

## RATING REPORT

## K-Electric Limited – Short term Sukuk-9

**REPORT DATE:**

September 19, 2022

RATING DETAILS	Preliminary
	Short-Term
K-Electric Limited – STS-9 (5b)	A-1+
Rating Date (STS-9)	September 19, 2022
Rating Action	Preliminary

**RATING ANALYSTS:**

Asfia Aziz

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## COMPANY INFORMATION

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

## APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporate (August 2021)

<https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf>

Rating The Issue (July 2020)

<https://docs.vis.com.pk/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 Chairman**

Mark Skelton is a Managing Director with Alvarez & Marsal's (A&M) Advisory practice in London. He brings more than 20 years of experience in corporate finance and advisory. His primary areas of concentration are cross boarder assignments, many of which involve complex stakeholder groups crossing different legal jurisdictions and waterfall classes. Mr Skelton has undertaken senior roles on numerous major UK, US, European, Emerging Markets, and Australian projects across a range of industries, including energy, power, industrials, mining, financial services, automotive, retail, property and telecommunications. Prior to joining A&M, Mr. Skelton's held senior positions in a leading independent restructuring advisory and a Big 4 firm. Mr. Skelton is a member of the Institute of Chartered Accountants in 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

**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 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.

**Short Term Sukuk Issuance**

- KE plans to raise a rated, unsecured, privately placed Short-term Sukuk (STS-9) amounting upto Rs. 5b to finance working capital requirements of the company
- Tenor of the instrument is upto 6 months from the date of drawdown, with repayment by way of a single bullet payment.
- Indicative rate on the instrument would be 6M KIBOR + 140 bps

**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.
- 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.
- 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.

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

<b>FINANCIAL SUMMARY</b> <i>(amounts in PKR billions)</i>					
<b>BALANCE SHEET</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>9MFY22</b>
Fixed Assets	277.4	326.5	361.0	424.1	452.3
Investments	-	-	3.0	3.0	3.2
Stores, spares and loose tools	11.5	12.1	13.0	16.1	19.9
Trade Debts	115.4	99.9	99.8	104.7	97.6
Cash & Bank Balances	1.1	2.7	3.1	2.4	2.3
<b>Total Assets</b>	<b>473.7</b>	<b>598.9</b>	<b>703.4</b>	<b>835.7</b>	<b>951.0</b>
Trade and Other Payables	140.5	190.8	267.6	353.9	425.9
Long Term Debt <i>(*incl. current maturity)</i>	31.5	57.6	83.0	77.3	117.3
Short Term Debt	41.3	71.9	72.5	107.0	101.5
<b>Total Debt</b>	<b>72.8</b>	<b>129.5</b>	<b>155.6</b>	<b>184.3</b>	<b>218.8</b>
Paid Up Capital	96.3	96.3	96.3	96.3	
Total Equity <i>(*excluding surplus)</i>	153.2	148.8	151.4	168.0	172.5
Total Equity <i>(*including surplus)</i>	207.3	214.5	210.7	224.0	225.4
<b>INCOME STATEMENT</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>9MFY22</b>
Revenue	217.1	289.1	288.8	325.0	311.6
Gross Profit	45.3	50.7	43.9	59.2	43.7
Operating Profit	17.0	15.2	17.1	26.5	14.0
Profit Before Tax	13.7	8.9	0.4	15.3	4.3
Profit After Tax	12.3	17.3	(3.0)	12.0	1.5
<b>RATIO ANALYSIS</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>9MFY22</b>
Gross Margin (%)	20.9%	17.5%	15.2%	18.2%	14.0%
FFO	44.0	42.2	25.4	44.6	17.0
CFO	19.3	(16.9)	21.9	42.3	(2.1)
FFO to Total Debt (%)	60.5%	32.6%	16.3%	24.2%	10.4%
FFO to Long Term Debt (%)	139.9%	73.3%	30.6%	57.7%	19.3%
CFO to Total Debt (%)	26.6%	-13.0%	14.1%	22.9%	-1.2%
Debt Servicing Coverage Ratio (x)	4.1	3.2	1.6	2.2	1.1
Gearing (x) (excluding revaluation surplus)	0.48	0.87	1.03	1.10	1.27
Current Ratio (x)	0.95	0.95	0.92	0.81	0.86
ROAA (%)	2.8%	3.2%	-0.5%	1.6%	0.2%
ROAE (%)	8.5%	11.4%	-2.0%	7.5%	1.2%

## ISSUE/ISSUER RATING SCALE &amp; DEFINITIONS

## Appendix II

## VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERSMedium 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](http://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](http://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](http://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 III		Appendix								
<b>Name of Rated Entity</b>	K-Electric Limited									
<b>Sector</b>	Power									
<b>Type of Relationship</b>	Solicited									
<b>Purpose of Rating</b>	STS-9 Issuance									
<b>Rating History</b>	<table border="1"> <thead> <tr> <th>Rating Date</th> <th>Short Term</th> <th>Rating Action</th> </tr> </thead> <tbody> <tr> <td colspan="3" style="text-align: center;"><b>RATING TYPE: STS-9 (Rs. 5b)</b></td> </tr> <tr> <td>19-Sep-2022</td> <td>A-1+</td> <td>Preliminary</td> </tr> </tbody> </table>	Rating Date	Short Term	Rating Action	<b>RATING TYPE: STS-9 (Rs. 5b)</b>			19-Sep-2022	A-1+	Preliminary
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19-Sep-2022	A-1+	Preliminary								
<b>Instrument Structure</b>	<b>K ELECTRIC LIMITED – STS-9:</b> KE is raising Rs. 5b to finance working capital requirements of the company, by way of Short Term Sukuk issuance. Tenor of the STS is 6 months, with repayment by way of a single bullet payment. . Indicative rate on the instrument would be 6-month KIBOR + 140 bps.									
<b>Statement by the Rating Team</b>	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.									
<b>Probability of Default</b>	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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