



The Pakistan Credit Rating Agency Limited

## Rating Report

### Liberty Wind Power 2 Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
04-Mar-2022	A-	A2	Stable	Maintain	-
04-Mar-2021	A-	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Liberty Mills Limited is setting up a 50MW wind power plant "Liberty Wind Power 2 Limited" (LWP2) in Jhimpir, District Thatta, Sindh. The ratings incorporate the Group's previous experience in successfully commissioning and operating 200MW RFO based Power Plant (Liberty Power tech Limited). The required commercial operations date (RCOD) as defined under EPA is fifteen months from construction start date. The project started construction in July 2020 and has gone beyond its RCOD. The management expects to achieve it by mid-May 2022. The Company operates in the regulated power sector. LWP2 is awarded a cost plus tariff, with the payments to be received from CPPA-G backed by the sovereign guarantee. Hydrochina International Engineering Company Limited & Hangzhou Huachen Electric Power Control Company are the EPC contractors. Project sponsor has injected 100% of equity and has drawn entire local and major portion of foreign debt facility, respectively. The project shipment has been 100% received and project is 85.44% complete as per January 2022 progress report. Grid connectivity with NTDC is expected to be achieved by end of current month. Management is confident to achieve COD as per revised plan. The delay in COD might lead to LD's payable to CPPA-G which in turn will be charged to contractor as per agreement at higher amount. However, as per agreement LDs are not applicable until the power purchaser has made the grid available for testing of plant and in that case, RCOD shall be extended until 2 months after the date on which the interconnection facilities are provided by the power purchaser. The construction contractor will be the O&M operator for two years after COD; it will provide the warranty bond (10% of EPC cost) in the form of irrevocable bank guarantee for 24 months after COD. Further, the company maintains the Debt Service Reserve Account (DSRA), which is 100% filled by 6 months SBLs, in total providing coverage of six months on its financial obligations till maturity. Project revenues and cash flows are exposed to wind risk, there is seasonal variation in the wind speed which effect the electricity generation, and ultimately cash flows may face seasonality. Management believes that as per detailed WRA conducted, comfort has been established on wind speed , thus mitigating this risk to a minimum.

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. Furthermore, external factors such as any adverse changes in the regulatory framework or prolonged delay in achieving COD may impact the ratings. Upholding financial discipline is also a consideration.

#### Disclosure

<b>Name of Rated Entity</b>	Liberty Wind Power 2 Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-21),Methodology   Independent Power Producer Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21)
<b>Related Research</b>	Sector Study   Power(Jan-22)
<b>Rating Analysts</b>	Muhammad Mubashir Nazir   mubashir.nazir@pacra.com   +92-42-35869504

## Profile

**Plant** Liberty Wind Power 2 Limited (Liberty Wind-2) was incorporated in April 2015 by Liberty Mills Ltd. Liberty Wind 2 is a Renewable Energy Independent Power Producer (RE IPP) operating under the Renewable Energy Policy 2006 by the Alternative Energy Development Board (AEDB).

**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 7.3311 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¢ 4.7824/KWh at the time of the financial close.

**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 wholly 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** Mr. Azam Sakrani, the Chairman and CEO, has been associated with the Group in different capacities and is currently chairing the Board with his visionary leadership and vast experience.

**Board Effectiveness** Company's board members conduct board discussions where important matters related to the plant's efficiency, and monthly budget 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-Jun21.

## 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.

**Oversight Of Third-Party Service Providers** Currently the construction contractor will be O&M operator (HydroChina) for two years after COD whereas the long term O&M contractor will be Siemens Gamesa Renewable Energy Pvt Ltd for 11 years.

## Completion Risk

**Engineering And Procurement** Liberty Wind-2 has signed an Onshore Contract with HydroChina International Engineering Company Limited and Offshore supply contract with Hangzhou Huachen Electric Power Control Company of USD 12mln and USD 45.94mln respectively. Wind power projects' cost is mainly comprised of wind turbines and other instruments, hence cost of offshore EPC contract is major component of total EPC cost. HydroChina is responsible for the overall management, coordination, and implementation of the project.

**Power Purchase Agreement** Liberty Wind Power-2 is being developed under the Renewable Energy Policy 2006. EPA is with CPPA-G, and has tenure of 25 years.

**Pre-Commissioning Progress** The Construction of the project began in July 2020 and completion period under EPC contract is 15 months from construction start date. Due to Covid, the project has gone past its RCOD which was Nov, 21. However as per management, the project is now 85.44% completed with all the wind turbines installed and Company will achieve its COD by May 2022.

**Performance Default Risk** Insurance is attained for material damage, third party liability, and delay in startup affecting the profits. EPC contractors will be liable to pay Liquidated Damages (LDs) as per the contract if benchmark performance ratio is not met or in the event that plant is not functional by the Required COD. The company has adequate insurance coverage for property damage and business interruption.

