The Pakistan Credit Rating Agency Limited

Rating Report

Gul Ahmed Electric Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
17-Feb-2023	A	A2	Stable	Upgrade	-
18-Feb-2022	A-	A2	Stable	Maintain	-
19-Feb-2021	A-	A2	Stable	Upgrade	-
20-Feb-2020	BBB-	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Gul Ahmed Energy Limited has set up a 50 MW wind power plant - Gul Ahmed Electric Limited (GEL) located in Jhimpir, District Thatta, Sindh. GEL is awarded a cost-plus tariff, with the payments to be received from CPPA-G backed by the sovereign guarantee. The plant successfully achieved its Commercial Operations (COD) on April 7, 2022 and has been supplying electricity to the national grid since then. Comfort is drawn from entity's group association, having strong financial backing and relevant experience in successfully commissioning and operating Power Plants. Hydrochina International Engineering Company Limited & Hangzhou Huachen Electric Power Control Company were the EPC contractors for the project and shall also remain its O&M operators for the first two years after COD. The O&M contractor will be responsible for maintaining the operational benchmarks (Availability: 98%, Capacity: 38%) and shall provide the warranty bond (10% of EPC cost) in the form of irrevocable bank guarantee for 24 months after COD. This will provide additional cushion for the sustainable financial risk profile. Further, the company will maintain the Debt Service Reserve Account (DSRA), which will be backed by 6 months SBLCs, in total providing coverage of six months on its financial obligations till maturity. The project revenues and cash flows remain exposed to wind risk due to seasonal variation in the wind speed which may affect electricity generation, and ultimately cash flows may face seasonality. However, historical wind speeds provide comfort that GEL would be able to generate enough cash flows to keep its financial risk manageable. FCFO's for June'22 stood at PKR 367mln while total receivables were recorded at PKR 453 million. The company has generated 15.48 GWhr of electricity till Dec'22 after achieving COD. The Company has long term project debt that is repayable in a period of ten years. The company is in the process of applying for adjustment / true up in its original tariff and may have to rely on additional financing to service its debt if payments from CPPA-G are not recovered on time.

The Company has signed Energy Purchase Agreement ("EPA") with CPPA-G, as per the EPA, in case of non-project missed volumes the power purchaser shall be liable to pay the missed volumes calculated using tariff rates. The Company has adequate insurance coverage to cover the risk of business interruptions, marine & erection etc. External factors such as any adverse changes in the regulatory framework may impact the ratings. Going forward, the capacity of the Company to generate stable cash flows in order to make timely repayments against the project debt remains crucial. With rising concerns about circular debt, the trend of payments received from CPPA-G against invoices will further impact ratings.

Disclosure

Name of Rated Entity	Gul Ahmed Electric Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22),Methodology | Independent Power Producer Rating(Jun-22)
Related Research	Sector Study | Power(Jan-23)
Rating Analysts	Anam Waqas Ghayour | anam.waqas@pacra.com | +92-42-35869504

Profile

Plant Gul Ahmed Electric Limited (GEL) is a Renewable Energy Independent Power Producer (RE IPP) operating under the Renewable Energy Policy 2006. The company has set up 50MW wind power plant located in Jhimpir,District Thatta, Sindh.

Tariff GEL is awarded cost-plus tariff for wind power projects by NEPRA. On Nov'18 NEPRA has determined the tariff, the company has a generation tariff PKR 7.2340 per Kilowatt hour (KWh) for years 1-10 and generation tariff of PKR 2.3790 per Kilowatt hour (KWh) for years 11-25. The levelized tariff for the project is US¢ 4.7212/KWh at the time of the financial close. The company is the process of applying for adjustment / true up in its original tariff.

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

Ownership

Ownership Structure Gul Ahmed Electric Ltd (GEL) is wholly owned by Gul Ahmed Energy Ltd (GAEL). The shareholding of GAEL is vested among Gul Ahmed Energy Group (67.68%), Toyota Tsusho Corporation (18.62%), Tomen Power (Singapore) P.T.E Limited (12.87%) and Wartsila (0.92%).

