RATING REPORT

K-Electric Limited

REPORT DATE:
April 14, 2023

RATING ANALYSTS:

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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity Rating	AA/A-1+ (Reaffirmed)		AA/A-1+ (Reaffirmed)	
Rating Date (Entity)	April 14, 2023		April 29, 2022	
K-Electric Limited - Sukuk 5 (Rs. 25b)	AA+ (Reaffirmed)		AA+ (Reaffirmed)	
Rating Date (Sukuk 5)	April 14, 2023		April 29, 2022	
K-Electric Limited - Sukuk 6 (Rs. 6.7b)	AA+ (Reaffirmed)		AA+ (Final)	
Rating Date (Sukuk 6)	April 14, 2023		Dec 29, 2022	

COMPANY INFORMATION

Incorporated in 1913	**External auditors:** M/s. A.F. Ferguson & Co, Chartered Accountants
Public Limited Company	**Chairman:** Mr. Mark Gerald Skelton **Chief Executive Officer:** Syed Moonis Abdullah Alvi
Key Shareholders (with stake 5% or more):	
KES Power Limited – 66.40%	
Government of Pakistan – 24.36%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria:
Industrial Corporates – August 2021
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf
Rating The Issue (November 2021)
https://docs.vis.com.pk/docs/Notchingtheissue202007nov.pdf

K-Electric Limited

OVERVIEW OF THE INSTITUTION

K-Electric Limited (KE) was incorporated as a limited liability Company in 1913. It is a vertically integrated power utility responsible for generation, transmission and distribution of electricity in Karachi and its adjoining areas. KES Power is the major shareholder of the Company.

Profile of Chairman

Mr. Skelton is a Managing Director with Alvarez & Marshal's Advisory practice in London. He holds more than two decades of experience in corporate finance and advisory. His primary area of concentration are cross border assignments crossing different legal jurisdictions and waterfall classes. Mr. Skelton has undertaken senior roles on various major UK, US, European, Emerging markets and Australian projects. He also held senior position in a leading restructuring advisory and a Big 4 firm. Mr. Skelton is a senior member of the institute of Chartered Accountants of Australia and New Zealand (CAANZ)

Profile of CEO

Mr. Moonis Alvi was appointed CEO of K-Electric in June 2018. Mr. Alvi has more than 28 years of diversified experience in the finance industry, with a focus towards driving operational efficiencies, financial planning and capital restructuring. Mr. Alvi joined K-Electric in 2008 and has served as K-Electric's Chief Financial Officer and other key positions and has played an integral role in the transformation of K-Electric. He is a Fellow member of the Institute of Chartered Accountants of Pakistan.

RATING RATIONALE

K-Electric Limited (KE) is a vertically integrated power utility responsible for generation, transmission and distribution of electricity in Karachi and its adjoining areas including Dhabeji and Gharo in Sindh and Hub, Uthal, Vindar and Bela in Balochistan. KES Power is the major shareholder of the Company. KES Power is a consortium of Al-Jomaih Group of KSA, NIG of Kuwait and IGCF, a private equity fund formerly managed by Abraaj comprising several Middle East institutional investors.

On March 29, 2023, KE has received intimation from Ms. Shanghai Electric Power Company Limited (SEP) for acquisition of 66.4% stake in KEL. SEP has extended the date for public announcement of offer by ninety days pursuant to Regulation 7(1) of Listed Companies pertaining to substantial acquisition of voting shares and take overs. Therefore, the time for making the public announcement of offer is extended till June 27, 2023.

Key Rating Drivers

Strategic importance of KE as a vertically integrated power utility is a key rating consideration

The assigned ratings predicate the strategic importance of KE as a vertically integrated power utility having exclusive rights to distribute electricity in the largest metropolitan city of Pakistan. The Company's monopoly status and protection from direct competition is a key rating consideration. However, the Company's exclusive distribution license is valid till Jul'23. Even though under GoP's power policies, there is expected deregulation of the distribution sector, groundwork towards an effective shift to open markets is still in the nascent stages.

