

## RATING REPORT

## K-Electric Limited – Short Term Sukuk-20

**REPORT DATE:**

September 20, 2023

## RATING DETAILS

Preliminary

Short-Term

K-Electric Limited – STS-20 (5b)

A-1+

Rating Date (STS-20)

Sep 20, 2023

Rating Action

Preliminary

**RATING ANALYSTS:**

Husnain Ali

[husnain.ali@vis.com.pk](mailto:husnain.ali@vis.com.pk)

## COMPANY INFORMATION

Incorporated in 1913

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

Public Limited Company

Chairman: Mr. Mark Gerald Skelton

Key Shareholders (with stake 5% or more):

Chief Executive Officer: Syed Moonis Abdullah Alvi

KES Power Limited – 66.40%

Government of Pakistan – 24.36%

## APPLICABLE METHODOLOGY

Applicable Rating Criteria: Industrial Corporate (May 2023)

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

Rating The Issue (August 2023)

<https://docs.vis.com.pk/docs/Rating-the-Issue-Aug-2023.pdf>

VIS Rating Scale

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

**Short Term Sukuk Issuance:**

- KE plans to raise a rated, unsecured, privately placed Short-term Sukuk (STS-20) amounting up to Rs. 5b (inclusive of green shoe option of Rs. 2b) to finance working capital requirements of the company.
- 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.
- Indicative rate on the instrument would be 6M KIBOR + 55 bps per annum.

**Financial Risk Profile:**

- Rising socio-political instability, devastating floods and macroeconomic challenges have negatively impacted the revenues and profitability of the company during 9MFY23. The units sent-out dropped by 5.8% due to overall economic slowdown in 1HY23 vis-à-vis CPLY.
- All time high inflation has considerably impacted the consumer's ability to pay which is reflected in sizeable increase in impairment loss booked during 9MFY23.
- 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 and higher levels of borrowing due to non-payment from Government entities resulted in net loss for the Company during 9MFY23.
- 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 expired 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 (CTBCM) and the proposed country-wide central economic dispatch, KE has filed for separate tariffs for each business segment.
- Under the proposed Tariff for the next period i.e., FY 2024 onwards, KE has proposed indexation mechanism to account for changes in the macroeconomic factors including exchange rate, CPI, KIBOR, LIBOR etc. Accordingly, cost of debt in the proposed tariff will reflect quarterly indexation of KIBOR / LIBOR or SOFR based on actual. Further, KE has requested annual revision in investments due to changes in exchange rate and CPI. With respect to recovery loss, KE has requested recovery loss allowance based on a proposed improvement trajectory. It is to be noted that the proposed structure and salient points under new MYT are in line with existing industry practices and current tariff structure offered to IPPs, therefore, the company expects that their requests bar minor adjustments will be accepted by NEPRA after their due process.
- FY23 was 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.

**Company Updates:**

- With regards to the latest quarterly tariff adjustment for K-Electric consumers, NEPRA has approved the adjustment till December 2022. NEPRA has conducted a hearing in respect of quarter ending March 2023 in May 2023 whereas hearing in respect of quarter ending June 2023 hearing is yet to be

conducted. The Company remains in continuous engagement with NEPRA to expedite the determination of pending quarterly tariff variations.

- K-Electric has filed separate tariff petitions for each of its business segments including Generation, Transmission & Distribution for the period FY24-30. KE's Tariff petition for Generation Segment has been admitted by NEPRA and currently proceedings are in an advanced stage regarding approval of the same. For the Transmission and Distribution tariff petition, KE has submitted an investment plan of Rs. 484b, and the proceedings for these are currently in their final stages. The approval for the investment plan which will be followed by Tariff petition for Transmission and Distribution business is expected to be completed in next couple of months.
- The overall control of the company vests in Board of Directors (BoD) which comprises of thirteen members including the CEO. The majority on the Board is controlled by KES Power Ltd. where Mr. Mark Gerard Skelton has been appointed by the BOD as Chairman. In October 2022, Mr. Boudewijn Clemens Wentink, Ch. Khaqan Saadullah Khan and Ms. Sadia Khurram resigned from the position of Non-Executive Directors resulting in casual vacancies on the Board. However, K-Electric cannot change its current Board composition in view of (i) an ad-interim order passed by the High Court of Sindh (SHC) in a suit filed by Al Jomaih Power Limited & Denham Investments Limited against IGCSPV 21 Limited and others; and (ii) a directive issued by Securities and Exchange Commission of Pakistan; restricting the company to make any change in composition of the Board. However, operations and management of KE continues to operate.
- KE has a vast distribution network all over the city which is not a concession but 100% owned by KE. In the past, KE was granted a 20 year distribution license which expired in July 2023. Currently, KE's distribution license application is under approval with NEPRA for final determination; to ensure uninterrupted supply of electric power to the consumers in the Service and Concessional Territories of KE, NEPRA has provisionally allowed extension for six months in distribution license. The management expects the same to be issued in due course on completion of procedural formalities at the NEPRA end.