Stability Gul Ahmed Energy Group has a long history of diversified business since 1948. The Group gradually diversified in various industries with operations across textile, manufacturing, investments, power & energy and currently it is one of the leading industrial groups in the country.

Business Acumen Sponsor group has significant experience in textile, trading and power & energy.

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

Governance

Board Structure Gul Ahmed Electric Limited Board of Directors (BoD) comprises three members with extensive experience, including the Chief Executive Officer.

Members' Profile Mr. Danish Iqbal is the new Chairman of the board and has associated with the Gul Ahmed Group since its inception. While, Mr Abdul Razak Teli is currently serving as a director on the board of GEL and has over five decades of experience under his belt.

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

Financial Transparency A.F Ferguson & Co. Chartered Accountants are the external auditors of the company. They have expressed an unqualified opinion on the company's financial statements for the period ended June 30, 2022.

Management

Organizational Structure Gul Ahmed Electric Limited 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. Danish Iqbal is the CEO of the company. He has over two decades of professional experience and has been associated with the company since its inception. He has been one of the entrepreneurs of Wind Industry in Pakistan.

Effectiveness GEL'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 IT Solutions i.e., SAP. Moreover, Company's quality of the IT infrastructure and the breadth and depth of activities performed has remained well satisfactory.

Operational Risk

Power Purchase Agreement Gul Ahmed Electric Ltd (GEL) has been developed under the Renewable Energy Policy 2006. EPA is with CPPA-G, and has tenure of 25 years.

Operation And Maintenance The O&M will be managed by the Hydro China International Engineering Company Ltd for the first 2 years after the COD.

Resource Risk The risk of wind resource shall be borne by the power producer.

Insurance Cover As per the agreement, the EPC contractor shall be liable for the damages if benchmark performance ratio has not been met. The Company has adequate insurance coverage to cover the risk of business interruptions, marine & erection etc.

Performance Risk

Industry Dynamics The total installed capacity of the country as at end-FY22 stood at ~41,557MW out of which ~1,985MW comes from Wind. Thirty-Four (34) wind power projects of 1745 MW cumulative capacity have achieved Commercial Operation and are supplying electricity to National Grid. Two (2) wind power projects of 100 MW capacity have achieved Financial Closing and are under construction.

Generation Gul Ahmed Electric Ltd generated 15.48GWhr up till now after achieving COD in April 2022.

Performance Benchmark The required availability and the capacity factor is 98% and 38% respectively, by NEPRA. After achieving COD till Dec'22 the actual availability was 98.94% whereas the average capacity factor was 43.68%.

Financial Risk

Financing Structure Analysis The total project cost approved under NEPRA is ~USD 62.95mln, consisting of 80% of debt (~USD 50.36mln) and 20% of equity (~USD 12.59mln). The debt financing constitutes foreign loan of USD ~24.45mln (3MLIBOR+4.25%) and local loan of PKR 4.129bln (SBP refinancing rate of 3%+1.75%). The local loan is eligible for refinancing under the State Bank of Pakistan (SBP) Financing Scheme for Renewable Energy. 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. The repayment of loan has begun from Sep-22 and 2 installments has been paid till Dec'22.

Liquidity Profile As at end-FY22, total receivables of the company stood at 453M after achieving COD on 7th April'22. IPPs, being dependent on the GoP for payments, have to manage their liquidity requirements from short-term borrowings.

Working Capital Financing Renewable IPPs do not have to pay for fuel which minimizes their working capital needs.

Cash Flow Analysis The stability and sustainability of future cash flows of Gul Ahmed Electric Ltd depends completely on continuous performance of its wind turbines. The FCFO for June'22 were 367mln after COD. The company would have to make quarterly principal repayments of debt, which also includes foreign debt and has paid 2 installments. The company will maintain the Payment Service Reserve Account (PSRA), which will be equivalent to two quarterly payments (6 months). PSRA will be filled by 6 months SBLC. the capacity of the Company to generate stable cash flows in order to make timely repayments against the project debt remains crucial because the payments received from CPPA-G against invoices can impact the ratings.

