

## RATING REPORT

### K-Electric Limited

**REPORT DATE:**

January 23, 2025

**RATING**
**ANALYSTS:**

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#### RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term/Short-term	Long-term/Short-term
<b>Entity Rating</b>	AA/A1+	AA/A1+
<b><u>K-Electric Limited - Sukuk 5 (PKR 25 bln)</u></b>	<b>AA+</b>	<b>AA+</b>
<b><u>K-Electric Limited - Sukuk 6 (PKR 6.7 bln)</u></b>	AA+	AA+
<b>Rating Date</b>	January 23, 2025	June 03, 2024
<b>Rating Outlook/Rating Watch</b>	Stable	Stable
<b>Rating Action</b>	Reaffirmed	Reaffirmed

#### COMPANY INFORMATION

<b>Incorporated in 1913</b>	<b>External Auditors:</b> M/s. A.F. Ferguson & Co. Chartered Accountants
<b>Public Limited Company</b>	<b>Chief Executive Officer:</b> Mr. Syed Moonis Abdullah Alvi
<b>Key Shareholders (with stake 10% or more):</b>	
KES Power Limited – 66.4%	
Government of Pakistan (GoP) represented by President of Pakistan – 24.4%	

#### APPLICABLE RATING SCALE(S)

**VIS Issue/Issuer Rating Scale:**

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

#### APPLICABLE METHODOLOGY

**VIS Entity Rating Criteria: Corporates**

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

## K-Electric Limited

OVERVIEW OF  
THE  
INSTITUTION

## RATING RATIONALE

*K-Electric Limited 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.*

**Corporate Profile:**

K-Electric Limited (“KEL” or “the Company”) was incorporated as a limited liability company on September 13, 1913, and its shares are quoted on the Pakistan Stock Exchange Limited (PSX). The registered office of KEL is situated in DHA, Karachi.

KEL is the only vertically integrated power utility in Pakistan, managing all key areas – Generation, Transmission, Distribution and Supply – ensuring energy delivery to customers within its licensed areas. KES Power Limited (“the Holding Company of KEL”), incorporated in the Cayman Islands, holds 66.4% (2022: 66.4%) shares in KEL as of 2023.

**The Group**

The Group is comprised of KEL and its subsidiaries, KE Venture Company (Private) Limited (KEVCL) and K-Solar (Private) Limited (K-Solar). KEVCL operates as a private limited company, primarily serving as the investment arm of KEL. Its scope of activities includes, but is not limited to, businesses related to electricity, energy, and associated products or services. K-Solar, also a private company and a direct subsidiary of KEVCL, focuses on businesses related to electricity and renewable energy. Additionally, K-Solar is engaged in promoting the conservation and efficient use of electricity, aligning with the broader goals of sustainability and energy efficiency.

**Rating Rationale:**

The ratings take note of the approval of the Generation Tariff, with delay in approvals of the individual tariffs filed for Transmission, Distribution and Supply for the period FY24 to FY30 by NEPRA. The complete approval of the MYT (Multi Year Tariff) depends on the approval of all individual tariffs and accordingly, the finalization of Financial Statements post FY23 is dependent on the same as also disclosed by KEL on PSX. As per management, KEL is actively engaged with NEPRA to expedite the regulatory proceedings for the approval of the tariff.

According to the management, the Company’s cash flow position and debt profile have remained stable and are expected to be maintained in the future. Following the finalization of the MYT in alignment with KEL’s future investment plans, an increase in debt levels is anticipated. However, as per management, existing Master Collection Account (MCA) structures, currently used for servicing long-term debt, will continue to ensure timely debt servicing moving forward alongside collections received against electricity sold.