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

FINANCIAL SUMMARY		<i>(amounts in PKR billions)</i>		
<b>BALANCE SHEET</b>	<b>FY21</b>	<b>FY22</b>	<b>9MFY22</b>	<b>9MFY23</b>
Fixed Assets	424.1	489.2	511.6	
Investments	3.0	2.9	2.9	
Stores, spares and loose tools	16.1	17.1	17.6	
Trade Debts	104.7	136.8	97.5	
Other Receivables	275.0	375.2	404.5	
Cash & Bank Balances	2.4	2.8	4.7	
<b>Total Assets</b>	<b>835.7</b>	<b>1,060.1</b>	<b>1,104.8</b>	
Trade and Other Payables	353.9	439.3	479.3	
Long Term Debt <i>(incl. current maturity)</i>	77.3	175.6	201.7	
Short Term Debt	107.0	107.5	115.4	
<b>Total Debt</b>	<b>184.3</b>	<b>283.1</b>	<b>317.1</b>	
Paid Up Capital	96.3	96.3	96.3	
Tier-1 Equity <i>(excluding surplus)</i>	168.0	180.5	145.2	
<b>Total Equity</b>	<b>224.0</b>	<b>250.2</b>	<b>210.8</b>	
<b>INCOME STATEMENT</b>	<b>FY21</b>	<b>FY22</b>	<b>9MFY22</b>	<b>9MFY23</b>
Revenue	325.0	518.8	311.6	368.1
Gross Profit	59.2	72.4	43.7	36.7
Operating Profit	26.5	20.8	14.0	(14.6)
Profit Before Tax	15.3	5.7	4.3	(36.0)
Profit After Tax	<b>12.0</b>	<b>8.6</b>	<b>1.5</b>	<b>(39.4)</b>
<b>RATIO ANALYSIS</b>	<b>FY21</b>	<b>FY22</b>	<b>9MFY22</b>	<b>9MFY23</b>
Gross Margin (%)	18.2%	14.0%	14.0%	10.0%
Net Margin (%)	3.7%	1.6%	0.5%	n.m.
FFO	44.2	48.3	95.6	40.1
CFO	42.3	(26.9)	(2.1)	20.7
FFO to Total Debt (%)	24.0%	17.0%	58.2%	16.8%*
FFO to Long Term Debt (%)	57.2%	27.5%	108.6%	26.5%*
CFO to Total Debt (%)	22.9%	n.m.	n.m.	8.7%*
Debt Servicing Coverage Ratio (x)	2.25	1.85	6.28	1.70
Gearing (x)	1.10	1.57	1.27	2.18
Debt Leverage (x)	3.64	4.49	4.21	6.16
Current Ratio (x)	0.81	0.91	0.85	0.85
ROAA (%)	1.6%	0.9%	0.6%	n.m.
ROAE (%)	7.5%	4.9%	3.6%	n.m.

\*Annualized

REGULATORY DISCLOSURE		Appendix II
<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-20 Issuance	
<b>Rating History</b>	<b>Rating Date</b>	<b>Short Term</b>
	<b>RATING TYPE: STS-20 (Rs. 5b)</b>	
	20 - Sep -2023	A-1+
		<b>Rating Action</b>
		Preliminary
<b>Instrument Structure</b>	<b>K ELECTRIC LIMITED – STS-20:</b> KE is raising up to Rs. 5b (inclusive of green shoe option of 2bn) 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 +55 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.	
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