RATING REPORT

K-Electric Limited

REPORT DATE:
April 29, 2022

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 5)	April 29, 2022		*April 28, 2021*	
Entity Rating	AA/A-1+ (Reaffirmed)		AA/A-1+ (Reaffirmed)	
Rating Date (Entity)	April 29, 2022		*April 28, 2021*	
K-Electric Limited - Sukuk 4 (Rs. 22b)	AA+ (Reaffirmed)		AA+ (Reaffirmed)	
Rating Date (Sukuk 4)	April 29, 2022		*July 26, 2021*	
K-Electric Limited - Sukuk 6 (Rs. 12b)	AA+ (Preliminary)		NA	
Rating Date (Sukuk 6)	April 29, 2022		*NA*	

COMPANY INFORMATION

Incorporated in 1913	**External auditors:** M/s. A.F. Ferguson & Co, Chartered Accountants
Public Limited Company	**Chairman:** Shan A. Ashary **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 Ashary has been a Non-Executive Director of the Company since its privatisation in November 2005. He is a senior executive with over forty years of proven success in managing international investments, operations of a large diversified group, finance, treasury, public accounting, and strategic and corporate planning. He currently serves on the boards of several companies in the US and the Middle East. He is a Fellow member of the Institute of Chartered Accountants of England and

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 comprising 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 government approvals including National Security Clearance (NSC) Certificate from the GoP.

<u>Business Update</u>

Generation capacity from self-sources as well as other arrangements

- **Own Generation:** KE operates 5 generation plants with gross dependable capacity of 1,774MW as at June 30, 2021 (FY20: 1,963MW) All gas engines/gas turbine plants in KE are now in Combined Cycle Operation with around 40% of the installed capacity has been added in the last 12 years. The company has been consistently rehabilitating several projects over the past years through with average fleet efficiency increased from, 37.1% in FY19 to 38.0% in FY21. With planned commissioning of upcoming 900 MW RLNG powered plant (Unit I and II) at BQPS III, fleet efficiency of the generation portfolio is expected to increase to 48% by FY23.

Plant	Gross Dependable Capacity (MW)	Actual Generation (GWh)
BQPS 1	829 (1,018 in FY20)	5,130
BQPS II	526	4,173
KPC	227	1,027
KGT	96	381
SGT	96	227
	1,774	**10,938**

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 along with planned medium to long-term projects to expand its energy mix. Key ongoing and future projects for enhancing power generation include the following:

KE Own: BQPS-III RLNG fired power plant (900 MW) - KE has planned addition of a 900 MW RLNG power plant, with the first unit that successfully commissioned its first fire in second half of calendar year 2021. Unit II is expected to come online by first quarter of FY23. These plants will operate at efficiency levels of around 60% and therefore, in addition to managing the demand-supply gap, will enable KE to phase away from old and inefficient units.

The Government of Pakistan (GOP) approved the supply of 150 MMCFD RLNG to KE's Bin Qasim Complex and in August 2021, the first-of-its-kind Gas Supply Agreement (GSA) was signed between Pakistan LNG Ltd (PLL) and KE. 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.

- **IPPs:** During the last 5 years, four new IPPs were added to the Company's system comprising FFBL Power Company Limited's 52 MW coal power plant, Sindh Nooriabad (I and II) 101 MW gas power plants, Oursun and Gharo Solar, each 50 MW solar power plants.

Wales. Other engagements: Investment Adviser, Al-Jomaih Holding Co. (Saudi Arabia).

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.

Further, KE, as per its commitment to generate power through green and economical sources, has embarked upon setting up solar power projects of 50 MW each at Vinder, Uthal and Bela districts of Balochistan. These projects will be set up under IPP structure. Request for Proposal (RFP) of the projects is currently under NEPRA approval stage.

The Company has also 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. This collaboration is expected to yield additional 700 GWh in the total supply along with sizeable reduction in carbon emissions.

- **National Grid:** To manage the projected growth in power demand, in addition to the arrangements of 1,100 MW of power from the National Grid, KE is pursuing off-take of additional power to take the total draw from National Grid to 2,050 MW. In this regard, construction of new grids and interconnection works are underway. The additional off-take from National Grid along with KE's planned 900 MW BQPS III plant will play a critical role in enabling KE to take Karachi in to a power surplus scenario.

