



The Pakistan Credit Rating Agency Limited

## Rating Report

### Pak Elektron Limited | PPSTS | PKR 2bln | March-24

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-May-2024	A+	A1	Stable	Initial	-
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 that 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 the 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. During 3MCY24, the company topline clocked in at ~PKR 12bln, reflecting a growth of ~58.2% (3MCY22: ~PKR 8,141mln) mainly due to relaxation in imports. While the net profits of the company are locked at ~PKR 445mln as of 3MCY24 (3MCY23: ~PKR 37mln). During CY23, ~56.45% of sales were contributed by the power division (CY22: ~48.18%), while household appliances accounted for ~43.55% of sales (CY22: ~51.82%). PEL is strategically shifting towards power division owing to better margins. It holds the 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 improved 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 a competitive business environment. However, maintaining prudent financial discipline and a robust control environment will be essential. Effective liquidity and financial risk management remain crucial for the rating.

#### Disclosure

<b>Name of Rated Entity</b>	Pak Elektron Limited   PPSTS   PKR 2bln   March-24
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Debt Instrument Rating
<b>Applicable Criteria</b>	Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Debt Instrument Rating(Dec-23),Methodology   Rating Modifiers(Apr-24)
<b>Related Research</b>	Sector Study   Household Appliances(Mar-24)
<b>Rating Analysts</b>	Sohail Ahmed Qureshi   sohail.ahmed@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 the 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 (29.36%) through family members with Mr. Naseem Saigol (25%) holding the majority stake. Remaining shareholding is split between the general public (43%), insurance companies (11.6%), foreign investors (1.2%), financial institutions (5.1%), Modarabas & Mutual funds (2.58%) and others (7.16%).

**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 Rahim 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, 2023.

**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. In CY23, the sector was estimated to be worth ~PKR 327bln, marking a year-on-year decrease of ~22.1%. This decline can largely be attributed to a drop in production by about 23.2% year-on-year, coupled with a slowdown in demand due to increased prices. 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 & switchgear, respectively. The Company sources its revenue from two divisions, namely, Power (52%) and Home Appliances (48%). During CY23, sales clocked at PKR 38,685mln, decreased by 26.2% on an annualized basis, (CY22: ~PKR 52,386mln). The decline in revenue is primarily due to import restrictions imposed during the year by SBP. The Home Appliances Division witnessed a decline in revenues by 34.82% compared to the previous year. This decline is attributed to the restricted supply side during the year limiting the import of raw materials during the year. The power division's revenue registered a decline of 18.20% in CY23. During 1QCY24, the Company's topline clocked at PKR 12,718mln (1QCY23: PKR 27,410mln). During CY23, the gross margin increased and stood at 28.7% (CY22: 19.7%). Operating profit also increased to 18.6% in CY23 from 10.2% in CY22. The Company posted a net profit of PKR 1,325mln in CY23 (CY22: PKR 1,067mln). Gross and net margins of the Company in 1QCY24 were recorded at 27.0% and 3.5%, respectively.

**Financial Risk** In CY23, PEL's gross working capital days stood at 262 days (CY22: 188 days). The Company's average receivables were recorded at 141 days (CY22: 103 days). The net working capital cycle stood at 251 days (CY22: 186 days). During 1QCY24, gross and net working capital days were recorded at 191 and 176 days, respectively. Improved profitability led to better free cash flow from operations (FCFO) during CY23 and was clocked at PKR 7,449mln as compared to PKR 5,688mln during the preceding year. The interest coverage ratio stood at 2.4x in CY23 (CY22: 2.3x) owing to high finance costs. Similarly, the core coverage ratio stood at 2.1x (CY22: 1.9x). During 1QCY24, interest coverage and debt coverage stood at 2.4x and 1.5x, respectively. PEL's capital structure comprises a debt-to-equity ratio of 28% during 1QCY24 (CY23: 27.8%; CY21: 37.0%). During CY23, total borrowings witnessed a decline and stood at ~PKR 15,974mln (CY23: PKR 22,879mln). At end of March 24, the total debt book of PEL stood at PKR 16,284mln.

## Instrument Rating Considerations

**About The Instrument** The Company issued a Rated, Unsecured, Privately Placed Short Term Sukuk of amount PKR 2bln to finance the company's working capital requirement. The tenor of the Sukuk is 6 months and carries a profit rate of 6MK+100bps. Profit payment and principal would be made in a bullet payment at the time of maturity.

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

**Credit Enhancement** The instrument is secured against the first joint pari passu hypothecation charge over the current assets of the issuer with a 25% margin.



