

## RATING REPORT

## K-Electric Limited – Short Term Sukuk-15

**REPORT DATE:**

March 29, 2023

RATING DETAILS	Final	Preliminary
	Short-Term	Short-Term
K-Electric Limited – STS-15 (5b)	A-1+	A-1+
Rating Date (STS-15)	March 29, 2023	March 16, 2023
Rating Action	Final	Preliminary

**RATING ANALYSTS:**

Tayyaba Ijaz, CFA  
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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**

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 has raised a rated, unsecured, privately placed Short-term Sukuk (STS-15) amounting Rs. 5b to finance working capital requirements of the company on March 21, 2023.
- Tenor of the instrument is up to 6 months from the date of drawdown and will be redeemed in bullet at the expiry of tenor;
- Rate on the instrument would be 6M KIBOR + 50 bps per annum;
- The maturity of the instrument falls on September 21, 2023;
- Upon review of executed legal documents and issuance of the instrument, rating has been 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% amid economic slowdown. In addition, higher cost of fuel and electricity led to substantial decline in gross profitability.
- All time high inflation has considerably impacted the consumer's ability to pay which is reflected in sizeable increase in impairment loss booked during 1HFY23.
- Accumulated receivables from Government, continued to strain the working capital of the Company. Increase in fuel prices and non-provision of local gas supply to KE have led to augmentation in Tariff Differential Subsidy (TDS) claims receivables from GoP. Further, increase in effective borrowing rate to 17% from 9.4% in the preceding period, 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 variations.
- The Company operates under regulated tariff and as per current MYT effective from July 01, 2016, no adjustment is provided to the Company in tariff for changes in sent-out and policy rates. KE was awarded an integrated MYT by NEPRA for a control period of 7 years which will expire in June, 2023. In the backdrop of learnings from the current MYT, and the ongoing changes in power sector including, distribution and supply business being separate licensed activities, implementation of Competitive Trading Bilateral Contract Market (CBBCM) and the proposed country-wide central economic dispatch, KE has filed for separate tariffs for each business segment.
- FY23 is expected to remain a challenging year due to several macroeconomic challenges and external issues. Leverage indicators are projected to increase, going forward, as additional loan would be required to fund planned investments in transmission and distribution, being undertaken over the next control period from FY24 to FY30, valued at around Rs. 484b.

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

Financial Summary (in PKR billions)				
<b>BALANCE SHEET</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>1HFY23</b>
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	435.5
Cash & Bank Balances	3.1	2.4	2.8	4.1
<b>Total Assets</b>	<b>703.4</b>	<b>835.7</b>	<b>1,060.1</b>	<b>1,103.5</b>
Trade and Other Payables	267.6	353.9	439.3	480.4
Long Term Debt ( <i>incl. current maturity</i> )	83.0	77.3	175.6	183.4
Short Term Debt	72.5	107.0	107.5	121.7
<b>Total Debt</b>	<b>155.6</b>	<b>184.3</b>	<b>283.1</b>	<b>305.1</b>
Paid Up Capital	96.3	96.3	96.3	96.3
Tier-1 Equity ( <i>excluding surplus</i> )	151.4	168.0	180.5	156.2
<b>Total Equity</b>	<b>210.7</b>	<b>224.0</b>	<b>250.2</b>	<b>223.1</b>
<b>INCOME STATEMENT</b>				
	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>1HFY23</b>
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)
<b>RATIO ANALYSIS</b>				
	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>1HFY23</b>
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)	1.0
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%	-9.5%	1.9%*
Debt Servicing Coverage Ratio (x)	1.6	2.2	1.9	0.7
Gearing (x) (excluding revaluation surplus)	1.03	1.10	1.57	1.95
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

## 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](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		Appendix III												
<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-15 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-15 (Rs. 5b)</b></td> </tr> <tr> <td>29-Mar-2023</td> <td>A1+</td> <td>Final</td> </tr> <tr> <td>16-Mar -2023</td> <td>A-1+</td> <td>Preliminary</td> </tr> </tbody> </table>		Rating Date	Short Term	Rating Action	<b>RATING TYPE: STS-15 (Rs. 5b)</b>			29-Mar-2023	A1+	Final	16-Mar -2023	A-1+	Preliminary
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<b>Instrument Structure</b>	<b>K ELECTRIC LIMITED – STS-15:</b> KE has raised 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 + 50 bps.													
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