Capitalization The leverage (Debt/Capital) of the Company stood at 79.3% as at end FY22 (FY21: 70.4%). The targeted project debt constitutes 80%(~USD50.36mln) of total estimated project cost (~USD 62.95mln).

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Financial Summary
PKR mln

Gul Ahmed Electric Limited	Jun-22	Jun-21	Jun-20	Jun-19
Power	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	11,115	5,312	406	69
2 Investments	-	-	-	48
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,650	1,297	535	1
a Inventories	-	-	-	-
b Trade Receivables	*453*	-	-	-
5 Total Assets	12,765	6,609	941	118
6 Current Liabilities	1,397	7	67	7
a Trade Payables	-	*5*	*65*	-
7 Borrowings	8,910	4,495	12	-
8 Related Party Exposure	244	149	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	2,214	1,958	862	111
11 Shareholders' Equity	2,214	1,954	862	111
B INCOME STATEMENT				
1 Sales	535	-	-	-
a Cost of Good Sold	*(157)*	-	-	-
2 Gross Profit	378	-	-	-
a Operating Expenses	(6)	(1)	(1)	(0)
3 Operating Profit	372	(1)	(1)	(0)
a Non Operating Income or (Expense)	-	-	*2*	*3*
4 Profit or (Loss) before Interest and Tax	372	(1)	1	3
a Total Finance Cost	*(113)*	*(0)*	*(0)*	*(0)*
b Taxation	-	-	-	-
6 Net Income Or (Loss)	260	(1)	1	3
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*367*	*(0)*	*(19)*	*1*
b Net Cash from Operating Activities before Working Capital Changes	*367*	*(0)*	*(19)*	*1*
c Changes in Working Capital	*908*	*(17)*	*60*	*6*
1 Net Cash provided by Operating Activities	1,275	(17)	41	7
2 Net Cash (Used in) or Available From Investing Activities	(5,908)	(5,339)	(275)	(7)
3 Net Cash (Used in) or Available From Financing Activities	4,504	5,970	750	-
4 Net Cash generated or (Used) during the period	(129)	613	516	(0)
D RATIO ANALYSIS				
1 Performance				
b Gross Profit Margin	70.7%	N/A	N/A	N/A
c Net Profit Margin	48.5%	N/A	N/A	N/A
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	238.3%	N/A	N/A	N/A
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	15.4%	N/A	N/A	N/A
2 Working Capital Management				
a Gross Working Capital (Average Days)	309	N/A	N/A	N/A
b Net Working Capital (Average Days)	306	N/A	N/A	N/A
c Current Ratio (Current Assets / Current Liabilities)	1.2	183.7	8.0	0.2
3 Coverages				
a EBITDA / Finance Cost	4.3	N/A	N/A	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	0.5	N/A	N/A	N/A
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	80.5%	70.4%	1.4%	0.0%
b Interest or Markup Payable (Days)	0.0	N/A	N/A	N/A
c Entity Average Borrowing Rate	1.5%	0.0%	0.0%	--

Credit Rating

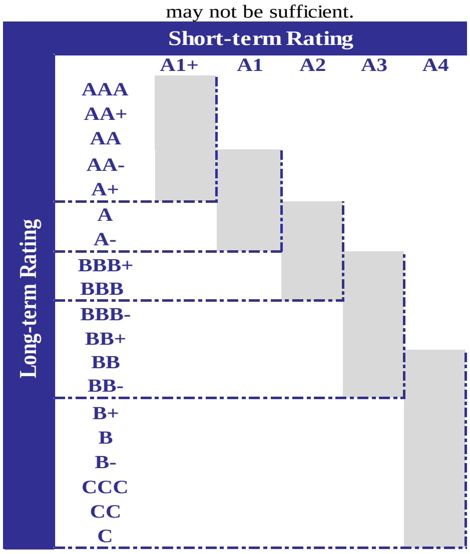
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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 | 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