



The Pakistan Credit Rating Agency Limited

Rating Report

Pak Elektron Limited | PP Sukuk

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
17-Aug-2021	A+	A1	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The ratings reflects Pak Elektron Ltd.'s (PEL) diversified revenue stream and strong presence in Household Appliances and Power division including, Power transformers, Distribution transformers, Energy meters and Switch gears. The key factors driving the Household Appliances market are increase in technological advancement, rapid urbanization, and growth in housing sector, improved living standards and surge in the need for comfort in household chores. Whereas, Power division growth drivers are linked with new electricity power projects, rehabilitation of existing power distribution networks, infrastructure developments and new commercial/ residential constructions. Pakistan's household appliances and Power sector is largely dependent on global raw material prices, making it susceptible to external dynamics. Amidst COVID-19 outbreak, challenging economic conditions and strong competition have proved to be an impediment to industry growth. Overall production levels of the major appliances market took a steep dip in CY20, particularly during the peak demand season when nationwide lockdown slowed down the overall economic activity and created uncertainty in industry. During 1QCY21 Household Appliances showed recovery and highest production growth was recorded in air conditioner ~136% and refrigerators ~59% as compared to same period last year. Power division also followed upward trajectory where production of transformers and switch gears showed growth of ~22% and ~76% respectively. The Company has continued to focus on enhancing its product slate and recently made a strategic alliance with a renowned Japanese electronics manufacturer "Panasonic" which will authorize PEL to locally assemble Panasonic's split air conditioners which is a positive development. Going forward the Company is expected to receive benefits from (a) Growth in population (b) Government incentives to construction industry and launching of Naya Pakistan Housing Program (c) Government initiatives to improve existing electricity distribution network.

The ratings are dependent on the management's ability to sustain operations and sales in prevailing challenges. Meanwhile, any significant deterioration in sales and margins will impact the ratings. 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 PP Sukuk
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Debt Instrument Rating(Jun-21),Methodology Corporate Rating(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Household Appliances(Feb-21)
Rating Analysts	Kanwal Ejaz kanwal.ejaz@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 majority shareholding in the Company (51%) through family members with Mr. Naseem Saigol (25%) holding the majority stake. Remaining shareholding is split between the general public (20%), insurance companies (9.9%), foreign investors (2.5%), financial institutions (4.9%), Modarabas & Mutual funds (4.3%) and others (7.4%).

Governance The Company's Board of Directors comprises nine members including the Chairman, with three executive directors, three non-executive directors and three independent directors. The Board has high representation of Saigol Group, with six individuals (three executive and three non-executive) belonging to the group. Additionally, there are two nominees of National Bank while one independent director is a nominee of National Investment Trust. All BoD members have relevant expertise. Board's Chairman, Mr. Naseem Saigol, holds directorship of various entities of Saigol Group and was an office bearer of various trade associations. Independent Director, Mr. Syed Haroon Rashid, has over twenty years of experience and has worked in various financial as well as non-financial institutions. The Board ensures oversight through an Audit Committee and a Human Resource & Remuneration Committee. Both committees are headed by Mr. Asad Ullah Khawaja, an independent director, and nominee of NIT. Each committee comprises 4 members.

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 know-how. 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 PEL holds a moderate share in the overall appliance market. However, it benefits from a high market share in refrigerators and deep freezers with 24% in both. On the Power side, PEL is the market leader, with 90%, 25% and 77% of the market held in power & distribution transformers and switchgears respectively. The Company sources its revenue from two divisions, namely, Power (34%) and Home Appliances (66%). Due to amalgamation during the year financial statements are not directly comparable to those of pre-amalgamation period. During CY20, sales clocked in at PKR 28,799mln, increased by 3.2% on annualized basis, (CY19: PKR 27,900mln). Revenue from the appliances division remained under pressure on account of operational lock down and overall COVID-19 related economic shades. Power division's revenue registered a growth of 31.17%, in CY20, due to early resumption of operations after lock down and timely ordering from WAPDA Distribution Companies. During 1QCY21, Company revenues registered a growth of 65% with net revenue of PKR 9,878mln (1QFY20: 5,989mln). During CY20, gross margin declined slightly by 0.2% and stood at 22% (CY19: 23.6%). This is attributable to high raw material costs aggravated by rupee devaluation. The Company largely passed on costs to the consumers. Due to increased operating expenses, operating profit has also declined to 9% in CY20 from 12.1% in CY19. The Company posted a net profit of PKR 224mln in CY20 (CY19: PKR 879mln) despite of lower finance costs (CY20: PKR 2,198mln, CY19: PKR 2,480mln). Net margin stood at 0.8% (CY19: 3.1%). With growth in revenue and overall industry, margins of the company have improved during 1QCY21. Gross and net margins were recorded at 22% and 2.9% respectively as compared to 22% and negative 9.3% in 1QCY20.

