



The Pakistan Credit Rating Agency Limited

Rating Report

Master Wind Energy Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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 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 Debt Service Reserve Account (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 CPPA-G, CPPA-G 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 CPPA-G. The Company has adequate insurance coverage. The working capital requirements are fulfilled through in-house adequate cash flow generation. Free cash flow of the Company increased on the back of improved profitability (1HFY20: PKR 1691mln, FY19: PKR 2,773mln; FY18: PKR 2,534mln). Master Wind has been repaying its debt repayments (Principal and Markup) 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.

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 IPP(Jun-19),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria Rating Modifier(Jun-19)
Related Research	Sector Study Power(Jan-20)
Rating Analysts	Shahmeer Dar shahmeer.dar@pacra.com +92-42-35869504

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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).

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 non-executive, 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. Diverse experience of the Board Members over different industries in Master Group's portfolio is a comforting factor. Furthermore, inclusion of three independent directors provides fresh pair of eyes to the strategic matters.

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 2019.

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 Pakistan total power generation is increasing on the back of new power projects under CPEC. At the end of September 2019, dependable generation capacity of electricity reached 34,523 MW, which was 32,574 MW in June 2019, thus, posting a growth of 5.9 percent. Although electricity generation varies due to availability of inputs and other constraints, the generation increased from 82,011 GWh to 84,680 GWh, posting a growth of 2.1 percent during the period under discussion.

Generation During 1HFY20, electricity generation decreased to 54GWh (1HFY19: 72GWh, FY19: 138GWh, FY18: 143GWh). Generation was lower because of low demanded load by CPPA-G owing to the unavailability of transmission lines.

Performance Benchmark The required availability for Master Wind Energy under the EPA is 95%. During FY19, average plant availability and capacity factor has been maintained according to agreed parameters. Company's net income improved to PKR 721mln during 1HFY20 as compared to PKR 705mln during 1HFY19.

Financial Risk

Financing Structure Analysis Master Wind plant's capital structure comprises 25% equity and 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 February-17 and to be paid in 20 semi-annual payments. The foreign facility of USD 49.6mln is to be paid with the same repayment schedule as of local. As on February-20, PKR 3,976mln (local loan) and USD 36.146mln (foreign loan) is outstanding. Seven installments have been made till date of both local and foreign debt.

Liquidity Profile During 1HFY20, total receivables of the company stood at PKR 2,677mln (FY19: PKR 2,081mln). Circular debt continues to be an issue for companies operating in power sector. Consequently, IPPs have to manage their liquidity requirements from short-term borrowings.

Working Capital Financing Cash cycle days has increased to 247 days during 1HFY20 (FY19: 229days) on account of decrease in creditor days (1HFY20: 1 day; FY19: 18 days). The creditors include payments to the O&M contractor. The working capital requirements are fulfilled through in-house adequate cash flow generation and equity injection.

Cash Flow Analysis Free cash flow of the Company increased on the back of improved profitability (1HFY20: PKR 1,691mln; 1HFY19: PKR 1,428mln). Company's debt coverage ratio (FCFO post WC / Gross Interest + CMLTD) as of 1HFY20 has improved slightly to 1.04x (FY19: 1.03x).

Capitalization Master Wind Energy has a high leveraged capital structure (1HFY20: 63%; FY19: 66%; FY18: 70%;). As of FY19, Long Term Debt comprises 100% (PKR 10,249mln) of total debt.



Master Wind Energy Limited

PKR mln

BALANCE SHEET	31-Dec-19	30-Jun-19	30-Jun-18	30-Jun-17
	1H	Annual	Annual	Annual
Non-Current Assets	12,082	12,827	11,753	11,554
Current Assets	4,667	3,879	3,062	4,274
Inventory	-	-	-	-
Trade Receivables	2,677	2,081	1,697	971
Other Current Assets	258	172	273	213
Cash & Bank Balances	1,732	1,626	1,092	3,091
Total Assets	16,749	16,706	14,815	15,828
Debt	10,249	10,886	10,091	10,177
Short-term	-	-	-	-
Long-term (Incl. Current Maturity of long-term debt)	10,249	10,886	10,091	10,177
Other Short term liabilities (inclusive of trade payables)	518	308	400	1,701
Other Long term Liabilities	-	-	-	-
Shareholder's Equity	5,982	5,511	4,324	3,950
Total Liabilities & Equity	16,749	16,706	14,815	15,828

INCOME STATEMENT

Turnover	1,969	3,070	2,786	1,724
Gross Profit	1,346	2,162	1,957	1,201
Other Income	35	77	37	44
Financial Charges	(579)	(1,004)	(817)	(557)
Net Income	721	1,187	1,125	603

Cashflow Statement

Free Cashflow from Operations (FCFO)	1,691	2,773	2,534	1,558
Net Cash changes in Working Capital	(475)	(479)	(2,119)	184
Net Cash from Operating Activities	640	1,325	(389)	1,060
Net Cash from Investing Activities	(16)	(2)	(61)	(1,276)
Net Cash from Financing Activities	(519)	(1,025)	(1,623)	2,892
Net Cash generated during the period	105	297	(2,073)	2,675

Ratio Analysis

Performance				
Gross Margin	68.4%	70.4%	70.2%	69.6%
Net Margin	36.6%	38.7%	40.4%	35.0%
ROE	24.1%	21.5%	26.0%	15.3%
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD)	1.5	1.3	1.4	1.1
Interest Coverage (X) (FCFO/Gross Interest)	2.9	2.8	3.1	2.8
FCFO Pre-WC/Gross interest+CMLTD	1.5	1.3	1.4	0.8
FCFO Post-WC/Gross interest+CMLTD	1.0	1.1	0.2	0.9
Liquidity				
Short Term Borrowings Coverage (Adjusted Quick Assets/Short Term Borrowing)	n.a.	n.a.	n.a.	n.a.
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	247.1	228.9	166.8	-816.1
Capital Structure				
Net Debt/Net Debt+Equity	63%	66%	70%	72%

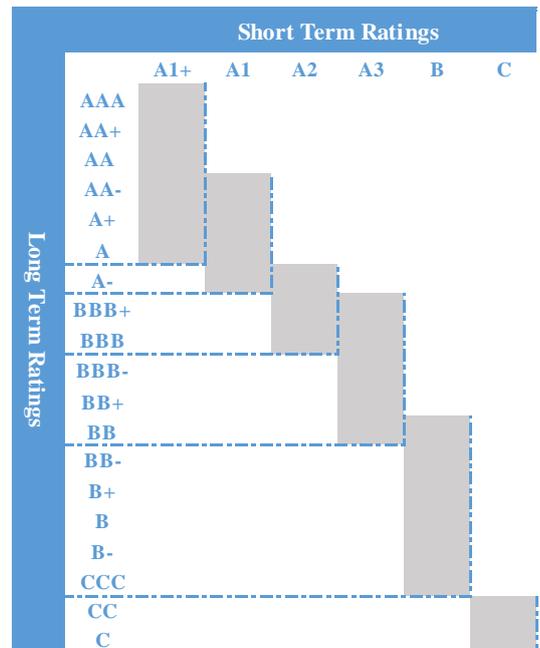
Master Wind Energy Limited

Mar-20

Credit Rating Scale & 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		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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

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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.
- (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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