Generation capacity from self-sources as well as other arrangements

Own Generation: KE operates 5 generation plants with gross dependable capacity of 1,695 MW (FY21: 1,774 MW) as at June 30, 2022. KE's largest combined cycle power plant (BQPS 3) has successfully dispatched 900 MW to grid on Dec 30, 2022. Major milestones planned for the ongoing year include Guaranteed Performance Tests of the units. Both units are expected to commence commercial operations in next few months. This plant would significantly improve KE's overall fleet efficiency and enable the Company to phase out old units of BQPS I; fleet efficiency of the generation portfolio is expected to increase to 48% by FY23.

	FY21		FY22	
Plant	Gross Dependable Capacity	Actual Generation	Gross Dependable Capacity	Actual Generation
BQPS 1	829	5,130	750	3,591
BQPS II	526	4,173	526	3,821
KPC	227	1,027	227	596
SGT	96	227	96	110
KGT	96	381	96	122
	1,774	**10,938**	**1,695**	**8,240**

BQPS – Bin Qasim Power Complex
KPC – Korangi Power Complex
SGT – Site Gas Turbine Power Station
KGT – Korangi Town Power Station

The company signed RLNG Supply Agreement with Pakistan LNG Limited (PLL) in August, 2021 and completed construction of spur pipeline for the supply of 150 MMCFD RLNG from Custody Transfer Station to Bin Qasim Complex. This agreement has been signed for RLNG supply by PLL to KE for a period ending December 2025 with a provision of extension based on mutual understanding. In addition, during the outgoing year, Black Start capability was successfully commissioned at Korangi Combined Cycle Power Plant (KCCPP) which has enabled KE to reduce dependency on IPPs and National Grid, with reduced down time, thereby increasing KE's ability to export power to the network

To ensure optimum service levels and in view of the projected increase in power demand in KE's service area, the Company has continued investing in maintenance and rehabilitation of its existing plants which led to the following improvements in FY22 compared to FY21:

- 0.7 pp improvement in fleet reliability
- 0.6pp increase in fleet gross efficiency
- 57.6% decrease in fleet forced outage numbers

Further, given the strategic importance of Karachi within the context of Pakistan's economy and keeping in view the power demand in KE's service area, the Company has formulated a robust investment plan with focus on the utilization of indigenous resources along with renewables (including hydro) to reduce the national dependence on imported fuel. Keeping in view the same KE has planned a total addition of 2,172 MW including renewables to the tune of 1,180 MW along with planned medium to long-term transmission and distribution projects. These projects would be under taken over the next control period from FY24 to FY30, valued at around USD 2.3b. Brief details of ongoing and planned projects is presented below:

IPPs: KE, as per its commitment to generate power through green and economical sources, has embarked upon setting 150 MW solar project in Winder and Bela, Baluchistan through competitive bidding as stipulated under the NEPRA's relevant regulations. The prospective bidders, selected through prequalification evaluation process, were issued the Request for Proposal (RFP) document and was also submitted to NEPRA for approval. NEPRA issued its decision on the RFP of the projects on Oct 14, 2022. Subsequently, KE filed a review application on the RFP decision, which is currently under review with NEPRA and a hearing on the same was held on April 6, 2023. Moreover, land allocation for the project sites has been approved by Government of Baluchistan (GoB) while terms of allocation are under active deliberations between KE and GoB.

The Company has signed a Memorandum of Understanding (MoU) with Sindh Energy Department (SED) and the World Bank (WB) for the establishment of solar projects of 350 MW capacity. This initiative is part of the Sindh Solar Energy Project (SSEP), which is a collaboration between Government of Sindh and the World Bank. The land for the project has been approved by the Cabinet (GoS) and the prequalification of bidders has been initialed. The project is expected to be commissioned in FY25. KE has also initiated the development of a 220 MW Site Neutral Hybrid Renewable Project. The RFP of the project has been submitted to NEPRA while the prequalification process of the potential bidders is currently ongoing.

