



The Pakistan Credit Rating Agency Limited

## Rating Report

### K-Electric | PPSTS-13 | PKR 5bln | Feb 23

#### Report Contents

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-May-2023	AA	A1+	Stable	Initial	-
06-Feb-2023	AA	A1+	Stable	Preliminary	-

#### Rating Rationale and Key Rating Drivers

The ratings incorporate the strategic importance of K-Electric Limited, (“the Company” or “KE”) being a vertically integrated power utility, responsible for the generation, transmission, and distribution of electricity in Karachi and adjoining areas of Sindh and Balochistan. The Company’s board of directors comprises of ten directors currently. Three vacancies are to be filled soon. However, the quorum of all board committees is complete. Support has been drawn from the sustained rather improved performance metrics of the Company, owing to the growing demand for electricity and continuous improvement across various operational metrics including a reduction in T&D losses and a better recovery ratio. KE reported a net loss of PKR (39.39)bln during 9MFY23 (9MFY22: Profit of PKR 1.49bln). However, the loss of the Company was observed on the back of a significant increase in fuel prices, exponential finance cost, increase in significant rupee devaluation, and increase in Tariff differential. Working Capital also remains a challenge because the delayed payments from the government resulted in enhanced borrowings ultimately curtailing profitability because of increased finance cost. The comfort for the rating has been drawn from the Company's express intention to achieve improvements on operational fronts to curtail losses. In addition, the Company is actively pursuing to expedite the determination of pending quarterly tariff variation for cost which have been determined by authority. KE has also applied separate tariff for each business segment for the next control period from FY24 to FY30 (tariff expiring on June 2023), under the proposed tariff, KE has proposed an indexation mechanism to account for changes in the macroeconomic factors. KE expects a sustainable cost-reflective tariff with a robust adjustments mechanism which will have a positive impact on its profitability going forward. The Company is also pursuing its 900 MW RLNG project on a fast-track basis in unit-I & II of 450 MW each. KE has witnessed the synchronization of the 900MW RLNG-fired power project (BQPS-III). Both Units have achieved base load operations. The generation capacity of the Company will increase and being an efficient plant, electricity will be produced at a lower rate which would have a positive impact on the working capital of the Company.

#### Disclosure

<b>Name of Rated Entity</b>	K-Electric   PPSTS-13   PKR 5bln   Feb 23
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Debt Instrument Rating
<b>Applicable Criteria</b>	Methodology   Debt Instrument Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22),Methodology   Independent Power Producer Rating(Jun-22)
<b>Related Research</b>	Sector Study   Power(Jan-23)
<b>Rating Analysts</b>	Muhammad Atif Chaudhry   Atif.Chaudhry@pacra.com   +92-42-35869504

## Issuer Profile

**Profile** K-Electric Limited, ("KE" or "the Company") a vertically-integrated power utility, has been in operations for over a century. It is the only vertically-integrated power utility in Pakistan, which means the organisation manages all three key areas – Generation, Transmission and Distribution – of producing and delivering energy to consumers. Total installed capacity of K-Electric Limited power generation plants is 2,817MW. K-Electric Limited has an arrangement with external power producers for ~1,650+ MW including 1,100 MW from the National Grid.

**Ownership** The company is ~66% owned by KES Power Limited, while GoP holds ~24% stake. KES Power is the major shareholder of the Company. However, KES Power is a consortium of Al-Jomaih Group of KSA, NIG of Kuwait and IGCF, a private equity fund of several Middle East institutional investors. KES Power has entered into a Share Purchase Agreement with Shanghai Electric Power Company Limited (SEP) for sale of up to 66.4% shares of K-Electric Limited. The transaction will close once customary closing conditions and requisite regulatory approvals are obtained.

**Governance** The company's board of directors comprises of ten directors currently. Three vacancies are to be filled soon. However the quorum of all board committees is complete. All the board members are seasoned professionals having interests in various sectors of the industry. There are six committees at the board level, namely i) Audit, ii) Finance, iii) Human Resource & Remuneration iv) Strategy & Projects Committee and v) Risk Management & Safety, vi) Board Regulatory Affairs Committee. This ensures effective oversight of the company's affairs and strengthening the board's governance role. GOP has notified on 22 May 2019, Multiyear Tariff (MYT) for K-Electric Limited for the period of seven (7) years applicable from 1 July 2016 to 30 June 2023.

