The Pakistan Credit Rating Agency Limited

Rating Report

Master Green Energy Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-May-2024	A	A1	Stable	Maintain	-
24-May-2023	A	A1	Stable	Maintain	-
22-Jun-2022	A	A1	Developing	Maintain	Yes
23-Jun-2021	A	A1	Developing	Maintain	Yes
29-Jun-2020	A	A1	Developing	Maintain	Yes
15-Jan-2020	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Master Group, pioneer of foam products in Pakistan, installed its second 50MW wind power plant project in district Jamshoro, Sindh – Master Green Energy Limited (“the Company” or “MGEL”), after the success of its first wind power project. Master Wind Energy Limited located in Jhimpir, Sindh. The Company signed Energy Purchase Agreement ("EPA") with CPPA-G for a period of 25 years. As per the EPA, in case of non-project missed volumes the power purchaser shall be liable to pay the missed volumes at applicable tariff rates. Master Green was awarded a cost-plus tariff by NEPRA, with the energy payments to be received from CPPA-G backed by the sovereign guarantee of Government of Pakistan. The project revenues and cash flows are exposed to wind risk and operational risk. The operational risk aspect is mitigated by achieving benchmarks of availability and efficiency as agreed in the Energy Purchase Agreement (EPA). Under the cost-plus tariff regime, any variability in wind speeds is to be borne by the Company, due to which its cash flows may face seasonality. Hydro China International Engineering Company Limited & Hangzhou Huachen Electric Power Control Company were the EPC contractors on the Project. The construction on the project started in September 2019 and commercial operation date (COD) was achieved in August 2021. HydroChina International Engineering Company Limited was O&M operator for the warranty period i.e. up to August 2023. The Company has entered into a long term O&M contract with Seimens Gamesa Renewable Energy Pvt Limited (Remote service provider) as Operator A and Albario Engineering Pvt Limited as Operator B. Comfort is drawn from its vast international and local experience of the operators. The Company delivered 76.37GWh electricity from Jul 2023 to April 2024 to the national grid. Short-term borrowing lines are available in order to support its working capital needs, However, remains unutilized. The Company has repaid eleven installments (total number of installments forty for local SBP RE loan and fifty-two for foreign and local conventional KIBOR loan) of its project-related long-term debt by March 2024 in a timely manner without availing any forbearance period. However, the leverage is yet sizeable and will gradually decline along with the life of the project.

Ratings take comfort from the true-up tariff approved by the authority. However, upgrading operational performance in line with agreed performance levels is important. Improvement in inflows and availability of unutilized credit limits remained congenial for the ratings.

Disclosure	
Name of Rated Entity	Master Green Energy Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Independent Power Producer Rating(Jul-23),Methodology | Rating Modifiers(Apr-24)
Related Research	Sector Study | Power(Jan-24)
Rating Analysts	Andleeb Zahra | andleeb.zahra@pacra.com | +92-42-35869504

Profile

Plant Master Green Energy Limited (MGEL) is a Renewable Energy Independent Power Producer (RE IPP) developed under the Renewable Energy Policy 2006. The company established 50MW wind power plant located in Jamshoro, Sindh. The plant has achieved its COD on August 21, 2021.

Tariff MGEL is awarded cost-plus tariff for wind power projects by NEPRA. Under the 2019 NEPRA tariff determination for wind IPPs, the company has a generation tariff PKR 7.2396 per Kilowatt hour (kWh) for years 1-10 and generation tariff of PKR 2.3726 per Kilowatt hour (kWh) for years 11-25. The levelized tariff for the project is US¢ 14.3967/kWh at the April-June 2024. The tariff is revised every quarter which was as follows: (Q3 2024: PKR 14.5379; Q2 2024: PKR 14.7904; Q1 2024: PKR 14.6624). The tariff remains average 0.52 US¢ based on interbank US$ to PKR rate.

Return On Project The IRR of the project, as agreed with NEPRA, is 14%.

Ownership

Ownership Structure MGEL is wholly owned by Master Group. The ownership is segmented among three brothers having an equal shareholding in MGEL through separate holding companies. Associated companies' holds 99.99% of total shareholding of the Company; Nadeem Malik Holdings (Pvt.) Ltd. (25.67%), NM Holding (Pvt.) Ltd. (25.67%), Najeeb Holdings (Pvt.) Ltd. (25.67%) and Master Textile Mills Ltd (23%).

