The Pakistan Credit Rating Agency Limited

Rating Report

Master Wind Energy Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Sep-2022	A+	A1	Stable	Maintain	-
01-Oct-2021	A+	A1	Stable	Upgrade	-
08-Apr-2021	A	A1	Stable	Maintain	-
08-Apr-2020	A	A1	Stable	Maintain	-
17-Oct-2019	A	A1	Stable	Maintain	-
29-Apr-2019	A	A1	Stable	Maintain	-
28-Dec-2018	A	A1	Stable	Maintain	-
13-Jun-2018	A	A1	Stable	Maintain	-
22-Dec-2017	A	A1	Stable	Maintain	-
30-May-2017	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Master Group, pioneers of foam products, has set up a 52.8MW wind power plant – Master Wind Energy Limited. The project is established under the Policy for Development of Renewable Energy for Power Generation, 2006 which offers a guaranteed internal rate of return, cost indexation, and passthrough tariff structure. Working capital requirements are fulfilled through in-house adequate cash flow generation. Free cash flows of the Company are in a comfortable position to make debt repayments. Master Wind has repaid 11 installments of its debt on time without availing benefit of forbearance period, facet of strong financial profile and working capital management. 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. Though, the company signed the MoU but the execution of Master Agreement and EPA Amendment Agreement is contingent to approval from the foreign lenders. During the period, FY22, the company has generated 137.6GWh as compared to 111.8GWh in corresponding period. 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. 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 CPPAG, CPPA-G is liable to pay the whole tariff even in case of missed volumes. The Government of Pakistan has provided a sovereign guarantee against dues from CPPA-G.

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.

Disclosure

Name of Rated Entity	Master Wind Energy 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-22)
Rating Analysts	Anam Waqas Ghayour | anam.waqas@pacra.com | +92-42-35869504

Profile

Plant Master Group's first foray in to the energy sector is located in the Jhimpir Wind Corridor in Sindh. Initially, plant had a capacity to generate 49.5MW of electricity, then the installed capacity was upgraded to 52.8MW through software up-gradation.

Tariff Under the 2013 NEPRA tariff determination for wind IPPs, the Company has a generation tariff (levelized tariff for years 1-20) of US¢ 15.1088 (PKR 14.7462) per Kilowatt hour (KWh). However, after the continuous indexation and devaluation of Pak Rupee. Company is receiving the tariff of PKR 32.6201/KWh.

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

Ownership

Ownership Structure Master Wind Energy Ltd. (Master Wind) is wholly owned by Master Group. Master Group is segmented among three brothers having an equal shareholding in Master group among their families, either individually or by special purpose vehicles (SPV's). Individual comprises 36.33% and associated companies' holds 63.67% of total share holding of the Company; N.M holding Ltd (16.33%), Najeeb Holdings Ltd (17.33%), Procon Engineering Ltd (15%) and Master Textile Mills Ltd (15%).

Stability Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. However, sponsors association with Master Group will continue to provide comfort.

Business Acumen Sponsor groups have significant experience in foam products, chemical, textile, engineering, wind power and home fashion.

Financial Strength The financial strength of the sponsors is considered strong as the sponsors have well diversified profitable businesses.

Governance

Board Structure Master Wind's Board of Directors (BoD) comprises eight members, including the Chairman and Managing Director. Out of these, four are nonexecutive, two are independent and two are executive directors. Whereas four board members represents Master group.

Members' Profile Mr. Naveed Malik is currently the Chairman of the board and has been associated with the Master Group for over three decades, serving as Chairman of the various Master Group companies.

Board Effectiveness The experiences of board will help guiding the management in developing effective operational and financial policies.

Financial Transparency A.F.Ferguson & Co.is the external auditor of Master Wind and the auditor has given unqualified opinion on the financial statements for the year ending June 2020.

Management

Organizational Structure Master Wind has a lean organizational structure. The management is mostly engaged in the finance related activities as the operations and maintenance of the plant have been outsourced to Zhejiang Huadong Engineering Science & Technology Development Company Ltd (sub operated by General Electric) by way of the O&M contract.

Management Team Mr. Shahzad Malik is the Managing Director of Master Wind since 2011. He holds a Master's degree in Business Administration from the United States of America. Mr. Malik is supported by a team of qualified and experienced professionals.