Growing Government Receivables necessitating increased working capital needs

Delays in release of payments and long outstanding receivables from government entities have significantly impacted the working capital position of the Company. Net receivables from government entities stood at Rs. 72.5b as of Dec'21 (June'21: Rs. 60.9b, June'20: Rs. 87b). Despite mounting receivables, the company has ensured monthly payments to IPPs, SSGC and PSO to safeguard continuity of business operations. Rs. 25.5b in FY20, Rs. 6.5bn in FY21 and Rs. 5bn in FY22 were released to KE against Tariff Differential Subsidy receivables which has helped the Company in managing the working capital requirements.

However, the Company remains in continuous engagement for release of outstanding dues from government department and its entities. It may be noted that 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. Furthermore, Power Purchase Agency Agreement (PPAA), Inter Connection Agreement and Tariff Differential Subsidy Agreement for the additional supply from National grid has been initialed by the relevant stakeholders and will be executed post relevant approvals.

Multi-Year Tariff (MYT)

Based on the Mid-Term Review Petition filed by KE, NEPRA has issued determination on Mid Term review petition wherein it has allowed certain additional investments based on NEPRA / GoP directions and has allowed certain adjustments on account of rupee devaluation in the allowed return component. In this regard, KE has filed an appeal with Appellate Tribunal under Section 12G of the NEPRA Act.

Within the quarterly tariff variations filed by KE, costs in lieu of recovery loss (in relation to bad debts and allowed under KE's MYT) is also claimed as per the mechanism provided by NEPRA, as more fully explained in Note 33.2 to the Audited Financial Statements for FY21. NEPRA's approval for cost claimed in lieu of recovery loss for FY 2017 to FY 2021 is awaited. Further, quarterly tariff variations have been determined by NEPRA till December 2020 and only five quarters are now remaining. The company remains in continuous engagement with NEPRA to expedite the determination of pending quarterly tariff variations including write off claims submitted based on mechanism provided by NEPRA in KE's MYT.

Additionally, KE's current MYT Determination is expiring in June 2023 and in this regard KE is planning to file MYT petition (for the period post FY 2023) with NEPRA by June / July 2022, in order to have sufficient time for engagement with NEPRA for timely issuance of MYT determination for the next tariff control period.

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, Uthal and Bela are going to be developed as joint ventures.

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.

Growing demand of electricity and increasing tariff expected to yield healthy revenue growth, going forward

- Business risk profile draws support from growing demand for electricity. Units sold have increased at a CAGR of 6% over the last 2 years. The growth of 9.6% in units sent out during FY21 was a result of increase in industrial segment demand led by gradual revival of overall macroeconomic situation in the country.
- Further, in a move to increase grid utilization, the GoP undertook various measures including introduction of incentive packages to encourage increased power consumption as well as discouraged supply of indigenous gas to captive power plants; these initiatives are expected to further supplement growth in power demand and resultantly units billed. This, along with expected increase in consumer-end tariff is likely to result in healthy growth in revenue over the rating horizon.

Continuous overall improvement across various operational performance metrics

Continuous overall improvement across various operational metrics has been noted on a timeline basis. Key metrics like reduction in transmission & distribution losses and aggregate technical and commercial losses and improvement in recovery ratio is a key rating determinant.

KPIs	FY17	FY18	FY19	FY20	FY21	1HFY22
T&D Loss	21.70%	20.40%	19.10%	19.70%	17.50%	13%
Recovery Ratio	90.10%	91.00%	92.60%	92.10%	94.00%	95%
Aggregate Technical and Commercial Loss (%)	29.50%	27.50%	25.10%	26.00%	21.70%	17.4%
Fleet Efficiency	36.70%	37.40%	37.10%	38.00%	38.00%	38.8%

Transmission: KE's transmission system comprises over 1,350 km of 220 kV, 132 kV and 66 kV lines, with 71 grid stations, 20 auto-transformers and 178 power transformers. In addition to the Company's ongoing over

$450million transmission enhancement plan (TP-1000), KE enhanced its transmission capacity to 6,763 MVAs which is sufficient to meet the peak demand. Resultantly, fault response on power transformers and transmission lines has declined significantly.

