The Pakistan Credit Rating Agency Limited

Rating Report

Pak Elektron Limited - PPSTS II - PKR 2bln - TBI

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Nov-2024	A+	A1	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

Pak Elektron Limited (PEL or "the Company") is a leading engineering enterprise in Pakistan, recognized for its extensive range of household appliances and electrical equipment. PEL’s ratings are underpinned by its diversified revenue streams and well-established presence in both the appliances and power sectors. These divisions include power and distribution transformers, energy meters, and switchgears. The household appliances market's growth is driven by several factors, including technological advancements, rapid urbanization, expansion in the housing sector, rising per capita income, improved living standards, and increasing demand for convenience in household tasks. In the current calendar year, economic conditions have shown signs of recovery, supported by stability in foreign exchange rates, normalization of letter of credit (LC) processes that improved supply chain management, and a decline in inflation and interest rates. These factors have contributed to an improvement in consumer confidence. During 9MFY24, PEL achieved remarkable revenue growth of ~42%, with revenue reaching ~PKR 41,353mln (CY23: ~PKR 38,685mln). This growth was primarily fueled by increased volumes in the Appliances Division, which contributed ~58% of total sales, while the Power Division recorded ~11% revenue growth and contributed ~42% to sales. Management highlights PEL’s significant market presence, with ~90% market share in power transformers, ~70% in switchgears, and around ~21% each in distribution transformers and energy meters. However, the Home Appliances Division experienced a dilution in market share due to the above-mentioned factors. The Company’s financial risk profile is characterized by robust coverage ratios, healthy cashflows, and a stretched working capital cycle. Its capital structure is leveraged, with borrowings primarily comprising short-term loans for working capital needs. Going forward, PEL is diversifying its operations by establishing a wholly owned foreign subsidiary in the UAE. This subsidiary will focus on commercial trading activities, including import and export distribution, as well as ancillary warehousing operations. This strategic move is expected to strengthen the Company's international footprint and further solidify its market presence.

The ratings are dependent upon improvement in revenues, profitability, and market share while retaining sufficient cashflows and coverages. Managing liquidity and financial risk is crucial for the ratings.

Disclosure	
Name of Rated Entity	Pak Elektron Limited - PPSTS II - PKR 2bln - TBI
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology | Rating Modifiers(Apr-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24),Methodology | Debt Instrument Rating(Oct-24)
Related Research	Sector Study | Household Appliances(Mar-24)
Rating Analysts	Fatima Khan | fatima.khan@pacra.com | +92-42-35869504

Issuer Profile

Profile Pak Elektron Limited (PEL) is a public limited company listed on the Pakistan Stock Exchange. Established in 1956, PEL became the flagship entity of the Saigol Group after the group acquired a majority stake in 1978. In a strategic move, the Board of Directors of PEL and PEL Marketing (Private) Limited (PMPL) approved a scheme of arrangement for the amalgamation of PMPL, a wholly owned subsidiary, into PEL. This amalgamation became effective on April 30, 2020. The Company is principally engaged in the manufacturing and sale of electrical capital goods and domestic home appliances.

Ownership The Saigol Group holds a significant shareholding in the company (~30.0%), primarily through family members, with Mr. Naseem Saigol owning the largest individual stake at 25.44%. The remaining shareholding is distributed among insurance companies (6.61%), financial institutions (2.50%), joint stock companies (3%), Modarabas and mutual funds (1.4%), others (7.8%), and the general public (48.1%). The company's ownership is considered stable, as the Saigol family retains a substantial 30% stake, with no anticipated changes in the near future. As one of the leading industrial groups in the country, the Saigol Group has a diverse portfolio spanning services, manufacturing of home appliances and electrical equipment, textiles, and power generation. The Group enjoys a strong business profile, with a prominent presence in Pakistan's textile, engineering, and energy sectors.