Effectiveness Master Wind's management effectiveness plays a significant role in empowering the organization through positive results, which has made decision making process systematic. Company has built up a team of engineering staff at the plant site, whom are conducting bi-weekly and monthly meetings with GE's personnel to further enhance and fortify their knowledge of operating the power plant.

Control Environment Master Wind has in place an efficient MIS reporting system for its operations. The system generates real-time plant production data, enabling efficient monitoring and timely decision making.

Operational Risk

Power Purchase Agreement Master Wind operates under the Renewable Energy Policy 2006. Energy Purchase Agreement is with CPPA-G, and has tenure of 20 years.

Operation And Maintenance The O&M contractor for first two years are Zhejiang Huadong Engineering Science & Technology Development Company Ltd (sub operated by GE) and subsequently the O&M contractor will be General Electric International Inc for remaining eight years term.

Resource Risk Matser Wind's revenues will be exposed to seasonality due to variance in wind speeds during the year. March to September is high wind season. Under the Upfront tariff, the IPP bears wind risk. If the plant is available at the contracted capacity and is ready to produce and sell electricity to CPPA-G. CPPA-G will be liable to pay the Company the whole of the tariff even if no purchase is done.

Insurance Cover Master Wind has significant insurance coverage for property damage and business interruption. The insured values for damages include a property damage cover (upto PKR 0.7bln) & business interruption cover (up to PKR 3bln).

Performance Risk

Industry Dynamics The total installed capacity of the country as at End-FY21 stood at ~39,772MW (~22,915MW thermal, ~9,872MW hydroelectric, ~1,235MW wind, ~536MW Solar, ~252MW bagasse and ~2,520MW of nuclear). The cheapest sources of fuel are renewable energy sources followed by hydel energy. The fuel cost component in these energy sources is almost negligible. Hydel power contributes around ~89% to the electricity generated from renewable sources while others including solar, wind and bagasse collectively make up a small share of ~11%

Generation During FY22, electricity generation stood at 137.6 GWh as compared to FY21 111.8 GWh (FY20: 96.8GWh). Generation increased as a result of peaked demand from power purchaser.

Performance Benchmark The required availability for Master Wind Energy under the PPA is 95%. During FY22, average plant availability and capacity factor has been maintained according to agreed parameters. Company's net income increased to PKR 2,317mln during FY22 in comparison to PKR 1,217mln same period last year on account of increase in electricity dispatched during the respective period. As well as the hike in the tariff from NEPRA.

Financial Risk

Financing Structure Analysis Debt financing constitutes 75% of the project cost i.e. USD 99.2mln, which is financed from local and foreign financial institutions equally. Long term finance facility of USD 49.6mln obtained from Overseas Private Investment Corporation (OPIC). Debt financing amounting to PKR 5,456mln obtained from the consortium of banks comprising Meezan Bank Limited, Bank Al Habib Limited, Bank of Punjab and Habib Metropolitan Bank.

Liquidity Profile IPPs receive payments even if they produce no electricity i.e. in case of zero demand from the power purchaser or due to variability of the wind. In this context, power purchaser is bound by a contract to buy any and all the energy produced by Master Wind. Master Wind is assuming a 90% probability that wind speeds will be sufficient through the years to produce 150,999 MWh (32.64% Capacity Factor) annually and, hence, generate sufficient revenue to cover its financial obligations.

Working Capital Financing The availability of adequate working capital during the operational stage of the project is essential. However, the payments are due by CPPA-G within 30 days of the invoice date. It is pertinent to mention that trade debts are secured by way of guarantee issued by the government of Pakistan under the implementation agreement and are subject to mark-up on delayed payments under the EPA at a rate of 3M KIBOR plus 4.5% per annum.

Cash Flow Analysis Cash cycle days for Master Wind stood at 291 days at end-Jun22, decreased from 360 days during FY21. Receivables stood at PKR 3,347mln during FY22 (FY21: PKR 3,456mln). Free cash flow of the Company increased on the back of higher demand from the power purchaser (FY22: PKR 3,498mln; FY21 PKR 2,740mln, FY20: PKR 3,397mln). Interest coverage ratio as of FY22 has also increased to 5.7x (FY21: 4.5x). The company has paid a dividend of PKR 800mln during FY22 (FY21: PKR 400mln).