Going forward, KE plans to continue and further accelerate investments in transmission infrastructure upgrade through capacity enhancement as well as to set up new grids and interconnection points for increased reliability and off-take of additional power from the National Grid subject to required approvals. With reference to the same, for evacuation of power from planned solar power projects, KE has planned rehabilitation and construction of new 132kV transmission line from Hub to Bela along with rehabilitation of grid stations in the area. Furthermore, KE is progressing on projects of 500 kV KKIand 220 kV Dhabeji grid stations as additional interconnections with NTDC. Post completion of the same, the company will be able to off-take up to 2,050 MW power from the National Grid to meet upcoming increased demand. Expected COD timeline of the same is by FY24.

Distribution: Over the last few years, KE has been working on initiatives focused on capacity enhancement through addition of new feeders and Pole Mounted Transformers (PMTs) to meet the growth in power demand, loss reduction through Aerial Bundled Cables (ABC), and improved network reliability through System Improvement Projects. In addition, to ensure provision of safe and reliable supply of power, the Company has undertaken extensive safety initiatives including complete revalidation of its distribution network. During FY21, around 22 substations and allied infrastructure were elevated and 113 substations were renovated. In FY21 Phase-I stood at 98% completion with project conclusion targeted in FY22.

Further the Company has launched Project Sarbulandi in FY20; a transformational project that aims to uplift underdeveloped areas of Karachi. Initiatives under Project Sarbulandi focus on improving network health, minimizing commercial losses through ABC conversion, increasing recoveries and upliftment of areas through community engagement activities. This project has launched its Phase III; during 1HFY22, around 125,000Kg Kunda was removed and around 475 PMTs were converted to ABC. Furthermore, 127,000 new connections were provided under this project.

With a strategic customer centric focus, the company has been consistently opening Customer Facilitation Centers (CFCs) to encourage timely bill payments. As a result of the Ehad Scheme that was launched in Dec'21, recovery improved significantly.

With these initiatives, the Company expects to bring significant improvements in key operational metrics in the distribution segment including reduction in T&D losses.

Recovery Ratio from Consumers: Cash flows of the Company are dependent on KE's recovery ratio. Various recovery initiatives undertaken by the Company have resulted in improved collection from residential consumers and public sector entities along with adjustment of Electricity Duty against KWSB receivables. Recovery of old but recently verified dues from KWSB will enhance recovery ratio.

	FY20	**FY21**	**H1' FY22**
Residential	90%	90%	89%
Commercial	97%	97%	97%
Industrial	95%	100%	101%
Agricultural	28%	22%	12%
Public	88%	98%	102%
Recovery Ratio	**92%**	**95%**	**95%**

Financial Risk Profile

Revenues & profitability indicators have depicted improvement post revival in overall economy post relaxations in lockdown amidst COVID-19. Going forward, strong revenue growth is envisaged on the back of positive economic growth differential, while profitability indicators will improve in tandem with reduction in T&D losses.

Number of units billed increased by 13% during FY21 with a growth trajectory of 4.7% in HY22. Consequently, revenue base of the company has followed an upward movement on a timeline basis. Gross margins increased in FY21 as a result of improvement in operational metrics. However, margins declined in HY22 on account of increase in gas prices.

	FY19	FY20	FY21	H1'FY21	H1'FY22
Units Billed (Units in GWh)	14,318	14,277	16,069	8,344	8,732
Units Billed Growth	3.30%	-0.30%	12.55%	5.5%	4.7%
Revenue (in PKR' Billions)	289.1	288.8	325.0	153.4	217.4
Gross Profit (in PKR' Billions)	50.7	43.9	59.2	29.9	33.2
T&D Losses	19.10%	19.70%	17.50%	14.9%	13.0%

Growth in the short to medium term horizon is expected to be strong on account of positive economic growth differential. KE's sizeable revenue base is a key rating consideration. Improvement in gross margin will mainly emanate from continued reduction in T&D losses. While long outstanding receivables from GoP do represent an increase in credit risk; however, within the domestic context, GoP's credit profile is considered highest credit quality and as such related impairment has not been taken into consideration. As per management, net receivables from GoP will trend down, as result of increase in payables to GoP mainly in lieu of additional planned power purchase.

Given sizable increase in Government receivables, working capital requirement peaked in FY21; however reduced benchmark rates lowered the financial cost burden on the company's bottom-line. Cash flow coverages on the other hand continued to improve in tandem. Although sizable government receivables continue to restrict the bottom-line.

