The Pakistan Credit Rating Agency Limited

Rating Report

Liberty Wind Power 2 Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
20-Feb-2024	A	A2	Stable	Maintain	-
01-Mar-2023	A	A2	Stable	Upgrade	-
04-Mar-2022	A-	A2	Stable	Maintain	-
04-Mar-2021	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Liberty Mills Limited has set up a 50MW wind power plant “Liberty Wind Power 2 Limited” (LWP2) in Jhimpir, District Thatta, Sindh. LWP2 is awarded a cost-plus tariff, with the payments to be received from power purchaser backed by the sovereign guarantee. The plant successfully achieved its Commercial Operations (COD) on May 27th, 2022 and has been supplying electricity to the national grid since then. The Company operates in the regulated power sector. Comfort is drawn from entity’s group association, having strong financial backing. 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 is responsible for maintaining the operational benchmarks (Availability: 97%, Capacity: 38%). The company maintains the Debt Service Reserve Account (DSRA), which is backed by 6 months SBLCs, in total providing coverage of six months on its financial obligations till maturity. Foreign and local components of loan have a maturity of 13 and 10 years respectively with quarterly repayments started from Sep, 22. The Company has made timely repayments of its due quarterly instalments till date. 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 LWP2 would be able to generate enough cash flows to keep its financial risk manageable. FCFO’s for June’23 stood at PKR 1,555 million while total receivables were recorded at PKR 1,314 million which is mainly representing unbilled billing to the Power Purchaser. The company has generated ~140 million units of electricity in FY23. LWP2 has applied for adjustment / true up in its original tariff and occasionally relies on additional financing to service its debt.

As per the Energy Purchase Agreement ("EPA") signed with the power purchaser, 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. Going forward, the capacity of the Company to generate stable cash flows in order to make timely repayments against the project debt remains crucial.

Disclosure

Name of Rated Entity	Liberty Wind Power 2 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 | Rating Modifiers(Apr-23)
Related Research	Sector Study | Power(Jan-24)
Rating Analysts	Muhammad Mubashir Nazir | mubashir.nazir@pacra.com | +92-42-35869504

Profile

Plant Liberty Wind Power 2 Limited is a Renewable Energy Independent Power Producer (RE IPP) developed under the Renewable Energy Policy 2006. The company has set up 50MW wind power plant located in Jhimpir District Thatta, Sindh.

Tariff Liberty Wind Power-2 Ltd is awarded cost-plus tariff for wind power projects by NEPRA. Under NEPRA tariff determination for wind IPPs, the company has a generation tariff PKR 7.331 per Kilowatt hour (KWh) for years 1-10 and generation tariff of PKR 2.4026 per Kilowatt hour (KWh) for years 11-25. The levelized tariff for the project is US Cents 4.7824/KWh at the time of the financial close. The Company has filed the petition on March 9, 2023, for Tariff True Up / One Time Adjustment of reference tariff rate, decision on which is still awaited.

Return On Project The dollar IRR of Liberty Wind Power 2, as agreed with NEPRA, is 14%.

Ownership

Ownership Structure Liberty Wind Power-2 is majority owned by Liberty Group (Liberty Mills Limited: 99.9%).

Stability Stability in the IPPs (Independent Power Producers) is drawn from the agreements signed between the company and power purchaser. Stability factor is considered strong.

Business Acumen Liberty Mills Limited incorporated in February 1965, is in the business of manufacturing and processing all kinds of textile fabrics and made-ups. The group has demonstrated financial discipline throughout its history. Liberty group has gradually diversified into the power sector.

Financial Strength Sponsors have the ability to support the entity both on a continuing basis, and support in times of crisis. Financial strength of the sponsors is considered strong as sponsors have well diversified profitable businesses.

Governance

Board Structure The board is dominated by the sponsor’s representatives. The company’s board of directors comprises of three directors including CEO. All the board members are from Liberty Group.

Members’ Profile Qualified and experienced board, providing strategic guidance to the management and ensuring quality internal control framework.

Board Effectiveness Company's board members conduct board discussions where important matters related to the plant’s efficiency, and monthly budgets are discussed. The board has been actively involved in providing strategic guidance to the company and implementing strong internal control framework.

Financial Transparency Yousuf Adil Chartered Accountants are the external auditors of the company. They have expressed an unqualified opinion on the company’s financial statements at end-Jun23.

