



Rating Action

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PACRA MAINTAINS RATINGS OF PAK ELEKTRON LIMITED

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and the short-term entity ratings of PEL at ‘A’ (Single A) and ‘A1’ (A One), respectively. The rating of the privately-placed secured Term Finance Certificates issue of PKR 500mln has also been maintained at “A” (Single A). Meanwhile, the ratings of the privately placed secured *Sukuk* issue of PKR 1,200mln and first two tranches (amounting to PKR 1,100mln) of PKR 2,000mln are maintained at “A+” (single A plus). These ratings denote a low expectation of credit risk emanating from a strong capacity for timely payments of financial commitments.

The ratings reflect PEL’s established position in the domestic power engineering and home appliances segments. The ratings also take into account the company’s diversified revenue base emanating from a wide product range that helps in maintaining robust margins in an increasingly competitive environment. Meanwhile, the management has placed greater emphasis on product development, while focusing on quality, to align its strategy to the changing market dynamics. However, PEL’s financial leverage is expected to remain high as the company accumulates additional debt to meet its capex and working capital requirements.

The company: PEL, incorporated in 1956, is listed on all the stock exchanges in Pakistan. Saigol Group, who acquired the majority ownership in PEL in 1978, has diversified business interests in textile and energy sectors. While effectively family controlled, the company is run by professional management.

TFC issue: PEL issued a privately placed secured TFCs of PKR 500mln in Jun07 for a tenor of 5 years, carrying profit at the rate of 6-months KIBOR plus 325bps, payable semi-annually. Principal redemption of the TFC would be in six equal semi-annual installments commencing from the 30th month after the issuance (Dec09). The instrument is secured by way of first pari passu charge over all current and fixed assets of the company. A reserve fund of PKR 50mln, created out of issue amount, will be maintained till the final redemption.

Sukuk issues: The company also has in issue a secured privately-placed *Sukuk* of PKR 1,200mln based on diminishing *Musharakah*. The *Sukuk*, issued in Sep07, is for a tenor of 5 years (inclusive of 18 months grace period) carrying profit at the rate of 3-months KIBOR plus 175bps, with a floor of 10% and a cap of 25%, payable quarterly in arrears. The instrument is secured by way of first pari passu charge on specific assets of the company with a 25% margin. PEL intends to issue its second secured privately-placed *Sukuk* of PKR 2,000mln. The *Sukuk* is for a tenor of 7 years, with a 3 years grace period, carrying profit at the rate of 3-months KIBOR plus 100bps, with a floor of 8% and a cap of 16%, payable quarterly in arrears. Currently, the company is in the process of issuing first two tranches of PKR 500mln and PKR 600mln each, out of the total issue. These tranches are secured by way of ranking charge to be upgraded to first pari passu charge within 120 days on present and future plant and machinery of the company with 25% margin.

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