## Performance Risk

**Industry Dynamics** The government has devised a concrete plan to enhance share of renewable energy in the existing energy mix by 30% till 2030. According to NEPRA, the wind power potential of Pakistan is 50,000MW with current installed capacity is 1,237MW and further of LOI 610 MW of wind energy, which have achieved financial close and 2,485MW power projects at different stages.

**Operation And Maintenance** The O&M will be 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** Liberty Wind Power-2 is in Jhimpir whereby the average wind speed is 7.6 Meter/second. The wind speed in Jamshoro is on average is 7.3 Meter/second. The risk is considered low.

**Performance Benchmark** The required availability and the capacity factor are 97% and 38% by NEPRA.

## Financial Risk

**Financing Structure Analysis** The total project cost approved under NEPRA 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 27.2mln (3 months LIBOR+4.25%) and local loan of PKR 4.9bln (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.

**Liquidity Profile** Renewable IPPs do not have to pay for fuel which minimize their working capital needs, although company have procured the facility of PKR 1.5bln.

**Working Capital Financing** Renewable IPPs do not have to pay for fuel which minimize their working capital needs, although company have procured the facility of PKR 1.5bln.

**Cash Flow Analysis** The stability and sustainability of future cash flows of Liberty Wind Power-2 depends completely on continuous performance of its wind turbines. The company would have to make quarterly principal repayments of debt, which also includes foreign debt. 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.

**Capitalization** LWP2 has drawn down 100% of the local financing facility amounting to PKR 4.308bln along with a significant portion of foreign facility amounting to \$15.48 mln. As a result the leverage of the company has increased significantly and is expected to increase further as the project debt constitutes 80% (~USD 51.12ml) of total estimated project cost (~USD 63.9mln).



Liberty Wind Power 2 Limited Power	Jun-21 12M	Jun-20 12M	Jun-19 12M	Jun-18 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	3,743	551	28	29
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	640	1,981	0	1
<i>a Inventories</i>	-	-	-	-
<i>b Trade Receivables</i>	-	-	-	-
5 Total Assets	4,383	2,533	28	29
6 Current Liabilities	566	85	0	0
<i>a Trade Payables</i>	-	-	-	-
7 Borrowings	1,617	257	-	-
8 Related Party Exposure	112	64	-	-
9 Non-Current Liabilities	1	0	-	-
10 Net Assets	2,088	2,126	28	29
11 Shareholders' Equity	2,088	2,126	28	29
<b>B INCOME STATEMENT</b>				
1 Sales	-	-	-	-
<i>a Cost of Good Sold</i>	-	-	-	-
2 Gross Profit	-	-	-	-
<i>a Operating Expenses</i>	(16)	(16)	(4)	(2)
3 Operating Profit	(16)	(16)	(4)	(2)
<i>a Non Operating Income or (Expense)</i>	(30)	1	-	-
4 Profit or (Loss) before Interest and Tax	(45)	(15)	(4)	(2)
<i>a Total Finance Cost</i>	(1)	(0)	-	-
<i>b Taxation</i>	2	(2)	-	-
6 Net Income Or (Loss)	(44)	(17)	(4)	(2)
<b>C CASH FLOW STATEMENT</b>				
<i>a Free Cash Flows from Operations (FCFO)</i>	(48)	(12)	(2)	(0)
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	(61)	(12)	(2)	(0)
<i>c Changes in Working Capital</i>	342	(147)	0	0
1 Net Cash provided by Operating Activities	281	(159)	(1)	(0)
2 Net Cash (Used in) or Available From Investing Activities	(3,155)	(508)	(1)	(7)
3 Net Cash (Used in) or Available From Financing Activities	1,440	2,419	2	4
4 Net Cash generated or (Used) during the period	(1,434)	1,752	(0)	(3)
<b>D RATIO ANALYSIS</b>				
<b>1 Performance</b>				
<i>a Sales Growth (for the period)</i>	N/A	N/A	N/A	N/A
<i>b Gross Profit Margin</i>	N/A	N/A	N/A	N/A
<i>c Net Profit Margin</i>	N/A	N/A	N/A	N/A
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	N/A	N/A	N/A	N/A
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)</i>	N/A	N/A	N/A	N/A
<b>2 Working Capital Management</b>				
<i>a Gross Working Capital (Average Days)</i>	N/A	N/A	N/A	N/A
<i>b Net Working Capital (Average Days)</i>	N/A	N/A	N/A	N/A
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	1.1	23.2	0.8	6.7
<b>3 Coverages</b>				
<i>a EBITDA / Finance Cost</i>	-80.3	-28.6	N/A	N/A
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	-1.1	-3.7	-19.4	N/A
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	-35.3	-25.7	-0.1	0.0
<b>4 Capital Structure</b>				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	45.3%	13.1%	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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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.
AA-	
A+	
A	<b>High credit quality.</b> 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.
A-	
BBB+	
BBB	<b>Good credit quality.</b> 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.
BBB-	
BB+	<b>Moderate risk.</b> 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.
BB	
BB-	
B+	
B	<b>High credit risk.</b> 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.
B-	
CCC	
CC	<b>Very high credit risk.</b> 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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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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

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(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.

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(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

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(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)

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