Management

Organizational Structure The management team comprises qualified professionals possessing sufficient experience in various sectors. The company has a well-defined organizational structure with the CEO reporting to the board.

Management Team Mr. Azam Sakrani, the CEO, carries with him over two decades of experience in the banking and finance industry and industrial finance. Mr. Kashif Hanif, a member of the Institute of Cost and Management Accountants of Pakistan, is the CFO.

Effectiveness Over the years company’s effective management played a significant role in empowering the organization through its progressive results and systematic decision making.

Control Environment The Company has appointed third party contractors for regular operations and maintenance of the plant while the management oversees day to day financial and business matters.

Operational Risk

Power Purchase Agreement Liberty Wind Power-2 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 is being managed by the Construction Contractors for the first 2 years after the COD whereas the long-term O&M contractor will be Siemens Gamesa Renewable Energy (Private) Limited for 11 years.

Resource Risk As per the EPA, Liberty Wind-2 is responsible for the availability of the complex for generation and delivery of net delivered energy. Furthermore, Liberty Wind-2 is responsible, at any time that the speed of wind at the site is within the cut in wind speed and cut out wind speed for the generation and delivery of net delivered energy.

Insurance Cover Insurance is attained for material damage, third party liability, and delay in startup affecting the profits.

Performance Risk

Industry Dynamics In FY23, Pakistan saw a notable year-on-year decline of 9.5% in power generation, with a decrease from 16,346 MW to 14,793 MW. This reduction can be attributed to lower production from various sources, with Furnace Oil (FO) experiencing a significant YoY drop of 62%, followed by coal at -22% and RLNG at -17%. The overall decline is a result of multiple factors, including the country's economic slowdown and the rise in electricity tariffs, leading to a decrease in domestic consumption

Generation LWP2 achieved COD on 27th May 2022 and has been supplying electricity to the National Grid since then. It delivered a total of ~140 million units to the national grid in FY23 while a total of ~266 million units have been delivered since achieving COD.

Performance Benchmark The required availability for LWP2 under the EPA is 97%. Meanwhile, the capacity factor is 38%. EPC contractors will be liable to pay Liquidated Damages (LDs) as per the contract if benchmark performance ratio is not met. Capacity factor of LWP2 was reported at 32% in FY23.

Financial Risk

Financing Structure Analysis The total project cost is ~USD 63.90mln, consisting of 80% of debt (~USD 51.12ml) and 20% of equity (~USD 12.78mln). The debt financing constitutes foreign loan of USD ~25mln (3MLIBOR+4.25%) and local loan of PKR 4.9bln (SBP refinancing rate of 3%+1.5%). 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 started from Sep 22 and company has made 6 repayments of each loan till date.

Liquidity Profile As at end-FY23, total receivables of the company stood at PKR 1,314 million (which is mainly related to the unbilled amount). LWP2 has been receiving regular payment from the purchaser. However, in order to deal with any unforeseen situation, the company has arranged sufficient credit facilities from the respective banks. EPA stipulates interest payment to the IPP in case of late payments.

Working Capital Financing Renewable IPPs do not have to pay for fuel which minimize their working capital needs. Nonetheless, LWP2 has secured working capital line of PKR 1,000 million, utilization of which stood at PKR 713 million as at June 30, 2023.

Cash Flow Analysis The stability and sustainability of cash flows of Liberty Wind Power-2 depends completely on the continuous performance of its wind turbines. LWP2 had FCFOs of PKR 1,555mln at end FY23 (FY22: 684mln) while its coverage ratio (FCFO/Finance Cost) was reported at 2.0x in June’23 (FY22: 13.9x). The company has been maintaining the Payment Service Reserve Account (PSRA), which is equivalent to two quarterly payments (6 months). PSRA is filled by 6 months SBLC.

Capitalization The targeted project debt constituted 80%(~USD51.12mln) of total estimated project cost (~USD 63.9mln). The company has been paying its principal and interest instalments as per its agreement and has successfully repaid ~8% of foreign and ~15% of local debt till date.

