RATING REPORT

The Imperial Electric Company (Pvt.) Limited

REPORT DATE:

January 27, 2025

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Positive	
Rating Action	*Maintained*		*Maintained*	
Rating Date	*January 27, 2025*		*January 31, 2024*	

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") operates as a diversified entity with core business activities encompassing the manufacturing, installation, and after-sales service of diesel generators. In addition, the Company serves as a distributor of low-voltage (LV) electrical components, lighting solutions, and airfield lighting systems catering to the aviation industry. After acquiring complete ownership of EBR Energy Pakistan (Pvt.) Limited, the company has initiated Solar system sales since FY23. The Company's head office and manufacturing facility are strategically located in Lahore.

Additionally, the Company owns 100% of Textile Sourcing International (Pvt.) Limited, 16% of ICC (Pvt.) Limited, and 1.6% of EMCO Industries (Pvt.) Limited.

The Rehman family, one of the company's key shareholders, plays an active role in its operations. Tahir Rehman serves as the Chief Executive Officer, while his son, Raza Rehman, holds the position of Director of Operations.

Operational Update

Table 1: Capacity Utilization - Diesel Generators

	FY21	FY22	FY23	FY24
Production Capacity (KVA)	46,950	46,950	46,950	46,950
Actual Production (KVA)	29,540	22,490	9,077	10,474
Capacity Utilization (%)	62.9%	47.9%	19.3%	22.3%

The Company is an assembler of Diesel Generators. Main two key components for generator assembly are engine and alternators both of which are imported from Europe to meet high quality standards. The Company has an assembly site spanning over 3 acres. After witnessing a notable decline in FY23 which was due to import restrictions, the production levels of Diesel generators has posted some recovery with production of 10,474 units (FY23: 9,077) in FY24. Resultantly, the utilization levels also registered some improvement to 22.3% (FY23: 19.3%) in FY24, albeit remained lower than the previous levels of FY21 & FY22.

Key Rating Drivers:

The business risk profile is assessed as medium, driven by a combination of moderate competition, reliance on imported components, and long-term contracts with established telecom service providers.

The assigned ratings take into account the medium-risk nature of the electrical equipment sector, which is characterized by high barriers to entry due to the capital-intensive requirements of the industry. While these barriers limit local competition, the sector continues to face pricing pressures from Chinese imports.

Additionally, demand volatility persists, as revenue generation heavily depends on project-based orders from large telecom operators and private institutions.

Revenue in this sector primarily stems from diesel generators, low-voltage (LV) electrical components, aviation services, and solar system installations. Given the capital and technology-intensive nature of these products, the availability of key raw materials such as alternators, engines, and breakers—which are largely imported from countries including France, the UK, and China—remains critical. This dependency on imported components exposes the Company to exchange rate fluctuations and import-related risks, particularly in light of restrictions on Letter of Credit (LC) openings experienced in FY23.

The supply-side pressures observed in FY23, driven by import constraints, disrupted capacity utilization and adversely impacted revenue streams across the industry. However, by FY24 these supply pressures eased as import restrictions subsided as the forex situation in the country improved, thereby supporting the industry's operational recovery and improving overall business prospects. Looking forward, the favorable situation is expected to remain intact in FY25.

Recovery witnessed in topline during the review period

In FY24, the Company witnessed a recovery in topline performance, driven by the easing of import restrictions and improved availability of components and materials wherein the net sales registered a growth of 8% YoY. A notable increase in sales came from the LV electrical components segment while realization of revenues from solar PG contracts further supported the recovery.

The manufacturing (diesel generators) segment, which remains the largest contributor (FY24: 62.3%, FY23: 55.2%) to total sales, saw a notable recovery with a 22.2% increase in revenue, rising to PKR 1,378.6 million in FY24 (FY23: PKR 1,127.7 million). Efforts to diversify the Company's portfolio are evident in the introduction and growth of solar-related revenues. On a combined basis, solar revenue increased from PKR 30.1 million in FY23 to PKR 47.3 million in FY24, reflecting a 57.2% growth. Overall, the Company has maintained its core strength in the manufacturing segment (Diesel Generators) while focusing on diversification into high-growth areas such as LV electrical components and Solar systems.

Looking ahead, the Company expects a healthy sales growth of around 25-30% in FY25 supported by an order book that includes pipeline projects with a total contract value of PKR 5 billion. These projects involve key clients such as airports in Lahore and Karachi, as well as defense contracts.

