The Pakistan Credit Rating Agency Limited

Rating Report

Pak Elektron Limited | PPSTS | PKR 2bln | TBI

Report Contents

Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
11-Jan-2024	A+	A1	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

Pak Elektron Limited (‘PEL or ‘the Company) is an eminent engineering corporation in Pakistan which manufactures a range of household appliances and electrical equipment. The ratings reflect PEL’s diversified revenue stream and long-established presence in appliances and power division including, power & distribution transformers, energy meters, and switch gears. In ongoing financial year, the household appliances segment is facing considerable performance challenges owing to high inflation, low FX reserves, policy hikes, and reduced energy subsidies. On the other hand, the emerging challenges to the growth of power division market are high cost of parts/appliances and evolving technology. From demand perspective, in household appliances, it is generated from both first-hand and second-hand markets whilst power sector primarily drives its demand from new projects/orders. Barriers to market entry are moderate-to-high as it is dominated by established brands and requires extensive capital investment. In 9MCY23, the Company recorded topline of PKR 30.6bln (9MCY22: PKR 43.3bln) with net profit locked at PKR 946mln (9MCY22: 1,498mln). PEL’s topline is a mix of ~56.45% (CY22: ~48.18%) power & ~43.55% (CY22: ~51.82%) household appliances. PEL is strategically shifting towards power division owing to better margins. It holds highest share in power transformers segment (~87%), followed by switch gears (~73%), distribution transformers (~25%), and energy meters (~19%). It holds onto a well-thought and sustained brand positioning in both power and home appliances segments followed by the targeted market leaders. PEL expects to sustain its margins despite higher material costs by increasing volume and passing on the price hike to consumers. Coverages are on lower side whereas PEL’s capital structure is characterized by intermediate leveraging, majorly constituted by STBs.

The ratings are dependent on the Company’s ability to sustain its position and revenues amid competitive business environment. Close monitoring of working capital requirements to improve cash cycle and debt servicing remains imperative. Managing liquidity and financial risk are crucial for the ratings.

Disclosure	
Name of Rated Entity	Pak Elektron Limited | PPSTS | PKR 2bln | TBI
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23),Methodology | Debt Instrument Rating(Aug-23)
Related Research	Sector Study | Household Appliances(Mar-23)
Rating Analysts	Iqra Toqeer | iqra.toqeer@pacra.com | +92-42-35869504

Issuer Profile

Profile Pak Elektron Limited ('PEL' or 'the Company') is a public limited company, listed on the Pakistan Stock Exchange. PEL was incorporated in 1956. Saigol group acquired major shareholding in the Company in 1978, making it the flagship entity of the group. During the period, the Board of PEL and PEL Marketing (Private) Limited 'PMPL' approved the scheme of arrangement for amalgamation of PMPL, a wholly owned subsidiary of PEL, with and into PEL with effect from April 30, 2020.

Ownership Saigol Group owns shareholding in the Company (~30.0%) through family members with Mr. Naseem Siagol (25.44%) holding the majority stake. Remaining shareholding is split between the general public (48.36%), insurance companies (8.61%), financial institutions (5.00%), Joint Stock Companies (3.14%), Modarabas & Mutual funds (2.45%) and others (2.44%).

Governance The Company's Board of Directors comprises eight members including the Chairman, three executive directors, three non-executive directors and one independent director. The Board has high representation of Saigol Group, with three individuals (chairman and two executive directors) belonging to the group. One independent director is a nominee of NBP. The Board ensures oversight through an Audit Committee and a Human Resource & Remuneration Committee. M/S Rahman Sarfaraz Rahim Iqbal Rafiq & Co., Chartered Accountants, classified in category 'A' by SBP with satisfactory QCR rating, are the external auditors of the Company. The firm has expressed an unqualified opinion on the financial statements of PEL for year ended Dec 31, 2022.

Management The Company has a well-defined organizational structure, designed in-line with its two main divisions – Home Appliances and Power. Each division has separate departments for the following functions: i) Production, ii) Quality Control, iii) Research and Development, iv) Marketing, v) Supply Chain, and vi) Planning. However, Finance, IT, Human Resource and Internal Audit departments work as shared services. The Company's management comprises of experienced individuals who possess significant market knowledge and technical knowhow. Mr. Murad Saigol, the CEO, has been associated with the Company since 2005. He is supported by Mr. Zeid Yousuf Saigol who heads the power division as Director Operations.

