the company. Mr. Tapal carries with him over two decades of experience in various fields of industry. He is supported by an experienced management team.

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, the Company's quality of the I.T. infrastructure and the breadth and depth of activities performed has remained well satisfactory.

Operational Risk

Power Purchase Agreement As per the agreement, if the plant is available at the contracted capacity of 31% and is ready to produce and sell electricity to the power purchaser, the power purchaser will be liable to pay the Company the whole of the tariff even if no purchase is done. The payment is calculated on the basis of expected kWh production for the day multiplied by the applicable tariff.

Operation And Maintenance ACT has negotiated O&M contract with HydroChina for a period of 10 years, which commenced from the COD in October 2016. HydroChina has extensive expertise in engineering, design, and operations of Renewable Energy projects both within and outside of China.

Resource Risk Resource variability risk is unique to the RE IPPs. As the wind farm's key resource is wind, it is exposed to wind risk. Wind risk as defined under RE policy 2006 as the risk of the variability of wind speed, and therefore of the effective energy output of the wind IPP. As per the Upfront Tariff, the entire risk related to wind variability would be absorbed by the ACT WIND.

Insurance Cover The company has adequate insurance coverage for property damage and business interruption.

Performance Risk

Industry Dynamics The total installed generation capacity of the country is above 40,000MW. Thermal energy mix contributes 61% to the installed power generation capacity followed by hydel electricity capacity which stands at 24%. Total generation during FY22 was recorded at 153,360GWh (FY21: 143,090GWh), witnessing a 7% increase.

Generation The plant has the capacity to produce 262,800,000Kwh of electricity the generation during FY 22 stood at 88,373,410kwh as against 74,698,930 during FY21, representing a better off-take by power purchaser from renewable sources. However, due to wind speed variation, the generation in 6MFY23 reduces below the benchmark agreed in PPA resulting in a net loss for the period.

Performance Benchmark The contracted efficiency of the plant is 31% and availability has been set up to 88%. The plant during 6MFY23 owing to variation in wind speed performed below the agreed efficiency of 31%.

Financial Risk

Financing Structure Analysis Debt financing constitutes 75% of the project cost i.e. PKR 6,008mln. It is priced at 3-month KIBOR plus 3% per annum. The debt has a 10 years repayment period, started from Apr'17, with payments to be made in twenty consecutive semiannual installments. DSRA account is being maintained by the Company through SBLC that is equal to one upcoming principal and Interest payment. As at end-Dec22, the principal PKR 3,670mln is outstanding.

Liquidity Profile As at end-Dec22, total receivables of the company stood at PKR 951mln (FY22: PKR 1,339mln).

Working Capital Financing The company is managing its working capital decently which is evident from its average cash cycle days 6MFY23 at 308 days (FY22: 274 days, FY21: 326 days, FY20: 234 days). Working capital requirements are being managed through internal cash generation; during 6MFY23 EBITDA is PKR 125mln. Although cash cycle days are on the higher side but are very much aligned with the industry averages. The Company has not utilized any short-term borrowing lines to meet it working capital so far.

Cash Flow Analysis FCFOs of the Company stood decreased during 1HFY23 and clocked to PKR 122mln (FY22: 1,255mln; FY21: 1,258mln; FY20: PKR 1,262mln) owing to low generation made during the period. Similarly, the interest coverage of the Company also decreased and recorded at 0.3x [Interest coverage: FY22: 2.3x; FY21: 2.5x; FY20: 1.5x]. The reason is decreasing value of PKR vs. US$ and loans are payable in US$.

Capitalization The company has a moderately leveraged capital structure and stood at 55% at end-Dec22 (FY22: 57%; FY21: 56%), representing 100% project-based long-term loan.