The Pakistan Credit Rating Agency Limited

Pak Elektron Limited Household Appliances	Mar-24 3M	Dec-23 12M	Dec-22 12M	Dec-21 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	29,794	29,728	27,362	25,595
2 Investments	37	32	18	33
3 Related Party Exposure	20	19	11	14
4 Current Assets	37,669	36,578	40,023	34,172
<i>a Inventories</i>	12,257	11,687	13,825	10,465
<i>b Trade Receivables</i>	15,016	14,313	15,681	13,966
<b>5 Total Assets</b>	<b>67,520</b>	<b>66,358</b>	<b>67,415</b>	<b>59,813</b>
6 Current Liabilities	4,128	3,881	2,094	1,859
<i>a Trade Payables</i>	2,090	1,986	271	185
7 Borrowings	16,284	15,974	22,879	20,558
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	5,234	5,078	3,484	2,819
<b>10 Net Assets</b>	<b>41,873</b>	<b>41,425</b>	<b>38,958</b>	<b>34,577</b>
<b>11 Shareholders' Equity</b>	<b>41,870</b>	<b>41,425</b>	<b>38,958</b>	<b>34,577</b>
<b>B INCOME STATEMENT</b>				
1 Sales	12,718	38,685	52,386	42,887
<i>a Cost of Good Sold</i>	(9,280)	(27,581)	(42,085)	(33,820)
<b>2 Gross Profit</b>	<b>3,438</b>	<b>11,104</b>	<b>10,301</b>	<b>9,068</b>
<i>a Operating Expenses</i>	(1,342)	(3,918)	(4,973)	(4,505)
<b>3 Operating Profit</b>	<b>2,096</b>	<b>7,186</b>	<b>5,329</b>	<b>4,563</b>
<i>a Non Operating Income or (Expense)</i>	(59)	(233)	109	(183)
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>2,037</b>	<b>6,952</b>	<b>5,438</b>	<b>4,380</b>
<i>a Total Finance Cost</i>	(997)	(3,649)	(3,090)	(2,174)
<i>b Taxation</i>	(595)	(1,979)	(1,281)	(615)
<b>6 Net Income Or (Loss)</b>	<b>445</b>	<b>1,325</b>	<b>1,067</b>	<b>1,591</b>
<b>C CASH FLOW STATEMENT</b>				
<i>a Free Cash Flows from Operations (FCFO)</i>	2,078	7,449	5,688	4,374
<i>b Net Cash from Operating Activities before Workin</i>	1,166	3,857	2,889	2,509
<i>c Changes in Working Capital</i>	(1,061)	5,130	(5,699)	(2,966)
<b>1 Net Cash provided by Operating Activities</b>	<b>105</b>	<b>8,987</b>	<b>(2,809)</b>	<b>(457)</b>
<b>2 Net Cash (Used in) or Available From Investing A</b>	<b>(375)</b>	<b>(2,049)</b>	<b>(2,788)</b>	<b>(2,688)</b>
<b>3 Net Cash (Used in) or Available From Financing A</b>	<b>310</b>	<b>(6,949)</b>	<b>5,814</b>	<b>3,171</b>
<b>4 Net Cash generated or (Used) during the period</b>	<b>40</b>	<b>(12)</b>	<b>217</b>	<b>27</b>
<b>D RATIO ANALYSIS</b>				
<b>1 Performance</b>				
<i>a Sales Growth (for the period)</i>	31.5%	-26.2%	22.1%	48.9%
<i>b Gross Profit Margin</i>	27.0%	28.7%	19.7%	21.1%
<i>c Net Profit Margin</i>	3.5%	3.4%	2.0%	3.7%
<i>d Cash Conversion Efficiency (FCFO adjusted for W</i>	8.0%	32.5%	0.0%	3.3%
<i>e Return on Equity [ Net Profit Margin * Asset Turn</i>	4.3%	3.3%	2.9%	4.8%
<b>2 Working Capital Management</b>				
<i>a Gross Working Capital (Average Days)</i>	191	262	188	189
<i>b Net Working Capital (Average Days)</i>	176	251	186	185
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	9.1	9.4	19.1	18.4
<b>3 Coverages</b>				
<i>a EBITDA / Finance Cost</i>	2.4	2.4	2.3	2.9
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.5	1.4	0.8	1.0
<i>c Debt Payback (Total Borrowings+Excess STB) / (</i>	0.7	0.9	2.7	3.8
<b>4 Capital Structure</b>				
<i>a Total Borrowings / (Total Borrowings+Sharehold</i>	28.0%	27.8%	37.0%	37.3%
<i>b Interest or Markup Payable (Days)</i>	68.4	66.6	78.1	69.9
<i>c Entity Average Borrowing Rate</i>	24.0%	20.3%	13.2%	9.2%

### 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+	
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-	
BB+	
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-	
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	
CC	<b>Very high credit risk.</b> 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.
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)

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- (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)

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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)
- (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	Issue Amount (PKR)	Initial Issue Amount (PKR)	Tenor	Security	Lead Advisor	Book Value of Assets (PKR mln)
Rated, Privately Placed, Short-Term Sukuk	Aggregate of up to PKR 4,000mln in tranches (inclusive of PKR 1,000mln green shoe option).	2,000mln	6 months	Secured against first pari passu hypothecation charge over Current Assets of the Issuer with 25% margin.	Bank of Punjab	67,520

<b>Name of Issuer</b>	PAK ELEKTRON LIMITD
<b>Issue Date</b>	27-Mar-24
<b>Maturity</b>	Up to 6 Months
<b>Profrir Rate</b>	6MKIBOR+100bps

PAK ELEKTRON LIMITED_PPSTS_PKR 2bln_March-24								
Sr.	Due Date Principal	Opening Principal (PKR mln)	6M Kibor	Markup/Profit Rate 6MK + (0.1%)	Markup/Profit Payment	Principal Payment (PKR mln)	Total	Principal Outstanding (PKR mln)
Issue Date	27-Mar-24	2,000	22.18%	22.3%	224.63	2,000	2224.631	2,000