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 reflects significant representation from the Saigol Group, with three members (the Chairman and two executive directors) belonging to the group. The independent director, nominated by NBP, is Mr. Syed Haroon Rashid, who brings over 20 years of experience in financial and non-financial institutions. The Board is chaired by Mr. Naseem Saigol, a seasoned professional who holds directorships in various Saigol Group entities and has served in leadership roles within several trade associations. The Board ensures effective oversight through two key committees: the Audit Committee and the Human Resource & Remuneration Committee. The Company's external auditors, M/S Rahman Sarfaraz Rahim Iqbal Rafiq & Co., Chartered Accountants, are classified in the 'A' category by the State Bank of Pakistan (SBP) and hold a satisfactory QCR rating. The auditors have issued an unqualified opinion on the Company's financial statements for the year ended December 31, 2023.

Management The Company operates under a well-defined organizational structure aligned with its two primary divisions: Home Appliances and Power. Each division maintains dedicated departments for key functions, including Production, Quality Control, Research and Development, Marketing, Supply Chain, and Planning. Meanwhile, Finance, IT, Human Resources, and Internal Audit departments function as shared services across the organization. The management team is composed of seasoned professionals with extensive market knowledge and technical expertise. Mr. Murad Saigol, the CEO, has been with the Company since 2005 and is supported by Mr. Zeid Yousuf Saigol, who oversees the Power Division as Director of Operations. While management meetings are held on an as-needed basis to address operational matters, the Company's size and scope of operations highlight the need for formalized management committees to enhance governance and effectiveness, indicating potential areas for improvement. To address its diverse operational and accounting requirements, the Company has implemented various modules of the Oracle E-Business Suite. Oracle Financials and Oracle Supply Chain modules handle procurement, inventory, and order booking, while Oracle Discrete Manufacturing supports production activities across both divisions. Additionally, a custom software solution is deployed for HR and payroll functions. The Company ensures operational efficiency through a dedicated internal audit function, which conducts regular reviews to maintain oversight and drive continuous improvement.

Business Risk The household appliances sector, estimated at PKR ~327bln in CY23, saw a YoY decline of ~22.1%, driven by a significant ~23.2% drop in production and a slowdown in demand. Demand in this sector comes from both the Original Market (first-hand) and the Replacement Market. High-priced appliances, such as refrigerators and air conditioners—which have become essential household items—tend to dominate the replacement/second-hand segment. PEL holds a moderate market share in appliances, capturing 19% in refrigerators, 15% in deep freezers, 14% in microwave ovens, 8% in air conditioners, 2% in LED TVs, and 3% in washing machines. On the power side, PEL is a market leader, holding 90% market share in power and distribution transformers, 21% in energy meters, 25% in switchgear, and 70% in related segments. Revenue comes from two main divisions: Power (52%) and Home Appliances (48%). In CY23, sales were PKR 38,685mln, a 26.2% decline from PKR 52,386mln in CY22, primarily due to SBP-imposed import restrictions. The Home Appliances Division saw a 34.82% revenue drop due to supply constraints, while the Power Division's revenue decreased by 18.20%. Despite these challenges, PEL improved its gross margin to 28.7% (CY22: 19.7%) and operating profit to 18.6% (CY22: 10.2%). Net profit stood at PKR 1,325mln (CY22: PKR 1,067mln). In 9MCY24, revenue surged by ~42.5%, with gross and net margins at 26.5% and 4.5%, respectively. Going forward, the Company is expected to benefit from Government industrialization efforts including privileges given to construction sector. Demand of company's home appliances division products will increase with the growing disposable incomes and power division products demand will grow, with the increasing constructions both at housing & commercial levels.

Financial Risk PEL demonstrated resilience in CY23 despite facing challenges, such as an increase in gross working capital days to 262 (CY22: 188 days) and average receivables rising to 141 days (CY22: 103 days). Encouragingly, 1QCY24 showed improvement, with working capital days decreasing to 191 and 176, respectively. The significant rise in free cash flow from operations to PKR 7,449mln (CY22: PKR 5,688mln) underscores stronger cash generation, which helped manage high finance costs, as indicated by a stable interest coverage ratio of 2.4x (CY22: 2.3x). Furthermore, effective debt management led to a reduction in the debt-to-equity ratio to 28% in CY23 (CY22: 37.0%), though the slight increase in total debt to PKR 16,132mln as of September 24 will require careful monitoring to sustain this progress.

