The Pakistan Credit Rating Agency Limited

Rating Report

Din Energy Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
13-Oct-2022	A	A2	Stable	Upgrade	-
22-Oct-2021	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Din Energy Limited (DEL) has set up a 50MW wind power plant "Din Energy Limited" in Jhampir. DEL is awarded upfront 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, comfort is drawn that they have vast experience in wind power technology. The construction contractor is 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. These bank guarantees provide additional cushion for the sustainable financial risk profile. The Upgrade in ratings incorporates commissioning of the complex by declaring commercial operations on March 27, 2022, after taking into account all the pre-requisites mentioned in the EPA, and successfully completed the Reliability Run Test on 26th March 2022 at 17:00 hrs, as a result of which the project does not feature any further construction risk. Further, DEL has paid 1st installment on 30.06.2022 & 2nd on 30.09.2022 of project-related loan on timely basis. DEL maintains the Debt Service Reserve Account (DSRA), which is 100% filled by 6 months SBLCs, 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 affect the electricity generation, and ultimately cash flows may face seasonality. However, historical wind speeds at the Jhimpir wind farm provide comfort that DEL would be able to meet the benchmark capacity factor and generate enough cash flows to keep its financial risk manageable. DEL 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. DEL has insurance coverage to cover the risk of business interruptions, marine & erection etc. Short-term borrowing lines were availed in order to support its working capital needs, going forward a need to oversee the working capital management remains important. However, the leverage is yet sizeable and will gradually decline along with the life of the project. Management in near future will put forth the requisition for true up tariff to NEPRA, for the final determination.

Upgrading operational performance in line with agreed performance levels is important. Improvement in inflows and availability of unutilized credit limits remained congenial for the ratings.

Disclosure

Name of Rated Entity	Din Energy 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 The 50MW wind farm is set up on a Build, Own, and Operate (BOO) basis over 325 acres of land near Deh Kohistan, Sindh. Din Energy Ltd is a Renewable Energy Independent Power Producer (RE IPP) operating under the Renewable Energy Policy 2006 by the Alternative Energy Development Board (AEDB). The plant achieved its COD on March 27, 2022.

Tariff DIN Energy opted for the Cost plus Tariff for Wind Power Projects by NEPRA. DIN Energy is awarded cost plus tariff for wind power projects by NEPRA. Under the 2019 NEPRA tariff determination for wind IPPs, the company has a generation tariff PKR 7.331 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¢ 4.7824/KWh at the time of the financial close. e. On achieving COD in March 2022, the Company is in process of filling a tariff modification petition with NEPRA.

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

Ownership

Ownership Structure Din Energy is owned by Din Group and its founding family members; while shareholding is segregated as: Din Corporation Pvt Ltd and Din Ventures Pvt Ltd owned (31.67%) each, while Din Industries Management Pvt Ltd (5%), Sheikh Muhammad Pervez (15.8%), Ghazala Pervez (15.8%), Fawad Javed (0.00015%), Farhad Sheikh Muhammad (0.00015%) and Irfan Muneer (0.00015%).

Stability Stability in the IPPs is drawn from the agreements signed between the company and power purchaser. The stability factor is considered strong.

Business Acumen The Din Group is engaged in businesses of Textile, Real Estate, and Energy. Under the dynamic leadership of the Group and strong Human Resource, Din Textile Mills Ltd was founded in 1987 and in a very short time become an icon for the value-added spinning industry in Pakistan. Din Leather Pvt Ltd has been awarded many Best Export Performance Trophies by the Federation of Pakistan Chambers of Commerce & Industry (FPCCI) and has also been awarded Gold Medal Award by the International Export Association U.K. in recognition of their export achievements. The Group is further engaged in renewable energy, land development, and real estate projects.

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

Governance

Board Structure BOD comprises four members including the CEO. Each sponsor has four representatives on the Board.

Members' Profile Mr. Shaikh Muhammad Pervez 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 Company's board members conduct board discussions where important matters related to the project, finance and related parties.

Financial Transparency The Company's external auditor of DEL is BDO for FY 22, the audit of financial statements for the year ended-June22 is in progress, while the previous auditor Delloite expressed an unqualified opinion on the financial statement of FY 21.

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. Fawad Jawed, the CEO, has been spearheading the company since assuming management control of the Company and has 15 years of experience. Mr. Muhammad Asad Ullah is head of Renewable and carries more than 14 years of experience. He is supported by an experienced management team.

Effectiveness Management's effective decision-making cause processes more systematic while the robustness of control systems is considered a reflection of strong management, which is reasonable.

Control Environment The company takes advantage of advanced IT Solutions i.e. SAP and Temp City Software to deliver comparatively better on many fronts. 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 DIN Energy is being developed under the Renewable Energy Policy 2006. EPA is with CPPA-G, and has tenure of 25 years.

Operation And Maintenance The long-term O&M contract is finalized however as per the agreement the EPC contractor is the O&M of the Company for the first two years from the date of Commercial operation of the Company.

Resource Risk Din Energy's revenues will be exposed to seasonality due to variance in wind speeds during the period. 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 even if no purchase is done.

Insurance Cover Din Energy has significant insurance coverage for property damage and business interruption.

Performance Risk

Industry Dynamics The total installed generation capacity of the country is above 40,000MW. Total generation during FY22 was recorded at 143,193GWh (FY21:130,223GWh), witnessing a 9% increase. Out of total capacity approx. ~1,842MW comes from Wind. Thirty-Six (36) wind power projects have achieved Commercial Operation and are supplying electricity to National Grid.

