



**Rating Action**

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**PACRA REVISES RATINGS OF PAK ELEKTRON LIMITED**

The Pakistan Credit Rating Agency (PACRA) has revised the long-term and the short-term entity ratings of PEL to 'A-' (Single A minus) and 'A2' (A Two), respectively [Previous: A/A1]. Meanwhile, the ratings of the privately placed secured Sukuk issues of PKR 1,200m1n and PKR 1,100mln have been revised to "A" (single A) [Previous: A+]. These ratings denote a low expectation of credit risk emanating from a strong capacity for timely payments of financial commitments.

The ratings reflect diverse businesses - power equipments and home appliances - of PEL, but these are also exposed to seasonality and cyclicity. Consequently, the company has complex working capital management and seasonal cashflows. Meanwhile, the challenging financial risk is magnified by PEL's high leveraged capital structure.

Lately, PEL's financial profile has been under stress due to pile up of certain appliances inventory and slow ordering in power division. Cognizant of ensuing pressure on its debt coverages, the company, with the consent of majority of its lenders is obtaining a grace period of two years on most of its long term borrowings, without entering into any debt restructuring unfavorable to the lenders. This relief, while supporting debt coverages in the short-term, would allow the company to utilize the funds to boost its core operations. Meanwhile, business profile has started to improve as reflected in recent resumption of PEL's high margin power business and inventory dilution in appliances division.

The ratings would depend on the company's ability to effectively utilize the grace period for improving its financial risk profile. Meanwhile, efficient working capital management, while reducing overall leveraging as planned, would remain important. The ratings would remain under Rating Watch till finalization of on going debt rescheduling.

**The company:** PEL, incorporated in 1956, is listed on all the stock exchanges in Pakistan. The company is now majority owned (~ 53% at end Mar11) by Saigol Group, which has business interests in textile and energy sectors. While effectively family controlled, the company is run by professional management.

**Sukuk issues:** The company issued a secured privately-placed Sukuk of PKR 1,200m1n based on diminishing Musharakah in Sep07 for a tenor of 5 years, 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 in fourteen equal quarterly installments began in Jun-09. The remaining six installments (PKR 514mln) have been rescheduled for two years recommencing from Jun-13 with final redemption in Sep-14

PEL issued its second secured privately placed Sukuk of PKR 1,100mln in Jun-08 for a tenor of 7 years. 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 instrument originally had 3 years grace period which is now extended by another 1 and half years. The principal redemption in sixteen quarterly installments will commence from Jun-13 with full redemption planned in Mar-17.

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