Capitalization During FY22, leveraging of the company further reduced to 47% on back of regular repayments of project debt, as compared to the 52% leveraging in the corresponding period.

The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Master Wind Energy Limited	Jun-22	Jun-21	Jun-20	Jun-19
Power	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	11,761	11,128	12,234	12,827
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	6,177	5,164	4,856	3,882
a Inventories	-	-	-	-
b Trade Receivables	*3,347*	*3,456*	*2,988*	*2,084*
5 Total Assets	17,938	16,292	17,090	16,709
6 Current Liabilities	492	335	281	237
a Trade Payables	*157*	*96*	*65*	*46*
7 Borrowings	8,320	8,344	9,923	10,886
8 Related Party Exposure	-	-	87	68
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	9,127	7,612	6,798	5,518
11 Shareholders' Equity	9,127	7,612	6,798	5,518
B INCOME STATEMENT				
1 Sales	4,107	3,187	3,915	3,070
a Cost of Good Sold	*(1,293)*	*(1,192)*	*(1,219)*	*(908)*
2 Gross Profit	2,814	1,995	2,696	2,162
a Operating Expenses	(85)	(80)	(138)	(117)
3 Operating Profit	2,729	1,915	2,558	2,045
a Non Operating Income or (Expense)	*282*	*(33)*	*80*	*160*
4 Profit or (Loss) before Interest and Tax	3,011	1,882	2,638	2,205
a Total Finance Cost	*(687)*	*(673)*	*(1,096)*	*(1,004)*
b Taxation	*(7)*	*9*	*(11)*	*(13)*
6 Net Income Or (Loss)	2,317	1,217	1,530	1,187
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*3,498*	*2,740*	*3,397*	*2,773*
b Net Cash from Operating Activities before Working Capital Changes	*2,849*	*2,041*	*2,267*	*1,803*
c Changes in Working Capital	*37*	*(493)*	*(844)*	*(479)*
1 Net Cash provided by Operating Activities	2,886	1,549	1,423	1,325
2 Net Cash (Used in) or Available From Investing Activities	(36)	(17)	(23)	(2)
3 Net Cash (Used in) or Available From Financing Activities	(2,207)	(1,657)	(1,359)	(788)
4 Net Cash generated or (Used) during the period	643	(125)	41	534
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	28.9%	-18.6%	27.5%	10.2%
b Gross Profit Margin	68.5%	62.6%	68.9%	70.4%
c Net Profit Margin	56.4%	38.2%	39.1%	38.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	86.1%	70.5%	65.2%	74.7%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	26.6%	15.6%	22.8%	22.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	302	369	236	225
b Net Working Capital (Average Days)	291	360	231	215
c Current Ratio (Current Assets / Current Liabilities)	12.6	15.4	17.3	16.4
3 Coverages				
a EBITDA / Finance Cost	5.6	4.5	3.1	2.8
b FCFO / Finance Cost+CMLTB+Excess STB	1.5	1.4	1.4	1.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.9	3.9	4.3	6.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	47.7%	52.3%	59.6%	66.5%
b Interest or Markup Payable (Days)	62.4	43.2	33.6	0.0
c Entity Average Borrowing Rate	7.3%	6.5%	10.4%	9.6%

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.

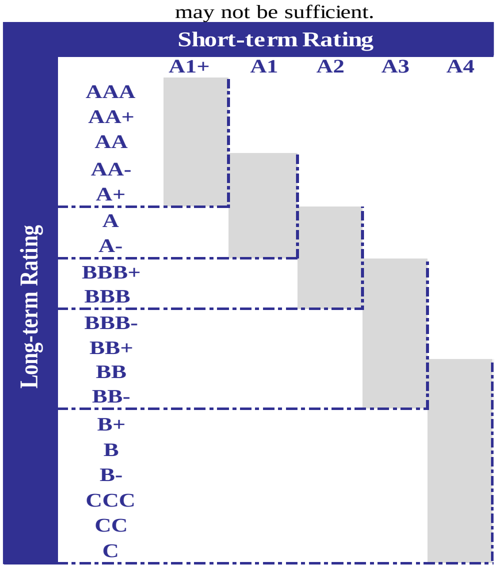
Long-term Rating

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.

Short-term Rating



**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):

Entities
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

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk 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

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(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)

Proprietary Information