Generation The project achieved COD in March 2022 and has started providing electricity to the national grid.

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

Financial Risk

Financing Structure Analysis The total project cost approved under NEPRA is USD 63.906mln, consisting of 80% of debt (USD 51.12ml) and 20% of equity (USD 12.78mln). The debt financing constitutes foreign loan of USD 25.89 mln (3MLIBOR+4.25%) and local loan of PKR 4.5bln (SBP refinancing rate of 3%+1.75%). The foreign loan is to be settled in 52 quarterly installments with first installment paid on June 30, 2022. 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 maturity of 10 years. Both the local and foreign loan are repayable in quarterly installments. Local loan facility will be settled in 40 quarterly installments with first installment paid on June 30, 2022.

Liquidity Profile As of end-Jun22, total receivables of the company stood at PKR 423mln. IPPs, being dependent on the CPPA-G for payments, have to manage their liquidity requirements from short-term borrowings in case of delay in receivables from the Power Purchaser.

Working Capital Financing Renewable IPPs do not have to pay for fuel which minimizes their working capital needs. However, the company has arranged amicable working capital lines approx. of PKR: 670mln in order to meet operational needs.

Cash Flow Analysis The company FCFO stood at PKR: 486mln in FY: 2022, being in the first few months of operations. Going forward the Company ability to meet the demand raised by the Power Purchaser and timely repayment of receivables defines the Cash flow behavior of the Company

Capitalization As of June 2022 leveraging of the Company stood at 78.2%, whereas short-term borrowings comprise 1.5% of the total leveraging. Going forward with the timely repayment and build-up of equity on account of electricity generation the overall leveraging indicator of the company will improve.

PACRA

The Pakistan Credit Rating Agency Limited

icial Summary
PKR mln

Din Energy Power	Jun-22 12M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	11,603	3,642	593	104
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,764	365	1,077	33
a Inventories	-	-	-	-
b Trade Receivables	*423*	-	-	-
5 Total Assets	13,367	4,006	1,671	137
6 Current Liabilities	1,521	10	14	1
a Trade Payables	*1,514*	-	*10*	-
7 Borrowings	9,259	2,083	8	-
8 Related Party Exposure	-	-	-	39
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	2,588	1,914	1,649	97
11 Shareholders' Equity	2,588	1,914	1,649	97
B INCOME STATEMENT				
1 Sales	506	-	-	-
a Cost of Good Sold	*(170)*	-	-	*(4)*
2 Gross Profit	335	-	-	(4)
a Operating Expenses	(6)	(0)	(9)	1
3 Operating Profit	329	(0)	(9)	(4)
a Non Operating Income or (Expense)	*164*	*3*	*7*	*2*
4 Profit or (Loss) before Interest and Tax	494	3	(2)	(2)
a Total Finance Cost	*(121)*	-	-	-
b Taxation	*(1)*	-	*0*	*(1)*
6 Net Income Or (Loss)	372	3	(2)	(2)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*486*	*2*	*(1)*	*(0)*
b Net Cash from Operating Activities before Working Capital Changes	*486*	*2*	*(1)*	*(1)*
c Changes in Working Capital	*1,044*	*(99)*	*(28)*	*(1)*
1 Net Cash provided by Operating Activities	1,530	(97)	(29)	(2)
2 Net Cash (Used in) or Available From Investing Activities	(7,269)	(3,155)	(350)	(31)
3 Net Cash (Used in) or Available From Financing Activities	6,672	2,443	1,382	50
4 Net Cash generated or (Used) during the period	933	(808)	1,003	18
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	--	N/A	N/A	N/A
b Gross Profit Margin	66.3%	N/A	N/A	N/A
c Net Profit Margin	73.5%	N/A	N/A	N/A
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	302.5%	N/A	N/A	N/A
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	22.1%	N/A	N/A	N/A
2 Working Capital Management				
a Gross Working Capital (Average Days)	305	N/A	N/A	N/A
b Net Working Capital (Average Days)	-787	N/A	N/A	N/A
c Current Ratio (Current Assets / Current Liabilities)	1.2	38.2	79.6	27.0
3 Coverages				
a EBITDA / Finance Cost	4.0	N/A	N/A	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	1.7	N/A	N/A	N/A
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	25.0	871.9	-5.3	-86.8
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	78.2%	52.1%	0.5%	28.6%
b Interest or Markup Payable (Days)	0.0	N/A	N/A	N/A
c Entity Average Borrowing Rate	2.1%	0.0%	0.0%	0.0%

Credit Rating

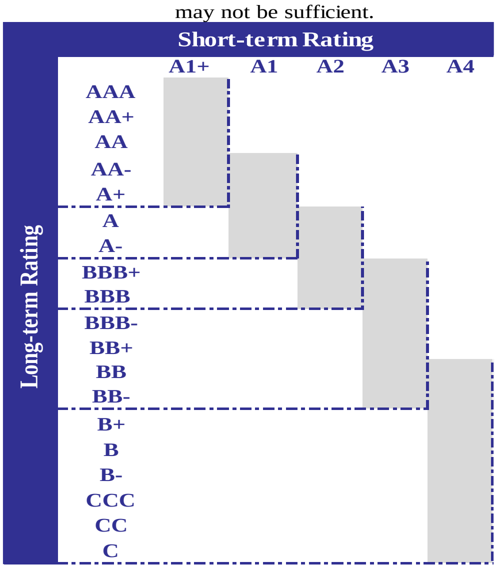
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

Entities
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk 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