Business Risk Pakistan's household appliances sector is largely dependent on global raw material prices, making it susceptible to external dynamics. The household appliance sector's estimated market is of PKR~688bln in CY22 (CY21: PKR~511bln), with a YoY increase of ~35%. The growth is associated with overall performance of electronics segment. Further, growth is mainly driven by companies rearranging their operations and recovering post pandemic crises. This is reflected by increased production across major categories of household appliances. During CY22, production of deep freezers witnessed the highest growth of ~125% (CY21: ~(103%)), while transformers, switch gears , electrical fans, television sets, refrigerators, and air conditioners production level change was recorded at ~56% (CY21: ~(12%)) ,~32% (CY21: ~(177%)), ~- 11% (CY21: ~(39%)), ~-20% (CY21: ~(26%)), ~-24% (CY21: ~(98%)), and ~-38% (CY21: ~(182%)) respectively. PEL holds a moderate share in the overall appliance market. On the appliances side, it holds 24% share in refrigerators, 15% in deep freezers, 13% in microwave ovens, 8% in ACs, 4% in LED TVs, & 4% in washing machines. On the power side, PEL is the market leader, with 87%, 25%, 19% and 73% of the market held in power & distribution transformers, energy meters & switchgears, respectively. The Company sources its revenue from two divisions, namely, Power (52%) and Home Appliances (48%). During CY22, sales clocked at PKR 52,386mln, increased by 22.1% on annualized basis, (CY21: PKR 42,887mln). Revenue from the appliances division improved on account of post-pandemic prosperity wave, rapid urbanization and life style improvements. Power division's revenue registered a growth of 52.24% in CY22 due to T&D infrastructure augmentation and incremental demand from WAPDA Distribution Companies. During 3QCY23, the Company's topline clocked at PKR 30,645mln (3QCY22: PKR 43,322mln) with negative growth of 22.0% owing to ongoing challenging economic situation. During CY22, gross margin slightly declined and stood at 19.7% (CY21: 21.1%). This is attributable to high raw material costs aggravated by rupee devaluation. The Company largely passed on costs to the consumers. Operating profit also reduced to 10.2% in CY22 from 10.6% in CY21. The Company posted a net profit of PKR 1,067mln in CY22 (CY21: PKR 1,591mln). Gross and net margins of the Company in 3QCY23 were recorded at 26.6% and 3.1%, respectively.

Financial Risk In CY22, PEL's gross working capital days stood at 188 days (CY21: 189 days). The Company's average receivables were recorded at 103 days (CY21: 104 days). Net working capital cycle stood at 186 days (CY21: 185 days). During 3QCY23, gross and net working capital days were recorded at 247 and 242 days, respectively. Improved profitability led to better free cash flow from operations (FCFO) during CY22 and was clocked at PKR 5,688 as compared to PKR 4,374mln during preceding year. Interest coverage ratio stood at 1.9x in CY22 (CY21: 2.4x, CY20: 1.3x) owing to high finance cost. Similarly, core coverage ratio stood at 0.8x (CY21: 1.0x, CY20: 0.6x). During 3QCY23, interest coverage and debt coverage stood at 1.9x and 1.2x, respectively. PEL's capital structure comprises a debt-to-equity ratio of 26.5% during 3QCY23 (CY22: 37.0%, CY21: 37.3%). During CY22, total borrowings witnessed a hike on back of rise in short term borrowings, representing 68%. At end Jun'23, total debt book of PEL stood at PKR 14,362mln.

Instrument Rating Considerations

About The Instrument The Company plans to raise an aggregate of up to PKR 4,000mln (inclusive of PKR 1,000mln green shoe option) by issuing a series of Rated, Unsecured, Privately Placed, Short-Term Sukuk to be issued as instrument of redeemable capital under section 66 of the Companies Act, 2017 and as conferred in Sukuk (privately placed) Regulations. The Sukuk shall be issued in multiple tranches based on Company's requirements. Tenor shall be up to 6 months from the date of disbursement of each issue (s). The instrument will be issued in form of scrip less securities at face value. The profit rate for the instrument will be Base Rate + 100bps per annum (subject to a well-defined floor and cap as approved by shariah advisor). Base rate is defined as 3 months / 6 months KIBOR. Profits will be paid at maturity of each issue.

Relative Seniority/Subordination Of Instrument The claims of Sukuk holders will rank subordinate to other claims.