IEC is the leading supplier of diesel generators to telecommunication companies. Top client of the Company is Jazz, which accounted for 47.7% of revenue historically. However, the concentration risk has been gradually improving, with Jazz's contribution decreasing to 31.0% in FY24 (FY23: 31.3%), largely due to increased business from the second-largest client, Huawei, whose share rose significantly to 30.9% in FY24 (FY23: 23.6%, FY22: 14.3%). While 9 customers still represent a substantial concentration risk of 79% in FY24, the Company is making steady progress towards diversifying its client base (FY23:80%, FY22: 83%).

Table 2: Segment wise Sales

Sales (PKR millions)	FY21	%	FY22	%	FY23	%	FY24	%
Manufacturing	1,599.4	73.2%	1,443.8	62.2%	1,127.7	55.2%	1,378.6	62.3%
Aviation	333.2	15.3%	478.6	20.6%	484.1	23.7%	327.9	14.8%
LV Electrical Components	184.9	8.5%	343.5	14.8%	377.8	18.5%	453	20.5%
Lighting	66.3	3.0%	55.8	2.4%	23.5	1.2%	5.6	0.3%
Solar	-		-		30.1	1.5%	23.2	1.0%
Solar PG Contract	-		-		-		24.1	1.1%
Total Sales	2,183.9	100.0%	2,321.7	100.0%	2,043.1	100.0%	2,212.5	100.0%

The Company witnessed a highest gross margin of 28.9% in FY24 (FY23: 21.9%, FY22: 22.9%), marking an improvement in profitability amid recovery in operations. Net margins also rose to 12.1% (FY23: 7.2%, FY22: 8.6%), supported by an increased share of profits from investments, better sales mix, and enhanced operational efficiency, which helped mitigate the impact of higher finance costs.

In 1HFY25, margins have registered a dip compared to FY24 albeit remained higher than FY23 and FY22 levels, owing to higher costs and an increased proportion of operating expenses. However, margins are expected to improve with expectation of higher sales supported by healthy order book.

Table 3: Profitability Ratios

Profitability Ratios	FY21	FY22	FY23	FY24	1HFY25
Gross Margin	27.8%	22.9%	21.9%	28.9%	24.8%
Operating Margin	5.3%	12.7%	12.8%	18.8%	12.3%
Net Margin	0.1%	8.6%	7.2%	12.1%	8.5%

The ratings are supported by the Company's strong liquidity. Cashflow & Debt Coverages remained sensitive to profitability changes

The Company has historically demonstrated a healthy liquidity position, reflected in a 3-year average current ratio of 1.89x. At end-FY24, the current ratio improved to highest level at 2.86x (FY23: 1.99x, FY22: 2.35x), indicating enhanced short-term liquidity management. In 1HFY25, the current ratio largely stayed intact at 2.81x, remaining adequately high supported by a mix of short-term investments and cash.

The Cash Conversion Cycle (CCC) increased to 150 days in FY24 (FY23: 142 days, FY22: 83 days), driven by higher inventory days at 93 days, partially offset by improved receivable days at 108 days. In 1HFY25, the CCC improved to 136 days as receivable days dropped to 84 days, reflecting the Company's efforts to streamline its collection period, though inventory days increased to 114 days due to higher inventory.

ST Debt coverage has improved to 4.89x in FY24 (FY23:2.85) and further to 6.62x at 1HFY25, this is due to company's focus to reduce short term debt during the review period.

Improvement in profitability led to enhancement in cashflow coverages, Funds from Operations (FFO) rose to PKR 218.20 million in FY24, improving FFO/Total Debt to 0.82x and FFO/Long-Term Debt to 4.45x. However, in 1HFY25, annualized FFO declined to PKR 86.37 million, leading to a reduction in Cashflow coverages, albeit remained at manageable levels.

The Company's debt servicing capability, as indicated by the DSCR, improved in FY24 to 2.40x (FY23: 2.28x, FY22: 2.29x), reflecting operational improvements. In 1HFY25, the DSCR declined to 0.90x due to lower FFO and increased current portion, however, the comfort has drawn from ample liquidity available to service debt obligations. Adjusted DSCR of the Company stood at 2.13x during 1HFY25.