With regard to induction of hydel power, KE is actively pursuing the 82 MW Turtonas Uzghor Hydel Project (Uzghor), for which KE has issued a letter of intent (LOI) for power offtake in Sep 2022. Additionally, to expand its hydel portfolio, a joint working group has been formulated with Pakhtunkhwa Energy Development Organization (PEDO). The Company and PEDO are actively working on the procurement framework, including shortlisting and finalization of the planned projects. Moreover, KE is also engaged with the Government and private sponsors with regards to potential development of around 1000 MW of Projects.

National Grid: In addition to the arrangements of 1,100 MW of power from the National Grid, KE is pursuing off-take of additional power from National Grid. In this regard, construction of new grids and interconnection works are underway. Moreover, under the next tariff control period, the Company is planning to expand the transmission infrastructure through addition of three new 220kV grids and eight 132kV grid stations to cater future load growth. Projects including reconductoring of transmission lines and RTV coating of insulators are in progress with a purpose to further improve system reliability. In addition to the above, augmentation in NKI interconnection, through addition of 500kV/220kV auto transformer and associated bays is being planned in Thar area.

Transmission: KE's transmission system comprises over 1,354 km of 220 kV, 132 kV and 66 kV lines, with 71 grid stations, 20 auto-transformers with transformation capacity of 4,600 MVA and 178 power transformers with transformation capacity of 6,803 MVA. In the outgoing year, KE energized power transformers at Korangi South, PRL, Maymar, and Memon Goth Grids under the Hybrid Insulated Switchgear (HIS) capacity enhancement project. This, along with other replacement/enhancement activities have led to net transmission capacity addition of 267 MVA. To manage the projected growth in power demand, enhancement of transmission capacity by 100 MVAs, with addition of new power transformers at Agha Khan and New Landhi grids was completed by end-HY23. This, along with enhancements in existing grids has taken the total transformation capacity to 6,903 MVAs. In addition, a new 132 kV site- Haroonabad circuit-II has been energized.

Furthermore, construction of KKI grid (KE's first 500 kV flagship interconnecting and load grid) is underway, with an overall progress of 20% as of end-Dec'22 and expected to come online in coming months. Similarly, construction work of new 220 kV Dhabeji Interconnection is expected to pre-commission by end-Jun'23. In addition, under BQPS-III project, upgradation of transmission network in process, which entails augmentation of two critical load grids and two generation interconnection grid stations. Also, the new interconnection at KTPS will evacuate power of KCCP on 132 kV system rather than on 220 kV as compared to co-relating embedded generation.

Distribution: The Company has been pursuing various distribution projects to achieve the goal of loss reduction, safety, and improving network health. The Company's flagship project- Sarbulandi, initially launched in FY20 has progressed to its 3rd phase, furthering the goal of curbing losses while uplifting communities. During the outgoing year, over 300,000 Kgs of illegal hooks (kunda) have been removed from system, and a total of 12,500 pole mounted transformers (PMT) have been converted to Aerial Bundled Cables (ABC), with over 200,000 new meters installed through low-cost meter scheme. Further, as part of loss reduction and recovery improvement initiatives, KE has installed around 15,000 low-cost meters in low propensity area and 35,000 additional meters in 1HFY23.

With a strategic customer centric focus, the company has been consistently opening Customer Facilitation Centers (CFCs) to encourage timely bill payments. With these initiatives, the Company expects to bring significant improvements in key operational metrics in the distribution segment including reduction in T&D losses.