Credit Enhancement The instrument is unsecured.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Pak Elektron Limited Household Appliances	Sep-23 9M	Dec-22 12M	Dec-21 12M	Dec-20 12M
A BALANCE SHEET				
1 Non-Current Assets	27,631	27,362	25,595	25,496
2 Investments	26	18	33	32
3 Related Party Exposure	11	11	14	11
4 Current Assets	35,497	40,023	34,172	29,254
a Inventories	*13,872*	*13,825*	*10,465*	*9,499*
b Trade Receivables	*11,981*	*15,681*	*13,966*	*10,436*
5 Total Assets	63,165	67,415	59,813	54,793
6 Current Liabilities	5,434	2,094	1,859	1,931
a Trade Payables	*895*	*271*	*185*	*656*
7 Borrowings	14,362	22,879	20,558	19,066
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	3,471	3,484	2,819	2,531
10 Net Assets	39,897	38,958	34,577	31,265
11 Shareholders' Equity	39,897	38,958	34,577	31,265
B INCOME STATEMENT				
1 Sales	30,645	52,386	42,887	28,799
a Cost of Good Sold	*(22,509)*	*(42,085)*	*(33,820)*	*(22,398)*
2 Gross Profit	8,136	10,301	9,068	6,402
a Operating Expenses	*(3,448)*	*(4,973)*	*(4,505)*	*(3,804)*
3 Operating Profit	4,689	5,329	4,563	2,598
a Non Operating Income or (Expense)	*(99)*	*109*	*(183)*	*(44)*
4 Profit or (Loss) before Interest and Tax	4,590	5,438	4,380	2,554
a Total Finance Cost	*(2,860)*	*(3,090)*	*(2,174)*	*(2,198)*
b Taxation	*(783)*	*(1,281)*	*(615)*	*(132)*
6 Net Income Or (Loss)	946	1,067	1,591	224
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*5,062*	*5,688*	*4,374*	*2,631*
b Net Cash from Operating Activities before Working Capital Changes	*2,269*	*2,889*	*2,509*	*938*
c Changes in Working Capital	*7,245*	*(5,699)*	*(2,966)*	*(471)*
1 Net Cash provided by Operating Activities	9,514	(2,809)	(457)	466
2 Net Cash (Used in) or Available From Investing Activities	(1,187)	(2,788)	(2,688)	(3,230)
3 Net Cash (Used in) or Available From Financing Activities	(8,517)	5,814	3,171	2,780
4 Net Cash generated or (Used) during the period	(190)	217	27	16
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-22.0%	22.1%	48.9%	0.0%
b Gross Profit Margin	26.6%	19.7%	21.1%	22.2%
c Net Profit Margin	3.1%	2.0%	3.7%	0.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	40.2%	0.0%	3.3%	7.5%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	3.2%	2.9%	4.8%	0.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	247	188	189	253
b Net Working Capital (Average Days)	242	186	185	244
c Current Ratio (Current Assets / Current Liabilities)	6.5	19.1	18.4	15.2
3 Coverages				
a EBITDA / Finance Cost	2.0	2.3	2.9	1.8
b FCFO / Finance Cost+CMLTB+Excess STB	1.2	0.8	1.0	0.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.3	2.7	3.8	12.9
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	26.5%	37.0%	37.3%	37.9%
b Interest or Markup Payable (Days)	64.0	78.1	69.9	67.7
c Entity Average Borrowing Rate	19.4%	13.2%	9.2%	10.9%

Credit Rating

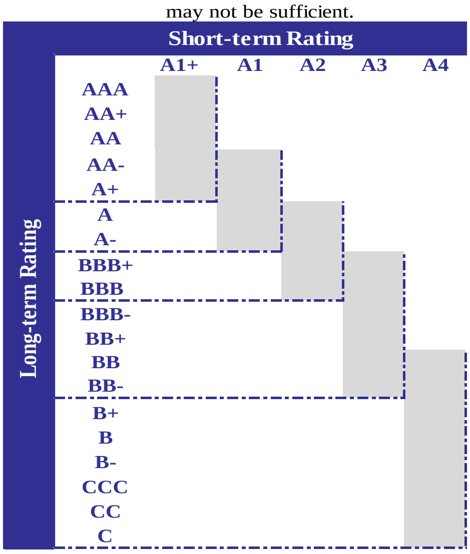
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument;| Chapter III | 17-(d)

Probability of Default

(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security	Nature of Assets	Lead Advisor	Book Value of Assets (PKR mln)
Rated, Privately Placed, Short-Term Sukuk	An aggregate of up to PKR 4,000mln in tranches (Initial issue amount shall be up to PKR 2,000mln)	Up to 6 months from the date of disbursement of each issue (s)	Unsecured	NA	NA	Bank of Punjab	NA

Name of Issuer	PAK ELEKTRON LIMITD
Issue Date (Tentative)	01-Feb-2024
Maturity	Up to 6 Months
Option	NA

Tentative Due Date Principal*	Opening Principal	Principal Repayment* (Inclusive of Profit AMT)	Due Date Markup/ Profit* (Tentative)	Markup/Profit rate (Tentative)	6M Kibor Plus 100 bps	Markup/Profit Payment (Tentative)	Installment Payable	Principal Outstanding
	PKR in mln					PKR in mln		