

RATING REPORT

K-Electric Limited - ICP 17

REPORT DATE:

April 5, 2021

RATING DETAILS

| | Preliminary |
|---|----------------|
| | Short-term |
| K-Electric Limited – Islamic Commercial Paper 17 (3.5b) | A-1+ (Initial) |
| Rating Date (ICP 17) | April 5, 2021 |

RATING ANALYSTS:

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RATING DETAILS

| Rating Category | Latest Rating | | Previous Rating | |
|--|----------------------|------------|----------------------|------------|
| | Long-term | Short-term | Long-term | Short-term |
| K-Electric Limited - Sukuk 5 (Rs. 25b) | AA+ (Reaffirmed) | | AA+ (Reaffirmed) | |
| Rating Date (Sukuk) | April 16, 2020 | | October 14, 2019 | |
| Entity Rating | AA/A-1+ (Reaffirmed) | | AA/A-1+ (Reaffirmed) | |
| Rating Date (Entity) | April 16, 2020 | | February 13, 2020 | |

COMPANY INFORMATION

Incorporated in 1913

External auditors: M/s. A.F. Ferguson & Co, Chartered Accountants.

Public Limited Company

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 – April 2019*<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Corporate-Methodology-201904.pdf>*Rating The Issue (July 2020)*<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Notchingtheissue202007.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 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

Shareholding

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 comprised of several Middle East institutional investors. Shanghai Electric Power (SEP) intends to acquire up to 66.4% stake in KEL. The transaction is subject to receipt of requisite regulatory and other approvals including National Security Clearance (NSC) Certificate from the GoP.

Islamic Commercial Paper Issuance

- KE is raising an Islamic Commercial Paper (ICP) amounting to Rs. 3.5b to finance working capital requirements of the company. This is the 17th issue ICP issuance of KE.
- Tenor of the instrument is 6 months, with repayment by way of a single bullet payment. The mode of transaction for the ICP would be Musharakah (Shirkaat ul Aqd).
- Indicative rate on the ICP would be 6-month KIBOR + 55 bpts (on best effort basis).

Impact on KE’s gearing is expected to be minimal, albeit given additional debt projections gearing level is likely to continue to increase and peak by end-FY21

- Debt levels of the Company have witnessed an increasing trend over the last two years due to higher working capital requirements and debt being undertaken for capital expenditure projects.
- Going forward, debt levels and leverage indicators are projected to increase over the rating horizon as additional debt is being undertaken. Gearing levels are likely to peak at ~1.6 (x) by end-FY21 but are then projected to decline to 1.2(x) by end-FY24.

| RATIO ANALYSIS | FY19 | FY20 | H1FY21 |
|---|--------|-------|--------|
| FFO to Total Debt (%) | 32.6% | 17.5% | NA |
| FFO to Long Term Debt (%) | 73.3% | 32.7% | NA |
| CFO to Total Debt (%) | -13.0% | 14.6% | NA |
| Debt Servicing Coverage Ratio (x) | 3.2 | 1.7 | 2.2* |
| Gearing (excluding revaluation surplus) | 0.87 | 1.03 | 1.02* |