Financial Risk During CY20, the Company's gross working capital days have slightly decreased to 235 days from 249 days in CY19. Despite the tougher conditions, receivables were recorded at 125 days (CY19: 128 days). As a result, PEL's net working capital days stood at 228 days (CY19: 243 days). During 1QCY21, net working capital days were recorded at 181 days due to lower receivables days of 181 as compared to 257 in 1QCY20. Lower profitability led to lower free cash flow from operations (FCFO) during CY20 and was clocked in at PKR 2,631 as compared to PKR 3,868mln. Despite lower finance costs interest coverage has deteriorated (CY20: 1.3x, CY19: 1.7x). Similarly, core and total coverage declined (CY20: 0.6x, CY19: 0.8x). Lower interest rates and loan deferment has provided much need respite and coverages have improved during 1QCY21 with interest coverage and debt coverage standing at 2x and 1x respectively.

Instrument Rating Considerations

About The Instrument Pak Elektron Limited (PEL) intends to issue secured, privately placed Sukuk under Islamic Diminishing Musharaka or any other Islamic mode / Structure issued as instrument of redeemable capital under section 66 of the Companies Act, 2017. Sukuk issue amount is PKR 1,500 Million (inclusive of green shoe option of PKR 300 Million) at an offer rate 3 month KIBOR + 1.3% p.a with a tenor of fifteen (15) months (partial/full Call Option after 12 months). First profit payment shall fall due at the end of the three months from the date of first draw down. Sukuk shall redeem in one bullet payment at the end of 15th month from the date of first draw down. PEL to maintain minimum current ratio of 1.5x and maximum Debt/Equity ratio of 1.0x.

Relative Seniority/Subordination Of Instrument The claims of the TFC holders will rank superior to the claims of ordinary shareholders.

Credit Enhancement The Sukuk is likely to be secured by (a) first joint pari passu hypothecation charge over Current Assets of the Company with 25% Margin (b) Personal guarantee of Mr. Naseem Saigol.