Multi-Year Tariff (MYT)

KE's current MYT Determination is expiring in June 2023. In the backdrop of learnings from the current MYT, and the ongoing changes in power sector including, , implementation of Competitive Trading Bilateral Contract Market (CBBCM) and the proposed country-wide central economic dispatch, KE has filed petition for separate tariffs for each business segment. Distribution petition is further bifurcated into Retail and Supply. Public hearing on KE's 7-year investment Plan for T&D segment, which will then form basis of tariff for the next control period from FY 24 to FY 30, was conducted on March 1, 2023, after which NEPRA will provide their judgment on this matter after due deliberation which is expected in next couple of months.

Under the proposed Tariff for the next period i.e., FY 2024 onwards, KE has proposed indexation mechanism to account for changes in the macroeconomic factors including exchange rate, CPI, KIBOR, LIBOR etc. Accordingly, cost of debt in the proposed tariff will reflect quarterly indexation of KIBOR / LIBOR or SOFR based on actual. Further, KE has requested annual revision in investments due to changes in exchange rate and CPI. With respect to recovery loss, KE has requested recovery loss allowance based on a proposed improvement trajectory.

It is to be noted that the proposed structure and salient points under new MYT are in line with existing industry practices and current tariff structure offered to IPPs, therefore, the company expects that their requests bar minor adjustments will be accepted by NEPRA after their due process.

Creation of Subsidiary Companies

As part of diversification strategy of KE, a wholly owned subsidiary named KE Venture Company (Pvt) Ltd (KEVCL) has been incorporated. KEVCL will be the holding Company for the different initiatives taken by the Company in the energy sector in Pakistan. Initially, the scope of the projects of the subsidiary would be exploring investments in the renewable energy space. Another wholly owned subsidiary, K-Solar, has been incorporated under KEVCL. K-Solar would be specializing in distributed generation. Further, under KEVCL projects of 150 MW solar IPPs at Vinder, and Bela are going to be developed as joint ventures.

Overall improvement across various operational metrics while recovery ratio weakened owing to economic stress:

Continuous overall improvement across various operational metrics has been noted on a timeline basis. Meanwhile, during 1HY23, the Company faced numerous challenges on the recovery front, primarily on account of sizeable increase in consumer end tariff and fuel cost adjustments and current economic conditions, which impacted the consumer's ability to pay leading to decline in recovery ratio to 91.8% vis-à-vis 94.9% in CPLY

KPIs	FY19	FY20	FY21	FY22	1HY23
T&D Loss	19.10%	19.70%	17.50%	15.3%	12.6%
Recovery Ratio	92.60%	92.10%	94.9%	96.7%	91.8%
Aggregate Technical and Commercial Loss (%)	25.09%	26.04%	21.71%	18.10%	19.77%
Fleet Efficiency	37.10%	38.00%	38.00%	38.6%	38.93%

Breakdown of recovery ratios across different consumer classes is presented below:

	FY21	FY22	1HFY23
Residential	89%	90%	83%
Commercial	96%	99%	96%
Industrial	101%	101%	100%
Public	60%	188%	159%
Recovery Ratio	**95%**	**97%**	**92%**

Nonetheless, the Company strived to improve recoveries through various initiatives, including, introduction of easy instalment payment plan under the scheme- 'Humqadam- Recovery Plan'. The Company is also focusing on massive disconnections, curbing illegal extraction of electricity, prevention from theft and constant follow ups on recovery and installation of meters where required. The Company has also been facilitating its customers through provision of convenient methods for payment and recovery. KE has expanded its payment network by partnering with Fintech's and banking institutions to enhance consumer payment experience.

Power Purchase Agency Agreement (PPAA), Inter Connection Agreement (ICA) and TDS Agreement for supply from national grid and release of subsidy:

The current Power Purchase Agreement (PPA) between KE & NTDC expired on January 25, 2015, meanwhile, the supply of electricity from the national grid continues under the same arrangement in line with orders of the Honorable Sindh High Court. In 2020, Cabinet Committee on Energy (CCoE) approved supply of additional power to KE from National Grid in order to utilize surplus capacity in the National Grid and asked parties to enter into the requisite agreements. In this regard NTDC, CPPA & KE started discussions on the PPAA and ICA. Moreover, to streamline the process of verification and release of KE's Tariff Differential Subsidy (TDS) claims, KE and GoP agreed to enter into a separate TDS Agreement.