The Pakistan Credit Rating Agency Limited

Summary
PKR mln

30-Jun-23	Jun-23	Jun-22	Jun-21	Jun-20	Jun-19
	12M	12M	12M	12M	12M
A BALANCE SHEET					
1 Non-Current Assets	12,640	11,174	3,743	551	28
2 Investments	-	-	-	-	-
3 Related Party Exposure	659	-	-	-	-
4 Current Assets	1,799	3,462	640	1,981	0
a Inventories	-	-	-	-	-
b Trade Receivables	*1,314*	*403*	-	-	-
5 Total Assets	15,099	14,636	4,383	2,533	28
6 Current Liabilities	1,083	2,315	566	85	0
a Trade Payables	*825*	*2,238*	-	-	-
7 Borrowings	11,514	9,540	1,617	257	-
8 Related Party Exposure	1	500	112	64	-
9 Non-Current Liabilities	-	0	1	0	-
10 Net Assets	2,501	2,281	2,088	2,126	28
11 Shareholders' Equity	2,501	2,281	2,088	2,126	28
B INCOME STATEMENT					
1 Sales	1,864	361	-	-	-
a Cost of Good Sold	*(810)*	*(104)*	-	-	-
2 Gross Profit	1,054	258	-	-	-
a Operating Expenses	*(60)*	*(18)*	*(16)*	*(16)*	*(4)*
3 Operating Profit	994	240	(16)	(16)	(4)
a Non Operating Income or (Expense)	*47*	*1*	*(30)*	*1*	-
4 Profit or (Loss) before Interest and Tax	1,041	241	(45)	(15)	(4)
a Total Finance Cost	*(808)*	*(51)*	*(1)*	*(0)*	-
b Taxation	*(14)*	*(4)*	*2*	*(2)*	-
6 Net Income Or (Loss)	220	186	(44)	(17)	(4)
C CASH FLOW STATEMENT					
a Free Cash Flows from Operations (FCFO)	*1,555*	*684*	*(48)*	*(12)*	*(2)*
b Net Cash from Operating Activities before Working Capital Changes	*797*	*424*	*(61)*	*(12)*	*(2)*
c Changes in Working Capital	*(2,495)*	*1,427*	*342*	*(147)*	*0*
1 Net Cash provided by Operating Activities	(1,698)	1,851	281	(159)	(1)
2 Net Cash (Used in) or Available From Investing Activities	37	(6,634)	(3,155)	(508)	(1)
3 Net Cash (Used in) or Available From Financing Activities	(776)	7,242	1,440	2,419	2
4 Net Cash generated or (Used) during the period	(2,437)	2,459	(1,434)	1,752	(0)
D RATIO ANALYSIS					
1 Performance					
a Sales Growth (for the period)	415.7%	--	N/A	N/A	N/A
b Gross Profit Margin	56.5%	71.3%	N/A	N/A	N/A
c Net Profit Margin	11.8%	51.5%	N/A	N/A	N/A
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-50.4%	584.0%	N/A	N/A	N/A
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	8.9%	12.6%	N/A	N/A	N/A
2 Working Capital Management					
a Gross Working Capital (Average Days)	168	407	N/A	N/A	N/A
b Net Working Capital (Average Days)	-132	-1853	N/A	N/A	N/A
c Current Ratio (Current Assets / Current Liabilities)	1.7	1.5	1.1	23.2	0.8
3 Coverages					
a EBITDA / Finance Cost	2.0	13.9	-80.3	-28.6	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	0.9	0.5	-1.1	-3.7	-19.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	14.1	15.0	-35.3	-25.7	-0.1
4 Capital Structure					
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	82.2%	80.7%	45.3%	13.1%	0.0%
b Interest or Markup Payable (Days)	0.0	386.3	6343.2	236.6	N/A
c Entity Average Borrowing Rate	7.8%	0.9%	0.1%	0.1%	--

Credit Rating

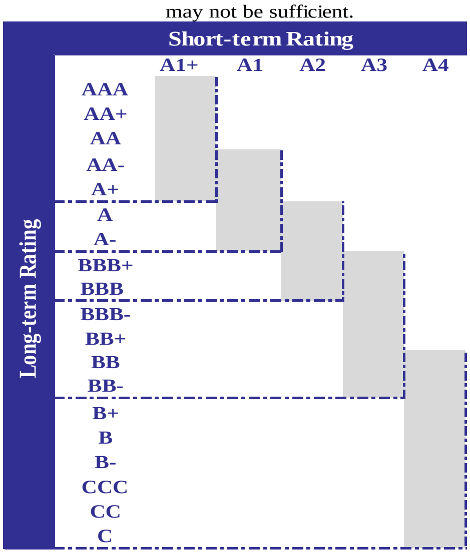
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

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
(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA’s prior written consent