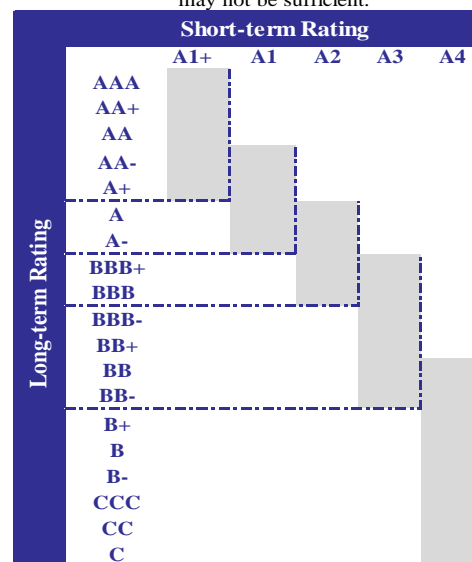
Pak Elektron Limited Household Appliances	Mar-21 3M	Dec-20 12M	Dec-19 12M	Dec-18 12M
A BALANCE SHEET				
1 Non-Current Assets	25,451	25,496	24,836	23,745
2 Investments	26	32	22	22
3 Related Party Exposure	17	11	6	7
4 Current Assets	29,735	29,254	26,447	28,325
<i>a Inventories</i>	8,551	9,499	7,794	10,786
<i>b Trade Receivables</i>	11,987	10,436	9,318	10,182
5 Total Assets	55,228	54,793	51,311	52,100
6 Current Liabilities	1,945	1,931	1,708	1,332
<i>a Trade Payables</i>	673	656	469	415
7 Borrowings	19,241	19,066	16,054	17,814
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	2,494	2,531	3,311	3,125
10 Net Assets	31,549	31,265	30,239	29,830
11 Shareholders' Equity	31,549	31,265	30,239	29,830
B INCOME STATEMENT				
1 Sales	9,879	28,799	27,900	28,445
<i>a Cost of Good Sold</i>	(7,710)	(22,398)	(21,327)	(21,448)
2 Gross Profit	2,168	6,402	6,573	6,997
<i>a Operating Expenses</i>	(1,175)	(3,804)	(3,191)	(3,289)
3 Operating Profit	994	2,598	3,382	3,709
<i>a Non Operating Income or (Expense)</i>	(43)	(44)	(21)	(48)
4 Profit or (Loss) before Interest and Tax	951	2,554	3,361	3,661
<i>a Total Finance Cost</i>	(550)	(2,198)	(2,480)	(2,103)
<i>b Taxation</i>	(117)	(132)	(2)	(186)
6 Net Income Or (Loss)	283	224	879	1,371
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	1,006	2,631	3,868	3,356
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	535	938	1,737	1,942
<i>c Changes in Working Capital</i>	(504)	(471)	2,023	(2,032)
1 Net Cash provided by Operating Activities	30	466	3,760	(89)
2 Net Cash (Used in) or Available From Investing Activities	(229)	(3,230)	(1,905)	(3,375)
3 Net Cash (Used in) or Available From Financing Activities	175	2,780	(1,812)	3,451
4 Net Cash generated or (Used) during the period	(24)	16	43	(13)
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	37.2%	3.2%	-1.9%	-8.2%
<i>b Gross Profit Margin</i>	22.0%	22.2%	23.6%	24.6%
<i>c Net Profit Margin</i>	2.9%	0.8%	3.1%	4.8%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	5.1%	7.5%	21.1%	4.7%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	3.6%	0.7%	2.9%	5.0%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	187	235	249	256
<i>b Net Working Capital (Average Days)</i>	181	228	243	250
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	15.3	15.2	15.5	21.3
3 Coverages				
<i>a EBITDA / Finance Cost</i>	2.2	1.8	1.9	2.5
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.0	0.6	0.8	1.0
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	4.3	13.6	3.1	2.9
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	37.9%	37.9%	34.7%	37.4%
<i>b Interest or Markup Payable (Days)</i>	63.2	67.7	80.2	86.9
<i>c Entity Average Borrowing Rate</i>	10.8%	11.2%	13.3%	10.0%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	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.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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

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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

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- (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.
- (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 | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(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	Trustee	Book Value of Assets (PKR mln)
Rated, Privately Placed Short Term Sukuk	1,500mln	15 months	JPP Charge of Rs. 2,000 M		Current Assets	TBD	

Name of Issuer	PAK ELEKTRON LIMITD						
Issue Date	1-Sep-21	Tentative					
Maturity	1-Dec-22						
Option	N/A						

Due Date Principal*	Opening Principal	Principal Repayment*	Due Date Markup/ Profit*	Markup/Profit rate (Tentative)	3M Kibor Plus 130bps	Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln							
Issuance	1,500,000,000	0	1-Dec-21	9.00%	10.30%	38,519,178	-	1,500,000,000
			1-Mar-22	9.00%	10.30%	38,095,890		1,500,000,000
			1-Jun-22	9.00%	10.30%	38,942,466		1,500,000,000
			1-Sep-22	9.00%	10.30%	38,942,466		1,500,000,000
		1,500,000,000	1-Dec-22	9.00%	10.30%	38,519,178		-
		1,500,000,000				193,019,178	0	