The Pakistan Credit Rating Agency Limited

Rating Report

ACT2 Din Wind (Pvt) Limited (formerly: ACT2 Wind (Pvt.) Limited)

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
18-Jan-2023	A-	A2	Stable	Upgrade	-
19-Jul-2022	BBB+	A2	Stable	Maintain	-
19-Jul-2021	BBB+	A2	Stable	Upgrade	-
29-Jul-2020	BBB-	A3	Developing	Initial	-

Rating Rationale and Key Rating Drivers

Act group and Din group have successfully set up wind power plant - Act2 Din Wind (Pvt.) Limited (“Act2 Din Wind or the Project”), formerly known as Act2 wind energy Pvt. Ltd. Hydro China International Engineering Company Limited & Hangzhou Huachen Electric Power Control Company are the EPC contractors. The Upgrade in ratings incorporates commissioning of the complex by declaring commercial operations on February 2022, after taking into account all the pre-requisites mentioned in the EPA, as a result, the project does not feature any construction risk. Further, as of 1QFY23 Act2 Din Wind has paid off first three installments of project-related loan in timely maner. The construction contractors are the O&M operator for two years after COD; and provide the warranty bond (10% of EPC cost) in the form of irrevocable bank guarantee for 24 months after COD. Act2 Din Wind is awarded a cost-plus tariff, with the payments to be received from CPPA-G backed by the sovereign guarantee. Energy Purchase Agreement ("EPA") is signed 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. During the period, FY22, Act2 Din wind recorded sales revenue of PKR ~599mln along with a Net Profit of PKR ~299mln respectively, being the first 5 months of its operations. Working capital requirements of Act Wind are fulfilled through in-house adequate cash flow generation, without any utilization of short term borrowing lines. Free cash flows of the Company are in a comfortable position to make timely debt repayments. The Project 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 leveraging of Act2 Din Wind is yet sizeable and will gradually decline along with the life of the project as the repayment of project-related loan has started. The project revenues and cash flows are exposed to wind risk, there is seasonal variation in the wind speed which affect the electricity generation, and ultimately cash flows may face seasonality. However, historical wind speeds provide comfort that ACT2 Din Wind would be able to generate enough cash flows to keep its financial risk manageable.

Comfort is drawn from the group association, having strong financial backing and relevant experience. Management has put forth the requisition for true up tariff to NEPRA, final decision in this respect is awaited. Upgrading operational performance in line with agreed performance levels is important. Sound cash flow generation
remained congenial for the ratings.

Disclosure

Name of Rated Entity	ACT2 Din Wind (Pvt) Limited (formerly: ACT2 Wind (Pvt.) Limited)
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22),Methodology | Independent Power Producer Rating(Jun-22)
Related Research	Sector Study | Power(Jan-22)
Rating Analysts	Muhammad Mubashir Nazir | mubashir.nazir@pacra.com | +92-42-35869504

Profile

Plant ACT2 Wind - Din Energy Pvt Limited "The Company or ACT2 Wind" is a Renewable Energy Independent Power Producer (RE IPP) developed under the Renewable Energy Policy 2006. The Company has established a 50MW wind power plant located in Jhimpir District Thatta, Sindh.

Tariff ACT2 Wind is awarded a cost-plus tariff for wind power projects by NEPRA. Under the 2019 NEPRA tariff determination for wind IPPs, the Company has a generation tariff of PKR 7.2340 per Kilowatt hour (KWh) for years 1-10 and a generation tariff of PKR 2.3790 per Kilowatt hour (KWh) for years 11-25. The Levelized tariff is US¢ 4.7212/KWh at the time of the financial close.

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

Ownership

Ownership Structure The current sponsor of the Company includes Akhter Group, Ismail Group, Tapal Group, and, Din group, which owns 15.50%, 20%, 15.5%, and 49% respectively. Previously before October 2021, the Project was equally owned by Akhter Group, Tapal Group, and Ismail group

Stability The stability of sponsors is considered strong having vast experience in the diverse segment of the economy.

Business Acumen The sponsor groups are engaged in diversified business portfolios and have expertise in the power sector including Wind-based Power plants.

Financial Strength The company's sponsors have the ability to support the entity both on a continuing basis, and support in times of crisis. Additionally, the financial strength of the sponsors is considered strong as the sponsors have well-diversified profitable businesses

Governance

Board Structure The BOD comprises six members including the CEO. Mr. Mustafa Tapal is currently the Chairman of the board. Akhter, Tapal, and Ismail group has one representative while DIN group has two representatives on the board.

