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
11-Oct-2024	A	A2	Stable	Maintain	-
13-Oct-2023	A	A2	Stable	Maintain	-
13-Oct-2022	A	A2	Stable	Upgrade	-
22-Oct-2021	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Din Energy Limited (DEL / the Company) has set up a 50MW wind power plant in Jhampir. DEL is awarded cost plus tariff, with the payments to be received from CPPA-G backed by the sovereign guarantee. DEL has signed Energy Purchase Agreement ("EPA") with CPPA-G for a period of 25 years from the date of COD, 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 successfully achieved its Commercial Operations (COD) on March 27, 2022 and has been supplying electricity to the national grid since then. The Company has adequate insurance coverage to cover the risk of business interruptions, marine and erection etc.
During the period, FY24, DEL generated approximately 111Gwh of electricity and recorded topline of PKR ~2,313mln, with a Net Profit of PKR ~473mln respectively. Working capital requirements of the Company are fulfilled through mix of in-house adequate cash flow generation and short-term borrowing lines which remains un-utilized as of June 2024. Free cash flows of the Company are in a comfortable position to make timely debt repayments. The Project is maintaining the Debt Service Reserve Account (DSRA), which is backed by six months Standby Letter of Credit (SBLC), in total providing coverage of six months on its financial obligations till maturity. The leveraging of DEL is yet sizeable and will gradually decline along with the life of the project as the repayment of project-related loan has started. The Company 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.

Management has put forth the requisition for true up tariff to NEPRA, for the final determination, the decision of which is pending. Upgrading operational performance in line with agreed performance levels is important. Improvement in inflows, timely repayment of project debt 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 | Rating Modifiers(Apr-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24),Methodology | Independent Power Producer Rating(Jul-24)
Related Research	Sector Study | Power(Jan-24)
Rating Analysts	Andleeb Zahra | andleeb.zahra@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 (the Company / DEL) is a Renewable Energy Independent Power Producer (RE IPP) operating under the Renewable Energy Policy 2006.

Tariff DIN Energy opted for the Cost Plus Tariff for Wind Power Projects by NEPRA. Under the 2019 NEPRA tariff determination, the Company has a generation tariff of PKR 7.331 per kilowatt-hour (KWh) for the first 10 years, which then decreases to PKR 2.4026 per KWh for years 11 through 25. The levelized tariff, calculated at the time of financial close, is US¢ 4.7824/KWh. Recently, NEPRA announced revised tariff components for the January to March 2024 period, adjusting the rate to PKR 14.486/KWh through a quarterly indexation adjustment.

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%), Shaikh Muhammad Pervez (15.8%), Ghazala Pervez (15.8%), Fawad Jawed (0.0002%), Farhad Shaikh Mohammad (0.0002%) and Irfan Muneer (0.0002%).

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 marketing of textile, leather and energy. 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 been awarded many Best Export Performance Trophies by the Federation of Pakistan Chambers of Commerce & Industry (FPCCI) in recognition of their export achievements. The Group is further engaged in renewable energy, land development and read estate project in Lahore.

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, 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.

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, construction and manufacturing.

Board Effectiveness The board conducts regular meetings with the presence of all members to discuss the matters relating to the plant operations, risk management, and financing decisions.

Financial Transparency BDO Ebrahim & Co. Chartered Accountants are the external auditors of the Company. They have expressed unqualified opinion on review report for the year ended 30th June 2024. BDO Ebrahim & Co. Chartered Accountants is in ‘A’ category of SBP list of external auditors.

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. Farhad Shaikh Mohammad, the Director, has been spearheading the Company since assuming the management control of the Company Mr. Muhammad Asad Ullah is Project Head and he carries with him more than 14 years of experience in project management. He is supported by the 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.

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 for eleven years, signed with Siemens Gamesa Renewable Energy and Orient Energy started on 27th March 2024.

Resource Risk Wind risk as defined under Renewable Energy RE policy 2006 is the risk of variation in wind speed. As per the EPA, DEL shall be responsible for the risk of wind and any loss due to variation is wind is to be borne by the plant. However, in case of curtailment from the power purchaser plant is liable to get NPMV's based on estimated power generation.

Insurance Cover During agreement with Adamjee Insurance, operational all risks, business interruption, third party liabilities and property damages was covered from March 2023-March 2024.

Performance Risk

Industry Dynamics The total installed capacity of technology of the country is above 42,589MW. Pakistan’s power generation dropped to 127,259 GWh (14,504 MW) during FY24, a 2% year-over-year (YoY) decline attributed to reduced economic activity and lower demand due to rising power tariffs Hydel power generation contributed 28% to the total generation during the period whereas Gas/RLNG 28.3% and Coal had share of 16%.

Generation The Company achieved it's COD in March 2022, and has generated energy 111.38GWh of electricity during FY24.