- *Annualized*

K-Electric Limited
Appendix I

| FINANCIAL SUMMARY <i>(amounts in PKR billions)</i> | | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|----------------|
| BALANCE SHEET | Jun'16 | Jun'17 | Jun'18 | Jun'19 | Jun'20 | Dec'20 |
| Fixed Assets | 223.5 | 237.7 | 277.4 | 326.5 | 361.0 | 377.3 |
| Investments | - | - | - | - | 3.0 | 3.0 |
| Stores, spares and loose tools | 7.9 | 9.4 | 11.5 | 12.1 | 13.0 | 15.4 |
| Trade Debts | 101.0 | 103.4 | 115.4 | 99.9 | 99.8 | 91.7 |
| Cash & Bank Balances | 2.2 | 2.1 | 1.1 | 2.7 | 3.1 | 1.2 |
| Total Assets | 377.8 | 395.9 | 473.7 | 598.9 | 703.4 | 737.5 |
| Trade and Other Payables | 106.3 | 117.1 | 140.5 | 190.8 | 267.6 | 285.5 |
| Long Term Debt <i>(*incl. current maturity)</i> | 32.0 | 29.0 | 31.5 | 57.6 | 83.0 | 85.8 |
| Short Term Debt | 23.9 | 20.4 | 41.3 | 71.9 | 72.5 | 78.6 |
| Total Debt | 55.9 | 49.4 | 72.8 | 129.5 | 155.6 | 164.4 |
| Paid Up Capital | 96.3 | 96.3 | 96.3 | 96.3 | 96.3 | 96.3 |
| Total Equity <i>(*excluding surplus)</i> | 121.3 | 136.7 | 153.2 | 148.8 | 151.4 | 160.8 |
| Total Equity <i>(*including surplus)</i> | 171.3 | 184.3 | 207.3 | 214.5 | 210.7 | 217.5 |
| INCOME STATEMENT | FY16 | FY17 | FY18 | FY19 | FY20 | H1'FY21 |
| Revenue | 188.6 | 183.9 | 217.1 | 289.1 | 288.8 | 153.4 |
| Gross Profit | 57.2 | 39.5 | 45.3 | 50.7 | 43.9 | 29.9 |
| Operating Profit | 30.1 | 12.3 | 17.0 | 15.2 | 17.1 | 14.2 |
| Profit Before Tax | 25.0 | 8.7 | 13.7 | 8.9 | 0.4 | 8.7 |
| Profit After Tax | 31.8 | 10.4 | 12.3 | 17.3 | (3.0) | 6.9 |
| RATIO ANALYSIS | FY16 | FY17 | FY18 | FY19 | FY20 | H1'FY21 |
| Gross Margin (%) | 30.3% | 21.5% | 20.9% | 17.5% | 15.2% | 19.5% |
| FFO | 52.6 | 39.0 | 44.0 | 42.2 | 27.2 | 19.1 |
| CFO | 41.1 | 27.8 | 19.3 | (16.9) | 22.6 | 31.2 |
| FFO to Total Debt (%) | 95.0% | 78.9% | 60.5% | 32.6% | 17.5% | NA |
| FFO to Long Term Debt (%) | 164.3% | 134.6% | 139.9% | 73.3% | 32.7% | NA |
| CFO to Total Debt (%) | 74.2% | 56.3% | 26.6% | -13.0% | 14.6% | NA |
| Debt Servicing Coverage Ratio (x) | 6.8 | 7.0 | 4.1 | 3.2 | 1.7 | 2.2* |
| Gearing (x) (excluding revaluation surplus) | 0.46 | 0.36 | 0.48 | 0.87 | 1.03 | 1.02* |
| Current Ratio (x) | 1.06 | 1.00 | 0.95 | 0.92 | 0.89 | 0.87 |
| <i>* Annualized</i> | | | | | | |

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 | ICP 17 Issuance | | | |
| Rating History | Rating Date | Short Term | Rating Outlook | Rating Action |
| | RATING TYPE: ICP 17 (Rs. 3.5b) | | | |
| | 31-Mar-2021 | A-1+ | Stable | Preliminary |
| Instrument Structure | K ELECTRIC LIMITED – ICP 17: KE is raising Rs. 3.5b to finance working capital requirements of the company, by way of Islamic Commercial Paper issuance. Tenor of the ICP is 6 months, with repayment by way of a single bullet payment. . The mode of transaction for the ICP would be Musharakah (Shirkaat ul Aqd). Indicative rate on the instrument would be 6-month KIBOR + 55 bpts (on best effort basis). | | | |
| 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. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities. | | | |
| Probability of Default | 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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| Details of Due Diligence | None | | | |