Stability Master Group has a long history spanning over 50 years. The flagship company Master Enterprises (Pvt.) Ltd established in the year 1963. The Group gradually diversified in various industries with operations across textile, engineering, automobile and retail sectors. It is one of the leading Industrial groups in the country.

Business Acumen Sponsor Group has 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 they have well diversified profitable businesses.

Governance

Board Structure MGEL’s Board of Directors comprises three members, including the Managing Director. All board members are representatives of the Master Group.

Members’ Profile Mr. Nadeem Malik is the Chairman of the board and has associated with the Master Group for over three decades. While, Mr. Najeeb Malik is currently serving as a director on the board of MGEL.

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

Financial Transparency Yusuf Adil, amongst the top audit firms of Pakistan, is the external auditor of the Company. The Auditors has issues unqualified report for the year ended June 2023.

Management

Organizational Structure MGEL has a lean organizational structure. The company has a well-defined lean organizational structure with a professional management team in place to monitor the operations and assure control mechanisms.

Management Team Mr. Shahzad Malik is the Managing Director & CEO of MGEL, holds a Master’s degree in Business Administration (USA) and has been successfully overseeing the foam and energy business of the group for over 10 years. Mr. Rumman Arshad Dar is the COO of the company. Mr. Dar has over 2 decades of experience in the energy sector.

Effectiveness MGEL’s management effectiveness plays a significant role in empowering the organization through positive results, which has made decision making process systematic.

Control Environment The company takes advantage of advanced Oracle EBS R12 software to deliver comparatively better on many fronts. SCADA system is used in the turbines. Moreover, Company’s quality of the IT infrastructure and the breadth and depth of activities performed has remained well satisfactory. The company does not exist any internal audit function and audit committee.

Operational Risk

Power Purchase Agreement MGEL is being developed under the Renewable Energy Policy 2006. EPA is with CPPA-G, and has tenure of 25 years.

Operation And Maintenance HydroChina was the construction contractor on the Project, and was providing the warranty period O&M for 2 years post COD. Seimens Gamesa turbines have been installed on site, and as per industry practice long term O&M contract for remote services has been negotiated with turbine manufacturer Seimens Gamesa Renewable Energy (SGRE) for remote services. Al-Bario Engineering (Pvt) Limited will provide LT O&M non-remote services.

Resource Risk Wind risk as defined under Renewable Energy RE policy 2006 is the risk of variability of wind speed, and therefore of the effective energy output of the Wind. As per EPA, MGEL will be responsible for the lower electricity generation due to variation in wind speed.

Insurance Cover MEGL has secured sound insurance cover for its operation from Adamjee Insurance and Alfalah Insurance. The cover includes all risks i.e. business interruption, third party liability, full political violence, business interruption and property damages.

Performance Risk

Industry Dynamics The installed capacity within the CPPA-G system as of FY 23 stood at 42,362 MW. This capacity is distributed among various energy sources, with thermal generation accounting for 25,490 MW, hydroelectric contributing 10,635 MW, wind power providing 1,838 MW, solar energy contributing 530 MW, biomass (bagasse) generating 249 MW, and nuclear power adding 3,620 MW. The total generation in CPPA-G area remained 128,623.87 GWh. This comprises of 52.09% from thermal, followed by 25.56% from from hydel, whereas nuclear and renewable contributes to 17.43% and 4.58% respectively. In order to balance the energy mix and to reduce dependence on imported energy, Govt. emphasize the transition towards utilizing renewable energy sources and indigenous fuels.

Generation The company net generated energy at 132.31GWh at FY23 (FY22: 127.49 GWh).

Performance Benchmark The required availability and the capacity factor are 97% and 38.48% by NEPRA.

Financial Risk

Financing Structure Analysis The total project cost is USD 65.03mln, consisting of 80% of debt (USD 52mln) and 20% of equity (USD 13mln). The debt financing constitutes foreign loan of USD 25mln (3MLIBOR+4.25%) and local loan of PKR 4.38bln (SBP refinancing rate of 3%+2.25%; Bank rate of 3MKIBOR+1%). The foreign loan has the maturity of 13 years while the local loan has maturity of 10 years. Both the local and foreign loan are repayable in quarterly installments.

Liquidity Profile Circular debt continues to be an issue for companies operating in power sector. Though Wind IPPs don’t need to procure raw material therefore they rely on internal cash flows. Receivables from CPPAG stood at PKR 491.88mln for 6MFY24 (FY23: PKR 759.08mln).