**K-Electric Limited**
**Appendix I**

<b>Financial Summary</b>			
<b>Balance Sheet (PKR Millions)</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23A</b>
Property, plant and equipment	424,069.2	489,248.2	580,244.7
Intangible Assets	389.3	518.9	1,169.5
Long-term Investments	182.1	275.0	429.0
Stock-in-trade	1,910.3	2,698.2	4,202.6
Trade debts	104,714.4	136,843.0	104,282.9
Cash & Bank Balances	2,370.9	2,846.1	7,094.0
Other Assets	302,041.3	427,698.6	327,239.7
<b>Total Assets</b>	<b>835,677.4</b>	<b>1,060,128.1</b>	<b>1,024,662.4</b>
Creditors	297,612.9	379,069.4	284,939.8
Long-term Debt (incl. current portion)	77,276.7	175,552.2	216,953.3
Short-Term Borrowings	107,023.2	107,535.5	92,851.1
<b>Total Debt</b>	<b>184,299.9</b>	<b>283,087.6</b>	<b>309,804.4</b>
Other Liabilities	129,813.2	147,799.3	174,763.6
<b>Total Liabilities</b>	<b>611,725.9</b>	<b>809,956.4</b>	<b>769,507.7</b>
Paid up Capital	96,261.6	96,261.6	96,261.6
Revenue Reserve	69,748.1	82,187.7	55,452.1
Other Equity (excl. Revaluation Surplus)	2,009.2	2,009.2	2,009.2
<b>Equity (excl. Revaluation Surplus)</b>	<b>168,018.9</b>	<b>180,458.4</b>	<b>153,722.8</b>
<b>Income Statement (PKR Millions)</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23A</b>
Net Sales	325,048.6	518,777.1	519,471.2
Gross Profit	59,194.6	68,535.9	52,812.0
Operating Profit	26,458.8	20,768.7	-7,802.4
Finance Costs	11,113.0	15,120.5	34,569.9
Profit Before Tax	15,345.9	5,648.3	-42,372.3
Profit After Tax	11,998.2	8,523.6	-30,896.6
<b>Ratio Analysis</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23A</b>
Gross Margin (%)	18.2%	13.2%	10.2%
Operating Margin (%)	8.1%	4.0%	-1.5%
Net Margin (%)	3.7%	1.6%	-5.9%
Funds from Operation (FFO) (PKR Millions)	38,922.6	42,577.1	397.0
FFO to Total Debt* (%)	21.1%	15.0%	0.1%
FFO to Long Term Debt* (%)	50.4%	24.3%	0.2%
Gearing (x)	1.1x	1.6x	2.0x
Leverage (x)	3.6x	4.5x	5.0x
Debt Servicing Coverage Ratio* (x)	1.9x	1.6x	0.7x
Current Ratio (x)	0.8x	0.9x	0.8x
(Stock in trade + trade debts) / STD (x)	1.1x	1.4x	1.3x
Return on Average Assets* (%)	1.6%	0.9%	-3.0%
Return on Average Equity* (%)	7.5%	4.9%	-18.5%
Cash Conversion Cycle (days)	-238	-187	-172
<i>*Annualized, if required</i>			
A - Actual Accounts			
P - Projected Accounts			
M - Management Accounts			

REGULATORY DISCLOSURES		Appendix II			
Name of Rated Entity	K-Electric Limited				
Sector	Power				
Type of Relationship	Solicited				
Purpose of Rating	Instrument Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook/Rating Watch	Rating Action
	<b>RATING TYPE: ENTITY</b>				
	23-Jan-25	AA	A1+	Stable	Reaffirmed
	14-Apr-23	AA	A1+	Stable	Reaffirmed
	29-Apr-22	AA	A1+	Stable	Reaffirmed
	28-Apr-21	AA	A1+	Stable	Reaffirmed
	16-Apr-20	AA	A1+	Stable	Reaffirmed
	14-Oct-19	AA	A1+	Stable	Upgrade
	25-Feb-19	AA	A1	RW - Developing	Reaffirmed
	03-Mar-18	AA	A1	RW - Developing	Maintained
	30-Dec-15	AA	A1	Stable	Reaffirmed
	1-Dec-14	A+	A1	Stable	Upgrade
	2-Jan-14	A+	A2	Positive	Reaffirmed
	25-Nov-13	A+	A2	Positive	Initial
	<b>RATING TYPE: SUKUK 5 (PKR 25 bln)</b>				
	23-Jan-25	AA+	N/A	Stable	Reaffirmed
	14-Apr-23	AA+	N/A	Stable	Reaffirmed
	29-Apr-22	AA+	N/A	Stable	Reaffirmed
	28-Apr-21	AA+	N/A	Stable	Reaffirmed
	16-Apr-20	AA+	N/A	Stable	Reaffirmed
	13-Feb-20	AA+	N/A	Stable	Final
	14-Oct-19	AA+	N/A	Stable	Preliminary
	<b>RATING TYPE: SUKUK 6 (PKR 6.7 bln)</b>				
	23-Jan-25	AA+	N/A	Stable	Reaffirmed
	14-Apr-23	AA+	N/A	Stable	Reaffirmed
	29-Dec-22	AA+	N/A	Stable	Final
	29-Apr-22	AA+	N/A	Stable	Preliminary
Instrument Structure	<p><u>Sukuk 5</u>: KEL issued Sukuk certificates under the Diminishing Musharakah structuring arrangement. These amounted to PKR 25 bln and the proceeds were used 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).</p> <p><u>Sukuk 6</u>: KEL issued Sukuk 6 for an amount of PKR 6.7 bln to meet the permanent working capital requirements of the business and to fund routine capital and operating expenditures of the Issuer. Tenor of the instrument is 7 years (inclusive of a grace period of 2 years). The Sukuk certificates were issued using the diminishing musharaka structuring arrangement.</p>				
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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>
	Mr. Danyaal Jamal	Treasury Head	October 25, 2024
	Mr. Muhammad Aamir Ghaziani	CFO	