

RATING REPORT

Artistic Energy (Pvt.) Limited

REPORT DATE:

June 28, 2018

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Entity Rating	
	Long-term	Short-term
Entity	A	A-1
Rating Outlook	Stable	
Rating Date	June 26, 2018	

COMPANY INFORMATION

Incorporated in 2014	External auditors: EY Ford Rhodes Sidat Hyder
Private Limited Company	Chairman of the Board: Mr. Yaqoob Ahmed
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Yaqoob Ahmed
Artistic Milliners (Pvt.) Limited (AML) – 99.9%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (May, 2016) <http://www.jcrvis.com.pk/kc-meth.aspx>

Artistic Energy (Pvt.) Limited (AEL)

OVERVIEW OF THE INSTITUTION

Artistic Energy (Pvt.) Limited (AEL) was incorporated as a private limited company in 2014. Registered office of the company is located in Karachi. The company is a wholly owned subsidiary of Artistic Milliners (Pvt.) Limited

Profile of CEO & Chairman

Mr. Yaqoob Ahmed is the Chairman and Chief Executive of the Company of AEL. He is also the Chairman and CEO of Artistic Milliners (Pvt.) Ltd. He has over 40 years of experience in the textile sector.

RATING RATIONALE

Artistic Energy (Pvt.) Limited (AEL) has established a wind power plant with an installed capacity of 49.3MW located in Jhimpir, District Thatta, Sindh. The plant comprises 29 wind turbine generators, each with a nameplate capacity of 1.7MW. Commercial Operations Date (CoD) was achieved by the company on March 16, 2018. Total project cost accumulates to Rs. 11.7b and debt to equity funding ratio is reported at 75:25. AEL has signed an Energy Purchase Agreement (EPA) with Central Power Purchasing Agency (CPPA) for a period of 20 years. AEL has also entered into Operations & Maintenance (O&M) agreement with Hydrochina International Engineering Co., Ltd. (HIEC) (first two years from Taking over Certificate (ToC)) and General Electric Inc. (GE) (next 8 years).

Rating Drivers

Sponsor Profile: The assigned ratings incorporate sound sponsor profile of AEL. AEL is a wholly owned subsidiary of Artistic Milliners (Pvt.) Limited (AML). AML has an outstanding credit rating of AA-/A-1 from JCR-VIS. AEL has acquired corporate guarantee from the sponsor in order to cover any shortfall in repayment of debt.

Standalone Financial profile: On the basis of sensitized projected financials for the future years, cash flows of AEL are considered adequate for debt servicing. Projected debt servicing coverage ratio (DSCR) of the company remains comfortable during the first ten years in which debt will be repaid. In the first full month of operations in April 2018, the company managed to achieve the projected results.

Risk Factors

Wind Risk: The tariff of AEL is approved under the Upfront Tariff Regime, 2015 from the National Electric Power Regulatory Authority (NEPRA); the tariff mandates that wind risk will be borne by the power producer (AEL). Resultantly, cash flows of the company may exhibit seasonal variation. However, this risk is partly mitigated by the availability of adequate wind speed as indicated by Wind Resource Assessment and Energy Yield Evaluation Study conducted by Lahmeyer International. The same will allow the company to ensure timely debt servicing.

Plant Non-Availability Risk: Non-availability of plant due to technical glitches is also a risk faced by AEL. However, experience and sound track record of O&M operators, HIEC and GE, provides comfort to the ratings in this regard. Moreover, we understand that the company has recourse to liquidated damages from O&M operators in case actual plant availability is less than plant availability specified as per different wind seasons in the O&M contract. O&M operators have also provided warranty amounting to 10% of O&M contract price in this regard.

Liquidity Risk: Given the prevalence of circular debt in the country, the company may also witness delay in payments from CPPA. In such a case, management of AEL has the option of acquiring short term borrowing from banks, which will be reimbursed by CPPA to the company at a fixed rate of KIBOR plus 2%. Management is also negotiating a working capital line with a local bank for liquidity management purpose.

Evacuation Risk & Force Majeure Events: In case the power purchaser is not able to evacuate the energy due to problems at grid, AEL will continue to receive the revenues under non project missed volume. Furthermore, AEL has also acquired adequate insurance coverage in case of force majeure events.

ISSUE/ISSUER RATING SCALE & DEFINITION

Appendix I

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

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

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.

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.

JCR-VIS Credit Rating Company Limited

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

REGULATORY DISCLOSURES		Appendix II			
Name of Rated Entity	Artistic Energy (Pvt.) Ltd.				
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
	26/6/2018	A	A-1	Stable	Initial
Instrument Structure	N/A				
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.				
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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