



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. Meanwhile, the ratings of the privately placed secured *Sukuk* issues of PKR 1,200mln and PKR 1,100mln 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 appliances and power sectors and ensuing diversified revenue stream that insulates the company from inherent cyclical fluctuations. The ratings take into account the management’s cognizance of product development and technological upgradation to withstand intense competition and changing business dynamics. Meanwhile, financial profile of the company remains under pressure due to high leveraging and maturity mismatches in debt structure.

The company’s ability to sustain its competitive position, while sustaining its margins, is critical. Moreover, successful execution of recent business initiatives – expansion in power division and strategic partnership with LG – would be important. Meanwhile, maintaining leveraging at an acceptable level and proactive debt management remains crucial. Furthermore, unfavorable credit term changes with WAPDA and KESC, leading to stressed cashflows may have negative rating implications.

The company: PEL, incorporated in 1956, is listed on all the stock exchanges in Pakistan. Saigol Group, which acquired the majority ownership (~ 53% at end-09) in PEL in 1978, has business interests in textile and energy sectors. While effectively family controlled, the company is run by professional management.

Sukuk issues: The company 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 principal redemption, to be done in fourteen equal quarterly installments begun in Jun 09. The instrument is secured by way of first pari passu charge on specific assets of the company with a 25% margin. PEL issued its second secured privately-placed *Sukuk* of PKR 1,100mln in Jun 08 for a tenor of 7 years, with a 3 years grace period. The instrument carries profit at the rate of 3-months KIBOR plus 100bps, with a floor of 8% and a cap of 25%, payable quarterly in arrears. The principal would be repaid in sixteen quarterly installments beginning Jun 11. The instrument is secured by way of first pari passu charge on specific assets of the company.

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