**Management** The management control of the company vests with KES Power Limited, being the largest shareholder. Mr. Moonis Alvi has been spearheading the company since being the CEO in June 2018. He has also previously served as the Chief Financial Officer of KElectric Limited. The organizational structure of K-Electric Limited is divided into three main business areas, namely (i) Generation, (ii) Transmission, and (iii) Distribution. Meanwhile, support functions such as Treasury & Corporate Finance, Marketing, and HR, supply chain etc. are centralized at the company level and are headed by professionals having considerable experience in their respective fields.

**Business Risk** The Company has a registered customer base of ~3.4mln at end-FY22 (FY21: ~3.1mln), of which 83.7% constitute residential consumers, 15.5% commercial, Industrial 0.7%, and the remaining comprises the agriculture sector and public consumers. The Company reported T&D loss of ~15.4% during 9MFY23 with an improvement of 2.9% as compared to the corresponding period (9MFY22: ~18.3%). This improvement builds on the success of KE distribution's flagship Project Sarbulandi and the Governance strategy, which aim to maximize the benefits of past investments. Units billed during 9MFY23 have decreased by 5.8% compared to SPLY. Recovery ratio has also declined to ~97.3%, YTD: 92.4% during 9MFY23 (9MFY22: ~99.9%, YTD: 95.6%). The Company's Gross Profit margins has decreased and reported PKR 36,712mln during 9MFY23 (FY22: PKR 72,416mln, 9MFY22: PKR 43,694mln) owing to higher fuel cost and reduction in fuel cost adjustment by the authority, consequently the Company was not able to pass on the increased cost to consumers. Further due to macro-economic factors including increased policy rates, devaluation of PKR against USD and increased inflation affecting the customer's propensity to pay resulted in higher impairment loss, turned the Company's bottom line red. As a result, KE reported a net loss of PKR (39.39) bln during 9MFY23 (9MFY22: Profit of PKR 1.49bln). The Company is focusing on improvements on operational fronts to curtail losses. In addition, the Company is actively pursuing to expedite the determination of pending quarterly tariff variation for cost which have been determined by authority. KE has also applied separate tariff for each business segment for the next control period from FY 24 to FY 30 (tariff expiring on June 2023), under the proposed tariff, KE has proposed indexation mechanism to account for changes in the macroeconomic factors including exchange rate, CPI, KIBOR, LIBOR etc. KE expects sustainable cost reflective tariff with robust adjustments mechanism which will have positive impact on its profitability going forward.

**Financial Risk** During 9MFY23, total receivables of the company are reported at PKR 97,502mln as compared to the corresponding period (FY22: PKR 136,843mln, 9MFY22: PKR 97,648mln), owing to delay in public sector recoveries and the prevailing circular debt crisis in the country. KE's cash generation ability has affected due to above mention factors and have placed constraints on cashflow streams. KE along with delay in Government payables, has relying on utilizing its short-term facilities to meet its working capital requirements. Capitalization indicators of the Company have continued to swell, indicating higher debt utilization, going forward, mainly to fund planned investments. Comfort for long term debt servicing is taken against the security through a Master Collection Account (MCA) which has enough capacity to service the debt.

## Instrument Rating Considerations

**About The Instrument** KE issued a rated, unsecured, privately placed, short-term, sukuk K-Electric | PPSTS-13 | PKR 5bln | Feb 23 ("PPSTS-13") amounting PKR 5,000mln in Feb 2023, to finance the Company's working capital requirements. PPSTS-13 issued in the replacement of privately placed short-term sukuk ("PPSTS-7") which was redeemed on 10-Feb-23. The tenor of PPSTS-13 is 6 months and carrying a profit rate of 6MK+100bps. Profit and principal will be realized at the time of maturity.

**Relative Seniority/Subordination Of Instrument** The claim of the certificate holders will rank superior to the claim of ordinary shareholders.