The draft agreements were initialed in November 2021, and subsequent to change in Government, a taskforce was constituted in June 2022 for resolution of KE issues including execution of these agreements. KE is actively engaged with GoP and related parties for finalization and execution of these agreements.

Execution of these agreements has been deliberated at length at Taskforce level and Discussions for execution of ICA & TDS Agreement between KE and NTDC/GoP are now in the advanced stages of finalization, whereas PPAA between KE & CPPA is already finalized.

Financial Risk Profile

Rising political instability, devastating floods and macroeconomic challenges have negatively impacted the revenues and profitability of the company during 1HFY23.

The units sent-out dropped by 5.7% due to closure of industrial units and overall economic slowdown in 1HY23 vis-à-vis CPLY. The company operates under regulated tariff and as per current MYT, no adjustment is provided to the Company in tariff for changes in sent-out and policy rates. Snapshot of operational performance, revenues and gross profitability is presented below:

Units in GWh	FY19	FY20	FY21	FY22	1HFY22	H1'FY23
Units Generated-Net	9,928	9,629	10,186	7,890	4,047	3,576
Units Purchased	7,769	8,158	9,301	11,912	5,995	5,895
Units Sent out	17,697	17,787	19,487	19,802	10,042	9,471
Units Sent out Growth	1.6%	0.5%	9.6%	1.6%	2.4%	-5.7%
Units Billed	14,318	14,277	16,069	16,763	8,732	8,276
Units Billed Growth	3.3%	-0.3%	12.6%	4.3%	4.7%	-5.2%
Revenue (in PKR' Billions)	289.1	288.8	325	518.8	217.4	265.6
Gross Profit (in PKR' Billions)	50.7	43.9	59.2	72.4	33.2	18.6

All time high inflation has crumpled the consumer's propensity to pay and accordingly the Company has to book sizeable provisioning against doubtful trade debts (other than dues from public sector consumers i.e., government-controlled entities) using the guidance included in IFRS 9 'Financial Instruments'. In addition, sharp devaluation of local currency led to foreign currency exchange loss of Rs. 7.5b (FY22: 9.0b; FY21: Nil) in 1HY'23. Furthermore, increase in effective borrowing rate to 17% from 9.4% in the preceding period coupled with higher borrowing levels mainly owing to non-payment of dues by the Government, has escalated the finance cost. Resultantly, the company has suffered losses on net basis during 1HFY23.

The Company is focusing on improvements on operational fronts to curtail losses. In addition, the Company is actively pursuing to expedite the determination of pending quarterly tariff variation for cost which have been determined by NEPRA till June-22 while decision in respect of cost due in lieu of recovery loss for the period FY17 to FY22 is awaited. Under current MYT, NEPRA allows KE to claim actual write-offs subject to compliance with certain pre-defined conditions set out therein. KE has complied with all the requisite conditions including, verification from the statutory auditor for write-off amount, which is then filed with NEPRA and accounted for in the financial statements, like other tariff adjustments. NEPRA in its quarterly tariff adjustments decisions stated that write off claims submitted by the Company are under deliberation as per the regulatory process.

Growing Government Receivables necessitating increased working capital needs

Delays in release of payments and long outstanding receivables from government entities impacts the working capital position of the Company. Net receivables from government entities stood at Rs. 76.7b as of Dec'22 (June'22: Rs. 28.0b; June'21: Rs. 60.9b). Nonetheless, KE has efficiently managed its short-term facilities to meet its working capital requirements. Moreover, increasing Government payables continue to support the working capital management. KE is continuously pursing GoP and related parties for amicable resolution of backlog of government receivables to resolve this long-standing issue in accordance with the law. In this regard draft terms of reference (ToRs) for mediation between the parties for a cordial settlement of the issue of historic receivables / payables between KE and GoP entities/departments is also under consideration at taskforce level.