Members' Profile Mr. Mustafa Tapal is currently the Chairman of the board. The board has a vast experience in various sectors including but not limited to finance, accounting, project management, and construction and manufacturing.

Board Effectiveness The Company's board members conduct board discussions where important matters related to the plant's efficiency, and monthly budget are discussed.

Financial Transparency The company's external auditor, BDO Ebrahim & Co. ranked as an "A" category auditor by ICAP. The audit of the FY 22 is in process, while the auditor expressed an unqualified opinion in FY 21 financial statements.

Management

Organizational Structure IPPs are generally featured by a flat organizational structure, mainly comprising finance and technical staff, while the engineering, construction, and operations of the plant are outsourced.

Management Team Mr. Khurshid Akhter, the CEO, has been spearheading the company since assuming management control of the company. Mr. Akhter carries with him more than 2 decades of experience in various fields of industry. He is supported by an experienced management team.

Effectiveness The company's effective management played a significant role in empowering the organization through its progressive results. Additionally, management's effective decision-making causes processes more systematic while the robustness of control systems is considered a reflection of strong management, which is positive.

Oversight Of Third-Party Service Providers The company takes advantage of advanced IT solutions to deliver comparatively better on many fronts. Moreover, the Company's quality of the IT infrastructure activities remained well satisfactory.

Completion Risk

Engineering And Procurement ACT2 Wind has signed an Onshore Contract with HydroChina International Engineering Company Limited and an Offshore supply contract with Hangzhou Huachen Electric Power Control Company of ~USD 12mln and ~USD 45mln respectively. Wind power projects' cost is mainly comprised of wind turbines and other instruments, hence cost of offshore EPC contracts is a major component of total EPC costs.

Power Purchase Agreement ACT2 Wind is being developed under the Renewable Energy Policy 2006. EPA is with CPPA-G and has a tenure of 25 years from the date of COD i.e. February 2022.

Pre-Commissioning Progress ACT2 wind has successfully announces its COD in February 2022, and is supplying electricity to the national grid as per agreed benchmarks.

Performance Default Risk Insurance is attained for material damage, third-party liability, and delay in startup affecting the profits.

Performance Risk

Industry Dynamics Pakistan has the potential to generate more than 50,000 MW of electricity through Wind. GOP tasked AEDB to produce 5% of total generation through RE by 2030. Currently, Twenty-Six (26) wind power projects of 1335 MW cumulative capacity have achieved Commercial Operation and are supplying electricity to National Grid, and Ten (10) wind power projects of 510 MW capacity have achieved Financial Closing and are under construction.

Operation And Maintenance The long-term O&M contractor as per the terms of the contract is currently the EPC contractor of ACT2 wind - HydroChina International Engineering Company Limited for a period of 2 years, after that company will appoint its long-term O&M contractor.

Resource Risk ACT2 wind's revenues will be exposed to seasonality due to variances 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.

Performance Benchmark The required availability and capacity factor is 97% and 38% by NEPRA. During FY22, average plant availability and capacity factor have been maintained according to agreed parameters. After achieving the COD the Company has recorded a turnover of PKR 599mln reflecting approx. 5-month revenue from Feb 2022 to June 2022.

Financial Risk

Financing Structure Analysis The total project cost is ~USD 62.95mln, consisting of 80% of the debt (~USD 50.36 ml) and 20% of equity (~USD 12.59mln). The debt financing constitutes a foreign loan of USD ~25mln (3MLIBOR+4.25%) and a local loan of PKR 4.5bln (SBP refinancing rate of 3%+2%). The local loan is eligible for refinancing under the State Bank of Pakistan (SBP) Financing Scheme for Renewable Energy. The foreign loan has a maturity of 13 years while the local loan has a maturity of 10 years. Both the local and foreign loans are repayable in quarterly installments.

Liquidity Profile IPPs as per the term of the agreement are liable to receive payments even if they produce no electricity i.e. in case of zero demand from the power purchaser or due to variability of the wind. However, they need to remain available. ACT2 wind is assuming a 90% probability that wind speeds will be sufficient through the years to produce 150,999 MWh (32.64% Capacity Factor) annually and, hence, generate sufficient revenue to cover its financial obligations.

Working Capital Financing The availability of adequate working capital during the operational stage of the project is essential. It is pertinent to mention that trade debts are secured by way of a guarantee issued by the government of Pakistan under the implementation agreement. Being the first year of operation the Company has managed the operational costs by internal cash generation and has not utilized any short-term borrowing lines.