Working Capital Financing Renewable IPPs do not have to pay for fuel which minimizes its working capital needs. MGEL's Net Working Capital Days stood at 61 days for 6MFY24 (FY23:32 days) which is a function of its receivables days.

Cash Flow Analysis Net cash generated from operations for 6MFY24 stood at ~PKR 1,118mln (FY23: PKR 1,968mln). Interest coverage ratio (EBITDA/Finance Cost) as at 6MFY24 clocked at 2.7x (FY23: 2.3x)

Capitalization MGEL's leveraging at end Dec 23 stood at 74.9%(FY23: 79%). The company has been paying its principal and interest instalments as per their agreement with the financing authority.

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Financial Summary
PKR mln

Master Green Energy Limited	Dec-23	Jun-23	Jun-22	Jun-21
Power	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	12,298	12,673	11,247	8,313
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,040	954	1,357	731
a Inventories	-	-	-	-
b Trade Receivables	*492*	*759*	*415*	-
5 Total Assets	13,338	13,627	12,604	9,044
6 Current Liabilities	255	243	710	7
a Trade Payables	*151*	*121*	*677*	-
7 Borrowings	9,417	10,188	9,244	6,785
8 Related Party Exposure	379	379	379	213
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	3,287	2,816	2,270	2,039
11 Shareholders' Equity	3,287	2,816	2,588	2,039
B INCOME STATEMENT				
1 Sales	1,454	2,170	1,006	-
a Cost of Good Sold	*(497)*	*(771)*	*(581)*	-
2 Gross Profit	957	1,399	425	-
a Operating Expenses	(55)	(71)	(68)	(6)
3 Operating Profit	903	1,327	357	(6)
a Non Operating Income or (Expense)	*33*	*25*	*117*	*182*
4 Profit or (Loss) before Interest and Tax	936	1,352	474	176
a Total Finance Cost	*(453)*	*(800)*	*(418)*	*(0)*
b Taxation	*(11)*	*(7)*	*(11)*	*(0)*
6 Net Income Or (Loss)	472	545	44	176
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,118*	*1,968*	*814*	*(4)*
b Net Cash from Operating Activities before Working Capital Changes	*671*	*1,187*	*418*	*(5)*
c Changes in Working Capital	*241*	*(371)*	*(289)*	*1,130*
1 Net Cash provided by Operating Activities	912	816	128	1,125
2 Net Cash (Used in) or Available From Investing Activities	37	(523)	(1,268)	(6,940)
3 Net Cash (Used in) or Available From Financing Activities	(433)	(880)	1,405	4,110
4 Net Cash generated or (Used) during the period	516	(587)	265	(1,704)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	34.1%	115.7%	N/A	N/A
b Gross Profit Margin	65.8%	64.5%	42.2%	N/A
c Net Profit Margin	32.4%	25.1%	4.4%	N/A
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	93.5%	73.6%	52.2%	N/A
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/S*	28.4%	20.1%	2.0%	N/A
2 Working Capital Management				
a Gross Working Capital (Average Days)	78	99	151	N/A
b Net Working Capital (Average Days)	61	32	-95	N/A
c Current Ratio (Current Assets / Current Liabilities)	4.1	3.9	1.9	106.2
3 Coverages				
a EBITDA / Finance Cost	2.7	2.3	1.8	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	1.3	1.2	0.6	0.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	7.3	8.6	22.6	-1671.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	74.9%	79.0%	78.8%	77.4%
b Interest or Markup Payable (Days)	0.7	6.7	7.1	N/A

Credit Rating

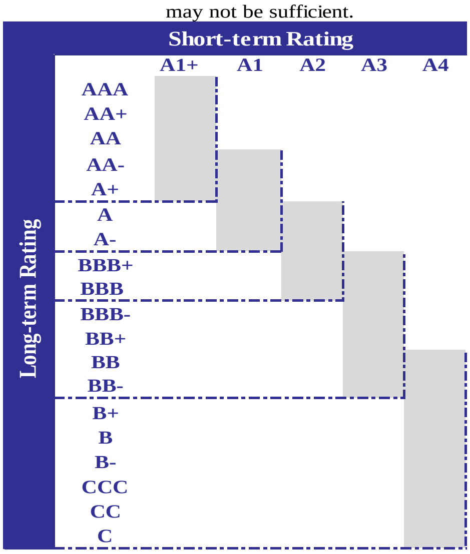
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance 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
(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
Proprietary Information