Performance Benchmark The Company's availability and efficiency during the year was above required benchmarks of 95% and 35% as per EPA.

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 the local loan is of PKR 4.5bln (SBP refinancing rate of 3%+1.75%). 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. Local and foreign loan facility will be settled in 40 and 52 quarterly installments respectively. Till June 2024, nine timely installments has been paid by DEL.

Liquidity Profile During FY24, DEL has liquidated its investment in mutual funds also had a better recovery from the power purchaser depicting improved liquidity profile of the Company.

Working Capital Financing Renewable IPPs do not have to pay for fuel which minimize their working capital needs, however in order to keep plant operational O&M activities needs to be funded. Net working capital days of the DEL stood at 38 days as of FY24. DEL uses mix of internal cash generation and short term working capital lines to meet the operational needs.

Cash Flow Analysis The stability and sustainability of future cash flows of DIN Energy depends completely on continuous performance of its wind turbines. Free cashflow of DEL during for FY24 stood at ~PKR 1,866mln (FY23: PKR 818mln). Interest coverage ratio (EBITDA/Finance Cost) as at FY24 clocked at 2.2x (FY23: 1.1x). In order to make quarterly principal repayments of debt, which also includes foreign debt, the Company maintains the Payment Service Reserve Account (PSRA), which is equivalent to two quarterly payments (six months).

Capitalization DEL's leveraging at end June 24 stood at 74.7% (FY23: 79.8%), majorly comprises of project related debt. The Company has been paying its principal and interest instalments as per their agreement with the financing authority and going forward with timely repayments leveraging is expected to decrease.

PACRA

The Pakistan Credit Rating Agency Limited

inancial Summary
PKR mln

Din Energy Pvt. Limited	Jun-24	Jun-23	Jun-22	Jun-21
Power	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	12,225	12,944	11,406	3,642
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	705	1,293	1,773	365
a Inventories	-	-	-	-
b Trade Receivables	*611*	*777*	*423*	-
5 Total Assets	12,930	14,236	13,178	4,006
6 Current Liabilities	180	794	1,537	7
a Trade Payables	*132*	*681*	*1,522*	-
7 Borrowings	9,423	10,720	9,259	2,086
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	22	12	-	-
10 Net Assets	3,306	2,711	2,382	1,914
11 Shareholders' Equity	3,306	2,711	2,382	1,914
B INCOME STATEMENT				
1 Sales	2,313	1,987	506	-
a Cost of Good Sold	*(996)*	*(852)*	*(207)*	-
2 Gross Profit	1,317	1,135	299	-
a Operating Expenses	(25)	(19)	(14)	(0)
3 Operating Profit	1,292	1,117	285	(0)
a Non Operating Income or (Expense)	*49*	*(20)*	*3*	*3*
4 Profit or (Loss) before Interest and Tax	1,340	1,097	288	3
a Total Finance Cost	*(859)*	*(761)*	*(121)*	-
b Taxation	*(8)*	*(7)*	*(1)*	-
6 Net Income Or (Loss)	473	329	166	3
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,866*	*818*	*317*	*2*
b Net Cash from Operating Activities before Working Capital Changes	*1,028*	*806*	*317*	*2*
c Changes in Working Capital	*(446)*	*(952)*	*1,052*	*(99)*
1 Net Cash provided by Operating Activities	582	(146)	1,370	(97)
2 Net Cash (Used in) or Available From Investing Activities	2	8	(7,109)	(3,155)
3 Net Cash (Used in) or Available From Financing Activities	(1,010)	(546)	6,672	2,443
4 Net Cash generated or (Used) during the period	(426)	(685)	933	(808)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	16.4%	292.9%	--	N/A
b Gross Profit Margin	56.9%	57.1%	59.0%	N/A
c Net Profit Margin	20.5%	16.5%	32.9%	N/A
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	61.4%	-6.8%	270.8%	N/A
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/S*	13.6%	12.6%	10.7%	N/A
2 Working Capital Management				
a Gross Working Capital (Average Days)	110	110	305	N/A
b Net Working Capital (Average Days)	45	-92	-793	N/A
c Current Ratio (Current Assets / Current Liabilities)	3.9	1.6	1.2	55.1
3 Coverages				
a EBITDA / Finance Cost	2.2	1.1	2.6	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	1.1	0.5	0.4	N/A
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	9.3	162.6	46.5	871.9
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	74.0%	79.8%	79.5%	52.2%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	N/A
c Entity Average Borrowing Rate	8.4%	7.8%	2.1%	0.0%

PACRA Entity Rating Scale

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
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.

Scale	Short-Term Rating
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.

Rating Modifiers | Rating Actions

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. Rating actions may include "maintain", "upgrade", or "downgrade".

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 Company

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