Cash Flow Analysis The stability and sustainability of future cash flows of ACT2 Wind depend completely on the continuous performance of its wind turbines. In order to make timely repayment the Company will maintain the PSRA, which will be equivalent to three quarterly payments. PSRA will be filled by 6 months SBLC and 3 months cash flows.

Capitalization The capitalization as of FY 22 stood at 80% representing the project-related loan. Going forward as the Company starts to generate cash and with timely repayments, the debt is expected to reduce. During IQ FY23 the Company as paid its first two quarterly repayments on a timely basis

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

ACT2 Wind Power	Jun-22	Jun-21	Jun-20	Jun-19
	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	11,130	5,088	263	52
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	2,064	1,074	226	12
a Inventories	-	-	-	-
b Trade Receivables	*436*	-	-	-
5 Total Assets	13,194	6,162	489	64
6 Current Liabilities	1,420	30	12	1
a Trade Payables	*1,419*	*30*	-	-
7 Borrowings	9,212	4,817	-	-
8 Related Party Exposure	245	128	-	-
9 Non-Current Liabilities	8	6	-	-
10 Net Assets	2,310	1,180	477	63
11 Shareholders' Equity	2,310	1,180	477	63
B INCOME STATEMENT				
1 Sales	599	-	-	-
a Cost of Good Sold	*(270)*	-	-	-
2 Gross Profit	328	-	-	-
a Operating Expenses	(23)	(41)	(4)	(3)
3 Operating Profit	306	(41)	(4)	(3)
a Non Operating Income or (Expense)	*156*	*5*	*3*	-
4 Profit or (Loss) before Interest and Tax	462	(36)	(2)	(3)
a Total Finance Cost	*(161)*	*(0)*	*(0)*	*(0)*
b Taxation	*(2)*	*(2)*	-	-
6 Net Income Or (Loss)	299	(38)	(2)	(3)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*463*	*(195)*	*(11)*	*(4)*
b Net Cash from Operating Activities before Wor	*463*	*(195)*	*(11)*	*(4)*
c Changes in Working Capital	*917*	*(59)*	*11*	*1*
1 Net Cash provided by Operating Activities	1,380	(253)	(1)	(4)
2 Net Cash (Used in) or Available From Investing	(6,201)	(4,826)	(211)	(6)
3 Net Cash (Used in) or Available From Financin	5,316	5,692	415	19
4 Net Cash generated or (Used) during the perioc	494	612	203	9
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	--	N/A	N/A	N/A
b Gross Profit Margin	54.8%	N/A	N/A	N/A
c Net Profit Margin	49.9%	N/A	N/A	N/A
d Cash Conversion Efficiency (FCFO adjusted fo	230.4%	N/A	N/A	N/A
*e Return on Equity [Net Profit Margin * Asset T*	17.6%	N/A	N/A	N/A
2 Working Capital Management				
a Gross Working Capital (Average Days)	266	N/A	N/A	N/A
b Net Working Capital (Average Days)	-176	N/A	N/A	N/A
c Current Ratio (Current Assets / Current Liabili	1.5	35.3	18.4	15.9
3 Coverages				
a EBITDA / Finance Cost	3.0	N/A	N/A	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	0.5	-0.9	N/A	N/A
c Debt Payback (Total Borrowings+Excess STB)	31.3	-25.4	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareh	80.4%	80.7%	0.0%	0.0%
b Interest or Markup Payable (Days)	0.0	N/A	N/A	N/A
c Entity Average Borrowing Rate	2.2%	0.0%	--	--

Credit Rating

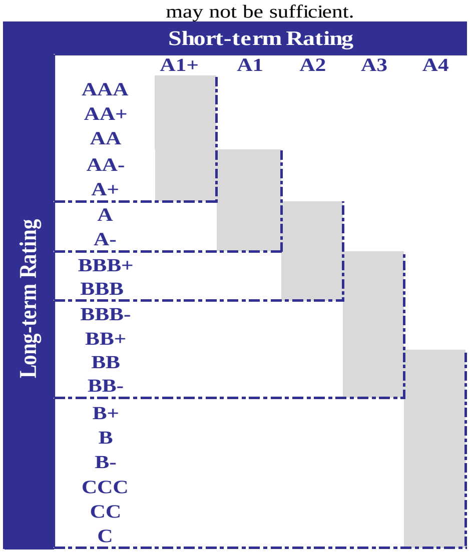
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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