

RATING REPORT

Foundation Wind Energy-I Limited (FWEL-I)

REPORT DATE:

April 4, 2017

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Entity Rating	
	Long-term	Short-term
Entity	A+	A-1
Rating Outlook	Stable	
Outlook Date	April 03, 2017	

COMPANY INFORMATION

Incorporated in 2005	External Auditors: KPMG Taseer Hadi & Co. Chartered Accountants.
Public Limited Company	Chairman: Lt. Gen. Khalid Nawaz Khan, HI (M), Sitar-i-Esar. (Retd)
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Maj. Gen. Khawar Hanif, HI (M) (Retd)
Fauji Fertilizer Bin Qasim Limited – 35% IIF Wind One Limited (Cap Asia)-35% Fauji Foundation-30%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporate (May 2016)*

<http://www.jcrvis.com.pk/home2.aspx>

Foundation Wind Energy-I Limited

OVERVIEW OF THE INSTITUTION

Foundation Wind Energy Limited - I was incorporated as a public limited company under the companies ordinance, 1984 on June 16, 2005. The principal activity of the company is to build, own, operate and maintain a wind power plant having a name plate capacity of 50 MW.

Profile of Chairman

Lt. Gen. Khalid Nawaz Khan, HI (M), Sitar-i-Esar. (Retd) is currently the Managing Director of Fauji Foundation and also holds director/chairman positions in all subsidiaries and associated companies of Fauji Foundation.

Profile of CEO

Maj. Gen. Khawar Hanif, HI (M) (Retd) has served in various command and staff appointment positions. In recognition of his services, he has been awarded Hilal-e-Imtiaz (Military) by Government of Pakistan and Legion of Merit Award by the Government of United States of America.

Financial Snapshot

Net Equity: 1HFY17- Rs. 4.6b, FY16 - Rs. 3.9b

Net Profit: 1HY17- Rs. 715.6m, FY16- Rs. 742.7m

RATING RATIONALE

The ratings assigned to Foundation Wind Energy-I Limited (FWEL-I) takes into account its strong ownership profile with Fauji Group, through Fauji Foundation and Fauji Fertilizer Bin Qasim Limited, and IIF Wind One Limited (CapAsia) being the major sponsors of the company. The project is established under the Policy for Development of Renewable Energy for Power Generation, 2006 which offers a guaranteed internal rate of return, cost indexation and pass-through tariff structure. Moreover, presence of reputable operational and maintenance contractor carrying sound track record mitigates the associated operational risk.

Energy Purchase Agreement

FWEL-I signed an Energy Purchase Agreement with National Transmission & Dispatch Company Limited (NTDCL) through its Central Power Purchasing Agency (Guarantee) Limited (CPPA) on December 20, 2012 for a period of 20 years. As per the implementation agreement, payment obligations of the power purchaser are guaranteed by Government of Pakistan.

Project Cost and Financing

Total project cost amounted to Rs. 12.9b (USD 129.9m) with EPC cost amounting to Rs. 11.1b (USD 110.3m). The company achieved COD on April 11, 2015. The project is financed by raising 75% debt and 25% equity contribution. Debt financing is arranged through a forward lease agreement with Islamic Development Bank and through a musharaka finance facility provided by a consortium of three local banks; both facilities are repayable over a period of 10 years with last installment due in January, 2024.

Profitability

During 1HY17, revenue from sale of electricity amounted to Rs. 1.4b (FY16: Rs. 2.3b) against the full year target of Rs. 2.6b with gross margin improving to 74.1% (FY16: 64.4%) attributable to lower operations & maintenance costs. Accounting for finance cost of Rs. 308.2m, the company reported profit after tax of Rs. 715.6m during 1HFY17 (FY16: Rs. 742.7m) against the full year target of Rs. 1.1b. Revenues of the company are expected to sustain owing to fix tariff. Moreover, gross margins and profitability is also expected to remain largely unchanged, going forward.

Liquidity and Cashflows

Given that FY16 was the first full year of plant operations, Funds from Operations (FFO) turned positive and amounted to Rs. 1.5b (FY15: outflow of Rs. 630.9m); FFO amounted to Rs. 858.9m during 1HFY17. Meanwhile, FFO (annualized) to total debt stood at 0.22x (FY16: 0.16x; FY15: -0.06x). Debt service coverage ratio was reported at 1.04x (FY16: 1.55x; FY15: 0.2x). Going forward, FFO are projected to remain stable while the same are expected to be sufficient for timely debt repayment

Risk Factors

Wind risk: In case Generation falls below benchmark due to lower wind speed than benchmark speed, independent engineer determines the generation in case the wind speed has been according to the benchmark. The company continues to receive the revenues in the form of Shortfall energy.

Evacuation Risk: In case the power purchaser has not been able to evacuate the energy due to problems at grid, the company continues to receive the revenues under non project missed volume.

Non-availability Risk: Non-availability of plant is another risk faced by FWEL-I. O&M contractors have guaranteed to maintain 94.43% of plant availability; the contractors have provided warranty amounting to 10% of O&M contract price in this regard. Plant availability during HY17 stood at around 98%.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Wind foundation Energy-I Limited

Annexure-1

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>	DEC 31, 2016	JUN 30, 2016	JUN 30, 2015
Fixed Assets	11,346	11,658	12,487
Stock-in-Trade	-	-	-
Trade Debts	561	737	420
Cash & Bank Balances	599.9	1,192	1,100
Total Assets	12,660	13,843	14,028
Trade and Other Payables	284	225	972
Long Term Debt <i>(*incl. current maturity)</i>	7,623	8,425	8,953
Short Term Debt	101	1,037	916
Total Equity	4,639	3,923	3,180
<u>INCOME STATEMENT</u>	DEC 31, 2016	Jun 30, 2016	JUN 30, 2015
Net Sales	1,410	2,297	359
Gross Profit	1,045	1,479	207
Operating Profit	1,024	1,430	178
Profit After Tax	716	743	(3)
<u>RATIO ANALYSIS</u>	DEC 31, 2016	June 30, 2016	JUN 30, 2015
Gross Margin (%)	74.1	64.4	57.7
Net Working Capital	71	(418)	(1,436)
FFO to Total Debt (x)	0.22	0.16	-0.06
FFO to Long Term Debt (x)	0.23	0.18	-0.07
Debt Servicing Coverage Ratio (x)	1.04	1.55	0.2
ROAA (%)	10.80	5.33	0.02
ROAE (%)	33.43	20.91	0.08

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

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REGULATORY DISCLOSURES		Annexure-3			
Name of Rated Entity	Foundation Wind Energy-I Limited				
Sector	Power				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	03/04/2017	A+	A-1	Stable	Initial
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
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