**Credit Enhancement** The instrument is unsecured.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

K-Electric Limited	Mar-23	Jun-22	Mar-22	Jun-21	Jun-20
Power	9M	12M	9M	12M	12M
<b>A BALANCE SHEET</b>					
1 Non-Current Assets	512,432	489,791	452,770	424,484	361,321
2 Investments	23,987	19,249	2,941	2,987	3,048
3 Related Party Exposure	275	275	275	182	-
4 Current Assets	568,083	550,813	507,213	408,024	339,045
<i>a Inventories</i>	5,081	4,030	3,740	3,024	647
<i>b Trade Receivables</i>	97,502	136,843	97,648	104,714	99,832
5 Total Assets	1,104,776	1,060,128	963,198	835,677	703,414
6 Current Liabilities	520,090	476,818	459,736	382,145	295,378
<i>a Trade Payables</i>	414,806	379,069	366,077	297,613	217,625
7 Borrowings	317,202	283,088	218,827	184,300	155,574
8 Related Party Exposure	-	-	-	-	-
9 Non-Current Liabilities	56,702	50,050	47,039	45,281	41,795
10 Net Assets	210,782	250,172	237,597	223,952	210,667
11 Shareholders' Equity	210,782	250,172	225,442	223,952	210,658
<b>B INCOME STATEMENT</b>					
1 Sales	368,141	518,777	311,572	325,049	288,807
<i>a Cost of Good Sold</i>	(331,429)	(446,362)	(267,878)	(265,854)	(244,914)
2 Gross Profit	36,712	72,416	43,694	59,195	43,893
<i>a Operating Expenses</i>	(47,465)	(27,598)	(37,681)	(25,225)	(21,523)
3 Operating Profit	(10,753)	44,817	6,013	33,970	22,370
<i>a Non Operating Income or (Expense)</i>	(3,798)	(24,049)	7,941	(7,511)	(5,275)
4 Profit or (Loss) before Interest and Tax	(14,550)	20,769	13,954	26,459	17,096
<i>a Total Finance Cost</i>	(21,457)	(15,120)	(9,695)	(11,113)	(16,737)
<i>b Taxation</i>	(3,383)	2,875	(2,769)	(3,348)	(3,318)
6 Net Income Or (Loss)	(39,390)	8,524	1,490	11,998	(2,959)
<b>C CASH FLOW STATEMENT</b>					
<i>a Free Cash Flows from Operations (FCFO)</i>	37,431	68,380	35,122	59,424	48,785
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	1,391	48,261	17,037	44,556	27,160
<i>c Changes in Working Capital</i>	19,339	(75,117)	(19,093)	(2,296)	(4,512)
1 Net Cash provided by Operating Activities	20,729	(26,857)	(2,055)	42,259	22,648
2 Net Cash (Used in) or Available From Investing Activities	(21,159)	(63,843)	(34,210)	(74,465)	(49,411)
3 Net Cash (Used in) or Available From Financing Activities	736	84,804	39,699	22,061	26,415
4 Net Cash generated or (Used) during the period	307	(5,896)	3,433	(10,144)	(349)
<b>D RATIO ANALYSIS</b>					
1 Performance					
<i>a Sales Growth (for the period)</i>	-5.4%	59.6%	27.8%	12.5%	-0.1%
<i>b Gross Profit Margin</i>	10.0%	14.0%	14.0%	18.2%	15.2%
<i>c Net Profit Margin</i>	-10.7%	1.6%	0.5%	3.7%	-1.0%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	15.4%	-1.3%	5.1%	17.6%	15.3%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	-22.8%	3.6%	0.9%	5.5%	-1.4%
2 Working Capital Management					
<i>a Gross Working Capital (Average Days)</i>	91	87	92	117	134
<i>b Net Working Capital (Average Days)</i>	-205	-151	-200	-172	-124
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	1.1	1.2	1.1	1.1	1.1
3 Coverages					
<i>a EBITDA / Finance Cost</i>	2.1	5.4	4.6	6.6	3.7
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	0.5	1.3	0.6	0.6	0.9
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	8.6	3.4	4.7	3.1	3.2
4 Capital Structure					
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	60.1%	53.1%	49.3%	45.1%	42.5%
<i>b Interest or Markup Payable (Days)</i>	225.3	317.6	278.9	360.1	228.8
<i>c Entity Average Borrowing Rate</i>	7.4%	5.6%	5.3%	5.3%	9.3%

### 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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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	<b>High credit quality.</b> 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+	<b>Good credit quality.</b> 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	
BBB-	
BB+	<b>Moderate risk.</b> 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	<b>High credit risk.</b> 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	<b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility.
CC	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.
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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(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)

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- 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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- (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)
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- (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)
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- (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	Book Value of Assets (PKR mln)	Nature of Assets	Lead Advisor
Rated, Privately Placed, Short Term Sukuk (PPSTS-13)	PKR 5,000mln	6 months	Unsecured	NA	N/A	Habib Bank Limited

Name of Issuer	K- Electric Limited
Issue Date	Feb-23
Maturity	Aug-23
Profit Rate	6M KIBOR+1.0%

### K-Electric | PPSTS-13 | PKR 5bln | Feb 23 | Redemption Schedule

Sr.	Due Date Principal	Opening Principal	6M Kibor	Markup/Profit Rate (6MK + 1.0%)	Markup/Profit Payment	Principal Payment	Total	Principal Outstanding
		PKR (mln)			PKR (mln)			
Issue Date	Feb-23	5,000			-	-	-	5,000
1	Aug-23	5,000	18.03%	19.03%	474	5,000	5,474	-
					474	5,000	5,474	