The Company expects settlement of part of outstanding receivables on net basis against its payables, which partly mitigate the risk. Further, with off-take of additional supply from the National Grid, KE expects that going forward payables to government entities will be higher than receivables which will take KE into a net payable position. Meanwhile, liquidity position is underpinned by adequate cash flows for debt servicing. Going forward, cash flow position is likely to strengthened primarily on the back of implementation of new MYT, improvement in generation fleet efficiency and additional power purchase from GoP.

Leverage indicators increased as a result of overall increase in debt levels:

	FY19	FY20	FY21	FY22	1HY23
Gearing (x)	**0.9**	**1.0**	**1.1**	**1.6**	**2.0**
Debt Leverage (x)	**2.6**	**3.3**	**3.6**	**3.4**	**3.9**

Capitalization indicators of the Company have continued to swell, indicating higher debt utilization. Going forward, despite projected augmentation in equity in line with profit retention, gearing is expected to remain high as additional long-term financing would be obtained mainly to fund planned investments.

Sukuk Ratings incorporate the Master Collection Account (MCA) mechanism in place

Ratings derive comfort by the fact that all conventional and Islamic long-term financing of the Company are secured by hypothecation charge over specific consumers' receivables and specific collection account i.e., MCA. KE is routing collections from specific bank collection account(s) into this account. The collection agent appointed is retaining (on monthly basis) the required amount of funds (one-third of the quarterly installment) for payment on due date. The routing arrangement includes undertaking from KE to cover any shortfall in the debt servicing amount. Sizeable cash flows that are being routed through MCA is a key rating strength and provides adequate coverage for debt payments being undertaken through the MCA.

Reaffirmation of Sukuk 5 (Rs. 25b)

KE issued Diminishing Musharakah Sukuk certificates amounting to Rs. 25b to finance routine operational and capital expenses requirements of the Company. Tenor of the instrument is seven years (inclusive of a grace period of two years). The instrument carries profit rate of 3-month KIBOR plus 1.7%.

Reaffirmation of Sukuk 6 (Rs. 6.7b)

KE issued a privately placed DSLR listed Sukuk on November 23, 2022 to the tune of Rs. 6.7b. Tenor of the instrument is seven years (inclusive of a grace period of two years). The instrument carries profit rate of 3-month KIBOR plus 1.7%.

Environmental, Social and Governance (ESG): In pursuit of following ESG framework, KEL has a comprehensive Health, Safety, Environment and Quality (HSEQ) policy in place. The Company has been complying with all applicable legal and regulatory requirements in this regard and has been embedding HSEQ requirements in routine and non-routine activities by implementing effective Management system and ensuring transparency in reporting.

- Initial Environment Examination and/ or Environmental Impact Assessments are conducted for new projects and approvals are taken from relevant provincial environmental protection agency (EPA).

- Smooth monitoring and strict supervision with conditions of approval is ensured at the construction sites. Activities impacting the environment are carefully measured and monitored at all power plants and the compliance reports are timely submitted to EPA.
- The compliance status is validated through independent monitors. Environmental performance is measured and enhanced through a system of internal environmental audits, procedures implementation and trainings respectively. KE Generation plants are certified in Energy Management Systems (ISO-50001) and Environment Management System (ISO 14001:2015).
- For waste water treatment and recycling, KE Generation plants (other than KTGT and SGTP) use sea water for (once through) cooling phase i.e., water taken from inlet is released after cooling. Care is taken to ensure that effluent discharge parameters are compliant with the prescribed Environmental Quality Standards. The parameters are monitored by EPA certified laboratories, and results submitted to the EPA as per defined frequency. Domestic wastewater is treated and reused in horticulture to the extent possible.
- Hazardous waste is disposed through EPA approved waste contractor in accordance with applicable laws and corporate procedures, the record of which is duly maintained.
- KE has a corporate procedure in place for resource conservation, implementation is ensured through internal audits, while staff is encouraged to use daylight and conserve energy. The conventional lights have been replaced with energy efficient bulbs and solar panels are being installed at locations where feasible.
- At KE, garbage is not treated inhouse while, non-hazardous biodegradable waste is disposed off daily at designated municipal sites and recyclables are resold through central store.