	FY19	FY20	FY21	HY22
Debt	**129.5**	**155.6**	**184.3**	**208.5**
- Long Term	57.6	83.0	77.3	110.0
- Short Term	71.9	72.5	107.0	98.4
Operating Margin	**5.20%**	**5.90%**	**8.14%**	**5.30%**
PBT Margin	**3.10%**	**0.10%**	**4.72%**	**2.39%**
Funds From Operation (FFO)	**42.2**	**25.4**	**44.6**	**15.9**
FFO to Debt	**32.6%**	**16.3%**	**24.2%**	**15.3%**
FFO to Long Term Debt	**73.3%**	**30.6%**	**57.7%**	**28.9%**
DSCR	**3.21**	**1.61**	**2.25**	**1.4**
Trade Debts to Short Term Borrowings	**1.39**	**1.38**	**0.98**	**0.89**
*** Annualized**				

- Overall profitability in HY22 was further impacted by higher impairment loss against trade debts, provisioning against negative mid-term tariff review and exchange loss on liabilities accumulating to the tune of Rs. 12.4b.

- KE's net working capital requirement has continued to swell on account of the significant quantum of Government receivables, which amounted to Rs. 73b as of Dec'21.
- The resultant increase in quantum of debt; however lower benchmark rates prevailing during FY21 supported the bottom-line by around Rs. 5b.
- Improving margins and support from lower finance costs enhanced cash flow coverages in FY21. However, due to one-off impacts on profitability discussed above, cash flow coverages (on an annualized basis) weakened in HY22 with the same projected to improve going forward.
- Going forward, given expected increase in consumer tariff, generation fleet efficiency and additional power purchase from GoP, cash flows are likely to improve during the rating horizon.
- Short term borrowings of the Company remaining adequately covered by trade debts.

Leverage indicators have increased, as a result of increase in debt

In Times	Jun'19	Jun'20	June'21	Dec'21
Gearing	**0.9**	**1.0**	**1.1**	**1.2**
Leverage (excluding revaluation surplus)	**2.6**	**3.3**	**3.6**	**3.9**

- Capitalization indicators of the Company have continued to swell, indicating higher debt utilization. As of Dec'21, the Company's total capital structure financed by debt stood at 48%.
- Going forward, debt levels and leverage indicators are projected to increase over the rating horizon as additional debt is being undertaken mainly to fund planned investments. Gearing levels are likely to peak at around ~1.52(x) by end-FY22 but are then projected to decline to 1.2(x) by end-FY24.

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

- KE is routing collections from specific bank collection account(s) into the MCA. 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 and growing cash flows that are being routed through MCA is a key rating strength and provides strong coverage for debt payments being undertaken through the MCA.

Reaffirmation of Sukuk 4 (Rs. 22b)

- Sukuk 4 was issued by KE in FY15 and funds raised from this Sukuk amounted to Rs. 22b. It possesses a tenor of 7 years, with a grace period of 2 years. It is structured as a diminishing musharaka arrangement and carries an interest rate of 3 month KIBOR plus 1%.

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).

Preliminary Ratings of Sukuk 6 (Rs. 12b)

- KE plans to issue a privately placed DSLR listed Sukuk by May'22 to the tune of Rs. 12b (inclusive of a green-shoe option of Rs. 4b). The purpose of the Sukuk is to meet permanent working capital needs and shall reduce short-term debt post issuance. 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%. Profit will be payable quarterly in arrears calculated on a 365 day year basis on the outstanding principal amount. The first such profit payment will fall due three (03) months from the Issue date and subsequently every three (03) months thereafter. Assigned ratings of the instrument incorporates the MCA (Master Collection Account) in place. The Sukuk Issue shall be secured by:

- A first pari passu charge over the Hypothecated Properties, in favour of the Sukuk Issue Agent for the benefit of Sukuk holders with a 25% margin over the outstanding Issue Amount.
- A first pari passu hypothecation charge over the Hypothecated Collections, Accounts and Deposits in favour of the Sukuk Issue Agent for the benefit of Sukuk holders.
- A first pari passu charge by way of lien over the Hypothecated Accounts and Deposits in favour of the Sukuk Issue Agent for the benefit of Sukuk holders.
- A first charge by way of letter of lien over the balances available in the Sukuk Payment Account and master repayment account "MRA" in favour of the Sukuk Issue Agent for the benefit of Sukuk holders

