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
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. Plant achieved COD on14th October 2016, 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 ~46% 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 Master Agreement and EPA Amendment Agreement have not been executed yet with CPPA-G (on behalf of Government of Pakistan). 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 | Independent Power Producer Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Power(Jan-21)
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).

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. 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 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 Owing to newly installed plants, Pakistan's energy mix is shifting towards Solar/Gas/and coal from Furnace Oil and other expensive sources. As on June-20, installed capacity of electricity reached 38,719 MW, which was 38,995 MW at end June 19, decline of 0.7%.(276MW)in FY20, due to the expunge of 784MW of GTPS-Kotri (144MW) and TPS Guddu (640MW). There was an increase of 508MW new power projects including CPEC from coal and renewable sources and this will increase further in coming years. Although electricity generation varies due to availability of inputs and other constraints, generation decreased from 136,532 GWh to 134,745 GWh, posting a decline of 1.3% in FY20 as compared to FY19.

Generation During FY21, electricity generation stood at 111.837 GWh as compared to FY20 96.8GWh (FY19: 138GWh FY18: 129GWh). 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 FY21, average plant availability and capacity factor has been maintained according to agreed parameters. Company's net income decreased to PKR 1,117mln during FY21 in comparison to same period last year (FY20: PKR 1,530mln) on account of decrease in electricity dispatched during the respective period.

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 Feburary-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.

Liquidity Profile Receivables stood at PKR 3,381mln during FY21 (FY20: PKR 2,988mln). 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. Though Wind IPPs don't need to procure raw material therefore they rely on internal cash flows.

Working Capital Financing Cash cycle days for Master Wind further increased to 367 days at FY21 as compare to last fiscal year i.e. FY20: 236 days.

Cash Flow Analysis Free cash flow of the Company decreased on the back of decreased sales (FY21: PKR 2,648mln; FY20 PKR 3,937mln, FY19: PKR 2,719mln, FY18: PKR 2,494mln). Debt coverage ratio as of FY21 has also remain stagnant at 1.4x (FY20: 1.4x). The company has paid a dividend of PKR 403mln during FY21 (FY20: PKR 250mln).

Capitalization Master Wind's leveraging at end-Jun 21 stood at 52.6%% (FY20: 59.6%, FY19: 63.3%). Master Wind is paying its principal and interest payments on time without taking benefit of the forbearance period.

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Financial Summary
PKR mln

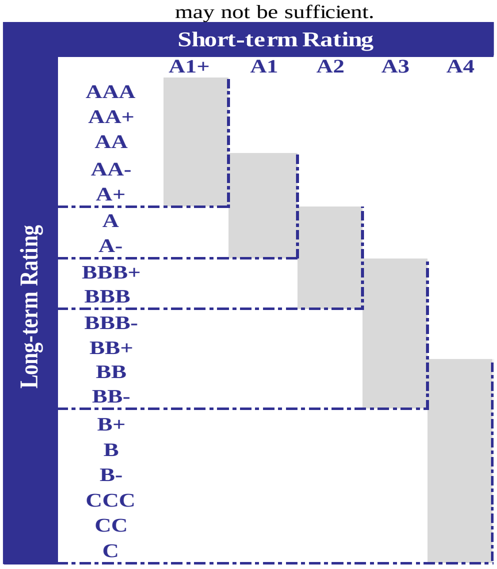
Master Wind Energy Ltd Power	Jun-21 12M Management	Jun-20 12M Audited	Jun-19 12M Audited	Jun-18 12M Audited
A BALANCE SHEET				
1 Non-Current Assets	11,128	12,234	12,827	11,753
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	5,050	4,856	3,882	3,062
a Inventories	-	-	-	-
b Trade Receivables	*3,381*	*2,988*	*2,084*	*1,697*
5 Total Assets	16,178	17,090	16,709	14,815
6 Current Liabilities	322	281	237	400
a Trade Payables	*101*	*65*	*46*	*126*
7 Borrowings	8,344	9,923	10,886	10,091
8 Related Party Exposure	-	87	68	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	7,512	6,798	5,518	4,324
11 Shareholders' Equity	7,512	6,798	5,518	4,324
B INCOME STATEMENT				
1 Sales	3,081	3,915	3,070	2,786
a Cost of Good Sold	*(1,194)*	*(1,219)*	*(908)*	*(829)*
2 Gross Profit	1,887	2,696	2,162	1,957
a Operating Expenses	(79)	(138)	(117)	(112)
3 Operating Profit	1,808	2,558	2,045	1,845
a Non Operating Income or (Expense)	*(29)*	*80*	*160*	*104*
4 Profit or (Loss) before Interest and Tax	1,779	2,638	2,205	1,949
a Total Finance Cost	*(671)*	*(1,096)*	*(1,004)*	*(817)*
b Taxation	*9*	*(11)*	*(13)*	*(6)*
6 Net Income Or (Loss)	1,117	1,530	1,187	1,125
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*2,648*	*3,397*	*2,773*	*2,534*
b Net Cash from Operating Activities before Working Capital Changes	*1,952*	*2,267*	*1,803*	*1,729*
c Changes in Working Capital	*(405)*	*(844)*	*(479)*	*(2,119)*
1 Net Cash provided by Operating Activities	1,547	1,423	1,325	(389)
2 Net Cash (Used in) or Available From Investing Activities	(22)	(23)	(2)	(61)
3 Net Cash (Used in) or Available From Financing Activities	(1,718)	(1,359)	(788)	(1,549)
4 Net Cash generated or (Used) during the period	(193)	41	534	(1,999)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-21.3%	27.5%	10.2%	--
b Gross Profit Margin	61.2%	68.9%	70.4%	70.2%
c Net Profit Margin	36.2%	39.1%	38.7%	40.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	72.8%	65.2%	74.7%	14.9%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	14.5%	22.8%	22.8%	26.0%
2 Working Capital Management				
a Gross Working Capital (Average Days)	377	236	225	222
b Net Working Capital (Average Days)	367	231	215	206
c Current Ratio (Current Assets / Current Liabilities)	15.7	17.3	16.4	7.7
3 Coverages				
a EBITDA / Finance Cost	4.3	3.1	2.8	3.1
b FCFO / Finance Cost+CMLTB+Excess STB	1.4	1.4	1.3	1.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	4.1	4.3	6.2	5.9
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	52.6%	59.6%	66.5%	70.0%
b Interest or Markup Payable (Days)	43.2	33.6	0.0	0.0
c Entity Average Borrowing Rate	6.5%	10.4%	9.6%	8.1%

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):

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

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(Credit Rating Companies Regulations,2016)

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2) **Conflict of Interest**
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Conduct of Business
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(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.
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(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)
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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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