

RATING REPORT

The Imperial Electric Company (Pvt.) Limited

REPORT DATE:

January 31, 2024

RATING ANALYSTS:

Saeb Muhammad Jafri

saeb.jafri@vis.com.pk

Muhammad Subhan

subhan@vis.com.pk

RATING DETAILS

Rating Category	Latest Rating	Previous Rating
Entity	A-/A-2	A-/A-2
Rating Date	January 31, 2024	February 06, 2023
Rating Outlook	Positive	Stable
Rating Action	Maintained	Initial

COMPANY INFORMATION

Incorporated in 1961	External auditors: Riaz Ahmad, Saqib, Gohar, & Co. Chartered Accountants
Private Limited Company	Chief Executive Officer: Mr. Tahir Rehman
Key Shareholders (with stake 5% or more):	
Mr. Usman Haq – 18.6%	
Mrs. Ayesha Noorani – 17.9%	
Mr. Tahir Rehman – 10.4%	
Mr. Saleem rehman – 10.0%	
Mr. Rafee Akber Rehman – 10.0%	
Mr. Reza Rehman – 9.5%	
Mr. Hamza Rehman – 9.5%	
Mr. Tariq Rehman – 9.4%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Corporates:

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

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

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

The Imperial Electric Company (Pvt.) Limited

OVERVIEW OF
THE INSTITUTION

RATING RATIONALE

The Imperial Electric Company (Pvt) Ltd. was incorporated in 1961 as a private limited company. The Company is involved in the manufacture, sale and installation of various types of electrical goods such as diesel generators, low-voltage circuit breakers, and lighting products.

Company Profile:

The Imperial Electric Company (Pvt.) Limited (“IEC” or “the Company”) is primarily engaged in the manufacture, installation and after-sale services of diesel generators as well as the distribution of low-voltage (LV) electrical components, lighting products and Airfield lighting systems for Aviation industry. The head office of the Company and its manufacturing plant are located in Lahore.

During the period, the IEC acquired 100% shareholding in EBR Energy Pakistan (Pvt.) Limited whereas the Company also owns 100%, 16%, and 1.6% shareholding of Textile Sourcing International (Pvt.) Limited, ICC (Pvt.) Limited, and EMCO Industries (Pvt.) Limited, respectively.

Key Rating Drivers:

Medium business risk profile characterized by limited competition, reliance on imported components, and long-term contracts with renowned telecom service providers.

VIS considers the business risk profile of the electrical equipment sector as medium, given the high barriers to entry resulting from capital-intensive nature of the industry. While this limits local competition, imported Chinese products exert considerable competitive pressure. Moreover, the industry's demand is volatile with major revenue coming from the projects of renowned telecom service providers and other private institutions.

The industry primarily generates revenue from the sale of diesel generators, low voltage (LV) electrical components, aviation services, and installation of solar systems. These capital and technology intensive products and services requires adequate availability of raw materials like alternators, engines, and breakers, majorly imported from countries like France, United Kingdom, and China. This dependency on the raw materials expose the industry to exchange rate volatility and additional risks such as the import restrictions faced by the country in FY23.

Assigned ratings consider the industry's supply pressures in FY23, intensified by challenges in opening Letter of Credit (LCs). These issues further impacted the industry's capacity utilization and disrupted revenue streams. Going forward, with ease in import restrictions these supply pressures are expected to subside in FY24.

Strain on profitability profile observed on account of raw material constraints in FY23; however, 1HFY24 depicts normalization.

Despite the commencement of solar sales in FY23, the Company reported a 12% decline in its topline on account of lower sales in its generator manufacturing and LV component segments. Sales were mostly hampered by unavailability of raw materials due to LC restrictions imposed by the government and SBP during this period. Resultantly, gross margins also depicted deterioration during the period under review while net margins were further

constrained by heightened finance costs due to an 825-bps increase in local policy rates in FY23.

However, in 1HFY24, as import restrictions eased and raw materials became available, the Company's operations normalized, leading to a recovery in gross profitability. IEC reported gross margins of 23.0% (FY23: 21.9%, FY22: 22.9%). Nonetheless, net margins remained constrained by higher finance burden at 6.1% (FY23: 7.2%, FY22: 8.6%)

IEC's conservative capitalization profile provides support to assigned ratings.

The Company has maintained a conservative capitalization profile over the years, showing a trend of gradual improvement. In FY23, while the leverage ratio remained unchanged at 0.6x (FY22: 0.6x), the gearing ratio slightly deteriorated to 0.3x (FY: 0.2x), albeit continuing to remain conservative. The Company sought higher short-term debt drawdown to meet its working capital needs as a result of build-up in receivables.

Nevertheless, as operational cash generation improved in 1HFY24, the Company reduced its dependence on short-term debt resulting in improved capitalization metrics. Gearing and leverage ratios were reported at 0.2x and 0.4x, respectively.

Ratings are also supported by the Company's maintenance of a healthy liquidity and coverage profile.

Historically, the Company has maintained healthy liquidity and coverage profile with a 3-Year average current ratio and debt service coverage ratio (DSCR) of 2.1x and 2.2x, respectively. In FY23, IEC's liquidity profile reported slight deterioration to 2.0x (FY22: 2.4x) before improving to 2.5x in 1HFY24. However, the DSCR, while maintaining sound coverage for the Company's obligations, decreased to 1.6x (FY23: 2.3x, FY22: 2.2x) in 1HFY24.

Considerations for Future Review

Going forward ratings will remain sensitive to the Company's ability to show further improvements to its profitability, capitalization, liquidity and coverage profiles in future reviews.

The Imperial Electric Company (Pvt.) Limited

Appendix I

REGULATORY DISCLOSURES					
Name of Rated Entity	The Imperial Electric Company (Pvt.) Limited				
Sector	Electrical Equipment				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	January 31, 2024	A-	A-2	Positive	Maintained
	February 06, 2023	A-	A-2	Stable	Initial
Instrument Structure	N/A				
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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Due Diligence Meetings Conducted	Name		Designation		Date
	1.	Mr. Kashif Butt	Chief Financial Officer		
	2.	Mr. Khalid Lateef	Senior Manager - Finance		
	3.	Mr. Abdul Rauf	Manager – Accounts		
18 th January 2024					