

RATING REPORT

Zephyr Power (Pvt.) Limited (ZPL)

REPORT DATE:

October 13, 2017

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Entity Rating	
	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	Stable	
Outlook Date	Aug 16, 2017	

COMPANY INFORMATION

Incorporated in 2005

External Auditors: Deloitte Yousuf Adil

Private Limited Company

Chief Executive Officer: Mr. Kumayl Khaleeli

APPLICABLE METHODOLOGY(IES)

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

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

Zephyr Power (Pvt.) Limited (ZPL)

OVERVIEW OF THE INSTITUTION

Zephyr Power (Pvt.) Limited was incorporated as a private limited company in July 2005. The principal activity of the company is to build, own and operate wind power plant with a net capacity of 50MW in Gharo area, located in Thatta, Sindh.

RATING RATIONALE

ZPL is in process of establishing a wind power plant in the Gharo area, Thatta, Sindh. The plant will have a nameplate capacity of 50MW (net capacity: 48.25MW) and will comprise 25 wind turbine generators. The IPP has been established under the unsolicited proposal of Policy for Development of Renewable Energy for Power Generation, 2006. The company has already achieved financial close on May 10, 2017. Moreover, ZPL has also entered into an Energy Purchase Agreement (EPA) with Central Power Purchase Agency (Guarantee) Limited (CPPA-G), Construction Contract with SUMEC Pakistan (Pvt.) Ltd. (referred as “Contractor”), Offshore Supply Contract with Sumec Hardware and Tools Co. Ltd and Gamesa Wind (Tianjin) Co., Ltd (referred as “Offshore Supplier”) and Warranty Period Operation & Maintenance (WP O&M) Contract with Gamesa Wind (Tianjin) Co. Ltd. (referred as “Operator”). Estimated cost of the project is USD 116.6m and projected Commercial Operations Date (COD) is November 10, 2018.

Rating Drivers

- **Sponsor Profile:** Ratings of ZPL are underpinned by sizeable future equity stake of a Development Finance Institution (DFI) wholly owned by the UK Government. Ratings also incorporate experience of and sound profile of other three local equity shareholders.
- **Contractor Profile:** Ratings also incorporate sound profile and operational track record of Contractor and Offshore Supplier. Offshore contractors, Gamesa Wind (Tianjin) Co., Ltd and SUMEC Hardware & Tools Co. Ltd., boast an international presence and successful track record. Sumec Pakistan (Pvt.) Ltd is functioning as a construction contractor for the first time in case of a wind project; however, it has acted as a construction contractor in solar power projects previously. ZPL has obtained two performance guarantees from contractor and offshore supplier. Moreover, its parent company holds considerable experience in case of wind power projects. Gamesa will also serve as Operations & Maintenance (O&M) contractor for the next 8 years in the project. ZPL has appointed Engro Powergen Limited (EPL) as the Project Manager and SgurrEnergy as the sub-contractor. Both possess requisite experience to set up the wind power project.
- **Risk Factors**

Project Completion Risk: Construction risk is inherent in the project and management's ability to effectively manage the same is considered important from ratings perspective. However, this risk is mitigated to a certain extent by the sound operational history of contractors and adequate liquidated damages coverage from EPC contractors in case of such delay.

Wind Risk: The tariff of ZPL 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. Resultantly, cash flows of ZPL may face seasonality. However, given the available wind resources as indicated by the Wind Resource Assessment studies conducted by three different consultants, use of efficient technology and presence of a fully funded Debt Service Reserve Account (DSRA), wind variability risk is reduced.

Non-Availability Risk: Non-availability of plant is also a risk faced by ZPL. O&M contractors have guaranteed to maintain 97% plant availability in the first year of operations and subsequently 98% thereafter. The contractor will be liable to pay delay damages in case the plant availability is lower than the minimum guaranteed threshold. Moreover, the contractor has also provided warranty amounting to 10% of O&M contract price in this regard.

Evacuation Risk: In case the power purchaser is not able to evacuate the energy due to problems at grid, ZPL will continue to receive the revenues under non project missed volume.

Force Majeure Events: ZPL has acquired adequate insurance coverage against political risk. However, other force majeure events such as changes in regulatory framework and occurrence of earthquake may impact the financial profile of the company adversely.

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Annexure III

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					Annexure IV
Name of Rated Entity	Zephyr Power (Pvt.) 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				
	16/8/2017	A-	A-2	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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