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Financial Summary
PKR mln

Act Wind (Pvt) Limited	Dec-22	Jun-22	Jun-21	Jun-20
Power	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	5,080	5,265	5,634	6,000
2 Investments	31	54	417	446
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,703	1,927	2,193	2,096
a Inventories	-	-	-	-
b Trade Receivables	*951*	*1,339*	*1,856*	*1,838*
5 Total Assets	6,814	7,245	8,244	8,542
6 Current Liabilities	185	238	191	240
a Trade Payables	*96*	*137*	*87*	*145*
7 Borrowings	3,670	3,988	4,523	4,945
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	0	0	0	4
10 Net Assets	2,959	3,018	3,531	3,353
11 Shareholders' Equity	2,959	3,018	3,531	3,353
B INCOME STATEMENT				
1 Sales	678	2,125	2,068	2,360
a Cost of Good Sold	*(349)*	*(644)*	*(613)*	*(611)*
2 Gross Profit	329	1,481	1,455	1,749
a Operating Expenses	(28)	(59)	(60)	(40)
3 Operating Profit	301	1,422	1,395	1,709
a Non Operating Income or (Expense)	*15*	*35*	*43*	*52*
4 Profit or (Loss) before Interest and Tax	316	1,457	1,438	1,762
a Total Finance Cost	*(371)*	*(545)*	*(503)*	*(830)*
b Taxation	*(3)*	*(7)*	*(7)*	*(11)*
6 Net Income Or (Loss)	(59)	905	928	921
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*122*	*1,255*	*1,258*	*1,262*
b Net Cash from Operating Activities before W	*122*	*1,255*	*1,258*	*1,262*
c Changes in Working Capital	*490*	*428*	*(134)*	*(709)*
1 Net Cash provided by Operating Activities	612	1,684	1,124	553
2 Net Cash (Used in) or Available From Investi	26	383	61	(421)
3 Net Cash (Used in) or Available From Financ	(318)	(1,952)	(1,173)	(334)
4 Net Cash generated or (Used) during the peri	320	115	12	(201)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-36.2%	2.7%	-12.4%	22.5%
b Gross Profit Margin	48.5%	69.7%	70.4%	74.1%
c Net Profit Margin	-8.7%	42.6%	44.9%	39.0%
d Cash Conversion Efficiency (FCFO adjusted	90.3%	79.2%	54.4%	23.4%
*e Return on Equity [Net Profit Margin * Asset*	-3.9%	28.0%	25.8%	28.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	308	274	326	234
b Net Working Capital (Average Days)	277	255	305	213
c Current Ratio (Current Assets / Current Liab	9.2	8.1	11.5	8.7
3 Coverages				
a EBITDA / Finance Cost	0.3	2.3	2.5	1.5
b FCFO / Finance Cost+CMLTB+Excess STB	0.2	1.0	1.2	1.0
c Debt Payback (Total Borrowings+Excess ST	-7.4	5.6	6.0	11.4
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Share	55.4%	56.9%	56.2%	59.6%

Credit Rating

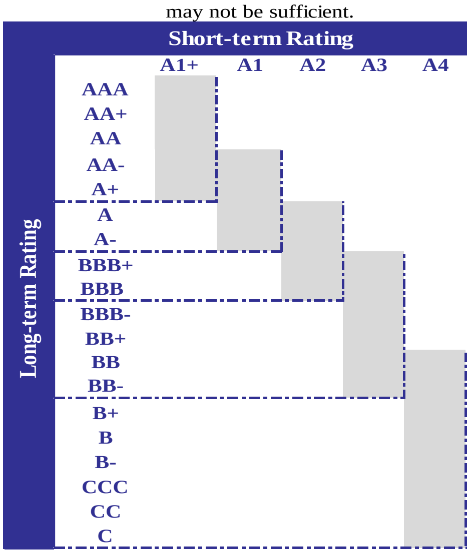
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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	e) Holding Company Rating
b) Corporate Rating	f) Independent Power Producer Rating
c) Debt Instrument Rating	g) Microfinance Institution Rating
d) Financial Institution Rating	h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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)
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

Restrictions
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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)

Independence & Conflict of interest
(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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