K-Electric Limited Appendix I

FINANCIAL SUMMARY *(amounts in PKR billions)*					
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**	**1HFY22**
Fixed Assets	277.4	326.5	361.0	424.1	439.5
Investments	-	-	3.0	3.0	3.2
Stores, spares and loose tools	11.5	12.1	13.0	16.1	20.7
Trade Debts	115.4	99.9	99.8	104.7	87.5
Cash & Bank Balances	1.1	2.7	3.1	2.4	1.2
Total Assets	473.7	598.9	703.4	835.7	903.0
Trade and Other Payables	140.5	190.8	267.6	353.9	388.2
Long Term Debt *(*incl. current maturity)*	31.5	57.6	83.0	77.3	110.0
Short Term Debt	41.3	71.9	72.5	107.0	98.4
Total Debt	72.8	129.5	155.6	184.3	208.5
Paid Up Capital	96.3	96.3	96.3	96.3	
Total Equity *(*excluding surplus)*	153.2	148.8	151.4	168.0	173.4
Total Equity *(*including surplus)*	207.3	214.5	210.7	224.0	227.3
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**FY21**	**1HFY22**
Revenue	217.1	289.1	288.8	325.0	217.4
Gross Profit	45.3	50.7	43.9	59.2	33.2
Operating Profit	17.0	15.2	17.1	26.5	11.5
Profit Before Tax	13.7	8.9	0.4	15.3	5.2
Profit After Tax	12.3	17.3	(3.0)	12.0	3.3
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**FY21**	**1HFY22**
Gross Margin (%)	20.9%	17.5%	15.2%	18.2%	15.3%
FFO	44.0	42.2	25.4	44.6	15.9
CFO	19.3	(16.9)	21.9	42.3	(5.1)
FFO to Total Debt (%)	60.5%	32.6%	16.3%	24.2%	15.3%
FFO to Long Term Debt (%)	139.9%	73.3%	30.6%	57.7%	28.9%
CFO to Total Debt (%)	26.6%	-13.0%	14.1%	22.9%	-4.9%
Debt Servicing Coverage Ratio (x)	4.1	3.2	1.6	2.2	1.4
Gearing (x) (excluding revaluation surplus)	0.48	0.87	1.03	1.10	1.20
Current Ratio (x)	0.95	0.95	0.92	0.81	0.86
ROAA (%)	2.8%	3.2%	-0.5%	1.6%	0.8%
ROAE (%)	8.5%	11.4%	-2.0%	7.5%	3.9%

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				
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-4			
29-Apr-2022	AA+	Stable	Reaffirmed
26-July-2021	AA+	Stable	Reaffirmed
26-Oct-2020	AA+	Stable	Reaffirmed
14-Oct-2019	AA+	Stable	Reaffirmed
25-Feb-2019	AA+	Rating Watch - Developing	Reaffirmed
03-Mar-2018	AA+	Rating Watch - Developing	Maintained
30-Dec-2015	AA+	Stable	Reaffirmed
26-Mar-2015	AA+	Stable	Final
29-Jan-2015	AA+	Stable	Preliminary

Rating Date	Medium to Long Term	Rating Outlook	Rating Action
RATING TYPE: SUKUK-5 (Rs. 25b)			
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. 12b)			

<table>
<tr><td></td><td><table><tr><td>29-Apr-2022</td><td>AA+</td><td>Stable</td><td>Preliminary</td></tr></table></td></tr>
<tr><td>Instrument Structure</td><td>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 seven years (inclusive of a grace period of two years).

Sukuk 4: Sukuk 4 was issued by KE in FY15 and funds raised from this Sukuk amounted to Rs. 22b. It possesses a tenor of 7 years, with a grace period of 2 years. It is structured as a diminishing musharaka arrangement and carries an interest rate of 3 month KIBOR plus 1%

Sukuk 6: KE plans to issue Sukuk 6 in May’22 which will raise funds amounting to Rs. 12b. It will possess a tenor of 7 years, with a grace period of 2 years. It is structure as a diminishing musharaka arrangement and will carry profit rate of 3 month KIBOR plus 1.7%.</td></tr>
<tr><td>Statement by the Rating Team</td><td>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.</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 29, 2022</td></tr><tr><td>Mr. Abdul Muqeet Husain</td><td>General Manager- Funds Management & Planning</td><td>March 29, 2022</td></tr><tr><td>Mr. Sheharyar Ahmed</td><td>Manager- Funds Management</td><td>March 29, 2022</td></tr></table></td></tr>
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