As part of the overall ESG initiatives the Company has taken, it has successfully planted 15,000 trees in FY22 which has also been mentioned in KE Sustainability Report. KE's energy conservation department (EC) aims to facilitate consumers in conserving energy through various campaigns and voluntary load curtailment initiatives by educating and conducting Energy Audits/Assessments for its energy intensive consumers. In another initiative, KE is underway in digitizing their Energy Audit (EA) process and their Power Factor Improvement Program (PFIP) operations.

KE has been holding KE Awards for the past two years to honor organizations who embrace it in the name of hope, peace and development. In FY22 it has benefited over 9 million people through social investments of Rs. 40m as electricity rebates. The company received more than 160 applications through rigorous process, headed by 16 jury members who shortlisted 40 winners to award rebates averaging up to Rs. 1.0m.

Corporate Governance: At present, the Board comprises ten members including one independent director.
Mr. Boudewijn Clemens Wentink, Ch. Khaqan Saadullah Khan and Ms. Sadia Khurram have resigned from their positions of non-executive directors in October'22 resulting in three casual vacancies on the Board. However, K-Electric cannot change its current Board composition due to the following factors:

a. Suit 1731/2022 (Al Jomaih Power Limited & another vs IGCF SPV 21 Limited & others) together with ad-interim order from the Sindh High Court dated October 21, 2022 passed therein, through which the Company has been directed **"no change will be affected in the present Board of Directors of the K-Electric"**
b. Directions from the Securities and Exchange Commission of Pakistan dated November 08, 2022 which states that the "composition of the current Board of Directors of the Target Company (i.e., K-Electric) shall not be changed, whatsoever, till further orders of the Commission".

Hence, the casual vacancies on the Board will be filled subject to the receipt of relevant approvals.

K-Electric Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR billions)*				
BALANCE SHEET	**FY20**	**FY21**	**FY22**	**1HFY23**
Fixed Assets	361.0	424.1	489.2	503.9
Investments	3.0	3.0	2.9	2.9
Stores, spares and loose tools	13.0	16.1	17.1	16.6
Trade Debts	99.8	104.7	136.8	76.3
Other Receivables	212.0	275.0	375.2	453.5
Cash & Bank Balances	3.1	2.4	2.8	4.1
Total Assets	703.4	835.7	1,060.1	1,103.5
Trade and Other Payables	267.6	353.9	439.3	480.4
Long Term Debt *(incl. current maturity)*	83.0	77.3	175.6	183.4
Short Term Debt	72.5	107.0	107.5	121.7
Total Debt	155.6	184.3	283.1	305.1
Paid Up Capital	96.3	96.3	96.3	96.3
Tier-1 Equity *(excluding surplus)*	151.4	168.0	180.5	156.2
Total Equity	210.7	224.0	250.2	223.1
INCOME STATEMENT	**FY20**	**FY21**	**FY22**	**1HFY23**
Revenue	288.8	325.0	518.8	265.6
Gross Profit	43.9	59.2	72.4	18.6
Operating Profit	17.1	26.5	20.8	(12.2)
Profit Before Tax	0.4	15.3	5.7	(24.9)
Profit After Tax	(3.0)	12.0	8.6	(27.0)
RATIO ANALYSIS	**FY20**	**FY21**	**FY22**	**1HFY23**
Gross Margin (%)	15.2%	18.2%	14.0%	7.0%
Net Margin (%)	n.m.	3.7%	1.6%	n.m.
FFO	25.4	44.2	48.3	0.2
CFO	21.9	42.3	(26.9)	3.0
FFO to Total Debt (%)	16.3%	24.0%	17.0%	0.1%*
FFO to Long Term Debt (%)	30.6%	57.2%	27.5%	0.2%*
CFO to Total Debt (%)	14.1%	22.9%	n.m.	3.9%*
Debt Servicing Coverage Ratio (x)	1.61	2.25	1.85	0.66
Gearing (x)	1.03	1.10	1.57	2.0
Debt Leverage (x)	3.26	3.64	3.39	3.92
Current Ratio (x)	0.92	0.81	0.91	0.90
ROAA (%)	n.m.	1.6%	0.9%	n.m.
ROAE (%)	n.m.	7.5%	4.9%	n.m.

**Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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.

REGULATORY DISCLOSURE — Appendix III

Name of Rated Entity	K-Electric Limited
Sector	Power
Type of Relationship	Solicited
Purpose of Rating	Entity and Sukuk Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
14-Apr-2023	AA	A-1+	Stable	Reaffirmed
29-Apr-2022	AA	A-1+	Stable	Reaffirmed
28-Apr-2021	AA	A-1+	Stable	Reaffirmed
16-Apr-2020	AA	A-1+	Stable	Reaffirmed
14-Oct-2019	AA	A-1+	Stable	Upgrade
25-Feb-2019	AA	A-1	Rating Watch -Developing	Reaffirmed
03-Mar-2018	AA	A-1	Rating Watch -Developing	Maintained
30-Dec-2015	AA	A-1	Stable	Reaffirmed
1-Dec-2014	AA	A-1	Stable	Upgrade
2-Jan-2014	A+	A-2	Positive	Reaffirmed
25-Nov-2013	A+	A-2	Positive	Initial

Rating Date	Medium to Long Term	Rating Outlook	Rating Action
RATING TYPE: SUKUK-5 (Rs. 25b)			
14-Apr-2023	AA+	Stable	Reaffirmed
29-Apr-2022	AA+	Stable	Reaffirmed
28-Apr-2021	AA+	Stable	Reaffirmed
16-Apr-2020	AA+	Stable	Reaffirmed
13-Feb-2020	AA+	Stable	Final
14-Oct-2019	AA+	Stable	Preliminary

Rating Date	Medium to Long Term	Rating Outlook	Rating Action
RATING TYPE: SUKUK-6 (Rs. 6.7b)			
14-Apr-2023	AA+	Stable	Reaffirmed
29-Dec-2022	AA+	Stable	Final
29-Apr-2022	AA+	Stable	Preliminary

Instrument Structure

K-ELECTRIC LIMITED -Sukuk 5: KE issued Diminishing Musharakah Sukuk certificates amounting to Rs. 25b to finance routine operational and capital expenses requirements of the Company. Tenor of the instrument is 7 years (inclusive of a grace period of 2 years).

Sukuk 6: KE issued Sukuk 6 in Nov'22 to the tune of Rs. 6.7b. Tenor of the instrument is 7 years (inclusive of a grace period of 2 years). It is structured as a diminishing musharaka arrangement and carries profit rate of 3-month KIBOR plus 1.7%.

Statement by the Rating Team

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.

<table>
<tr><td></td><td>This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.</td></tr>
<tr><td>Probability of Default</td><td>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.</td></tr>
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<tr><td>Due Diligence Meetings Conducted</td><td>
<table>
<tr><th>Name</th><th>Designation</th><th>Date</th></tr>
<tr><td>Mr. Farrukh</td><td>Head of Treasury</td><td>March 31, 2023</td></tr>
<tr><td>Mr. Abdul Muqeet Husain</td><td>General Manager- Funds Management & Planning</td><td>March 31, 2023</td></tr>
<tr><td>Mr. Arqam Imam</td><td>Deputy Manager- Strategic Project Financing</td><td>March 31, 2023</td></tr>
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