Table 4: Liquidity & Cashflow Indicators

	FY21	FY22	FY23	FY24	1HFY25
Cash Conversion Cycle (Days)	189	83	142	150	136
- Receivable Days (Days)	146	62	132	108	84
- Inventory Days (Days)	181	89	72	93	114
- Payable Days (Days)	137	68	62	51	62
Current ratio (x)	1.32	2.35	1.99	2.86	2.81
FFO (Rs. in m.)*	76.56	327.14	158.17	218.20	86.37
FFO/ Total Debt (x)*	0.15	1.31	0.39	0.82	0.32
FFO/Long Term Debt (x)*	0.66	2.54	3.88	4.45	0.71
DSCR (x)*	0.83	2.29	2.28	2.40	0.90

**Annualized*

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 as it continued to reduce its dependence on short term debt. At end-1HFY25, the gearing and leverage ratio improved to 0.17x (end-FY24: 0.37x, end-FY23: 0.62x) and 0.39x (end-FY24: 0.18x, end-FY23: 0.34x), respectively. Going forward, maintenance of capitalization profile will remain important from the ratings perspective and the company is incorporating short term investments as part of its liquid assets.

Table 5: Capitalization Indicators

Capitalization Indicators	FY21	FY22	FY23	FY24	1HFY25
Net Equity (Exc, Revaluation)	769	1,049	1,188	1,464	1,561
- Paid-up Capital	75	75	75	75	75
- Reserves & unappropriated profits	694	974	1,113	1,389	1,486
Debt	511	250	410	265	273
- Long Term	116	129	41	49	121
- Short Term	395	121	369	216	152
Total Liabilities	873	671	735	545	611
Gearing (x)	0.7	0.2	0.3	0.2	0.2
Leverage (x)	1.1	0.6	0.6	0.4	0.4

Financial Summary Appendix I

Balance Sheet	FY22	FY23	FY24	1HFY25	PFY25
Property, Plant & Equipment	534	540	541	534	541
Stock in Trade	435	314	402	508	516
Trade Debts	396	737	652	496	687
Short term investments	100			140	200
Cash & Bank Balances	13	64	46	91	30
Total current assets	1,382	1,365	1,371	1,528	2,010
Total Assets	2,099	2,293	2,381	2,538	3,088
Trade Payables	335	271	220	278	344
Short Term Borrowings	121	369	216	152	175
Long-Term Borrowings	25	2	13	14	350
Total Borrowings	146	371	229	165	526
Total Liabilities	671	735	545	611	932
Equity (ex revaluation surplus)	1,049	1,188	1,464	1,561	1,784
Income Statement	**FY22**	**FY23**	**FY24**	**1HFY25**	**PFY25**
Net Sales	2,322	2,043	2,212	1,071	2,784
Gross Profit	532	446	639	258	690
Operating Profit	294	262	416	131	427
Profit Before Tax	266	211	324	91	324
Profit After Tax	200	148	267	91	324
FFO	327	158	218	43	354
Ratio Analysis	**FY22**	**FY23**	**FY24**	**1HFY25**	**PFY25**
Gross Margin (%)	22.9%	21.9%	28.9%	24.1%	24.8%
Net Margin (%)	8.6%	7.2%	12.1%	8.5%	11.6%
Current Ratio	2.35	1.99	2.86	2.81	3.80
Receivable Days	62	132	108	84	90
Inventory Days	89	72	93	114	90
Payable Days	68	62	51	62	60
Cash conversion cycle	83	142	150	136	120
FFO to Long-Term Debt*	2.54	3.88	4.45	0.71	4.62
FFO to Total Debt*	1.31	0.39	0.82	0.32	1.40
Debt Servicing Coverage Ratio (x)*	2.29	2.28	2.40	0.90	4.18
ROAA (%)*	9.54%	6.73%	11.43%	7.41%	11.50%
ROAE (%)*	19.08%	13.20%	20.14%	12.04%	19.34%
Gearing (x)	0.24	0.34	0.18	0.17	0.14
Leverage (x)	0.64	0.62	0.37	0.39	0.52
Inventory + Receivables/Short-term Borrowings	6.87	2.85	4.89	6.62	6.85

****Annualized***

The Imperial Electric Company (Pvt.) Limited — Appendix II

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
RATING TYPE: ENTITY				
January 27, 2025	A-	A-2	Stable	Maintained
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.
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Due Diligence Meetings Conducted

	Name	Designation	Date
1.	Mr. Kashif Butt	Chief Financial Officer	9th January 2025
2.	Mr. Khalid Lateef	Senior Manager - Finance	
3.	Mr. Abdul Rauf	Manager – Accounts	