Instrument Rating Considerations

About The Instrument The Company issued a Rated, secured, 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	Sep-24	Dec-23	Dec-22	Dec-21
Household Appliances	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	30,264	29,728	27,362	25,595
2 Investments	50	32	18	33
3 Related Party Exposure	20	19	11	14
4 Current Assets	37,989	36,578	40,023	34,172
a Inventories	*11,698*	*11,687*	*13,825*	*10,465*
b Trade Receivables	*15,890*	*14,313*	*15,681*	*13,966*
5 Total Assets	68,323	66,358	67,415	59,813
6 Current Liabilities	3,702	3,881	2,094	1,859
a Trade Payables	*1,865*	*1,986*	*271*	*185*
7 Borrowings	16,132	15,974	22,879	20,558
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	5,201	5,078	3,484	2,819
10 Net Assets	43,288	41,425	38,958	34,577
11 Shareholders' Equity	43,288	41,425	38,958	34,577
B INCOME STATEMENT				
1 Sales	41,353	38,685	52,386	42,887
a Cost of Good Sold	*(30,386)*	*(27,581)*	*(42,085)*	*(33,820)*
2 Gross Profit	10,967	11,104	10,301	9,068
a Operating Expenses	(4,652)	(3,918)	(4,973)	(4,505)
3 Operating Profit	6,315	7,186	5,329	4,563
a Non Operating Income or (Expense)	*(194)*	*(233)*	*109*	*(183)*
4 Profit or (Loss) before Interest and Tax	6,120	6,952	5,438	4,380
a Total Finance Cost	*(2,928)*	*(3,649)*	*(3,090)*	*(2,174)*
b Taxation	*(1,329)*	*(1,979)*	*(1,281)*	*(615)*
6 Net Income Or (Loss)	1,863	1,325	1,067	1,591
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*5,925*	*7,449*	*5,688*	*4,374*
b Net Cash from Operating Activities before Workin	*3,147*	*3,857*	*2,889*	*2,509*
c Changes in Working Capital	*(1,581)*	*5,130*	*(5,699)*	*(2,966)*
1 Net Cash provided by Operating Activities	1,566	8,987	(2,809)	(457)
2 Net Cash (Used in) or Available From Investing A	(1,489)	(2,049)	(2,788)	(2,688)
3 Net Cash (Used in) or Available From Financing A	158	(6,949)	5,814	3,171
4 Net Cash generated or (Used) during the period	235	(12)	217	27
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	42.5%	-26.2%	22.1%	48.9%
b Gross Profit Margin	26.5%	28.7%	19.7%	21.1%
c Net Profit Margin	4.5%	3.4%	2.0%	3.7%
d Cash Conversion Efficiency (FCFO adjusted for W	10.5%	32.5%	0.0%	3.3%
*e Return on Equity [Net Profit Margin * Asset Turr*	5.9%	3.3%	2.9%	4.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	177	262	188	189
b Net Working Capital (Average Days)	165	251	186	185
c Current Ratio (Current Assets / Current Liabilitie	10.3	9.4	19.1	18.4
3 Coverages				
a EBITDA / Finance Cost	2.5	2.4	2.3	2.9
b FCFO / Finance Cost+CMLTB+Excess STB	1.5	1.4	0.8	1.0
c Debt Payback (Total Borrowings+Excess STB) / (	0.5	0.9	2.7	3.8
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Sharehold	27.1%	27.8%	37.0%	37.3%
b Interest or Markup Payable (Days)	64.6	66.6	78.1	69.9
c Entity Average Borrowing Rate	23.4%	20.3%	13.2%	9.2%

Credit Rating

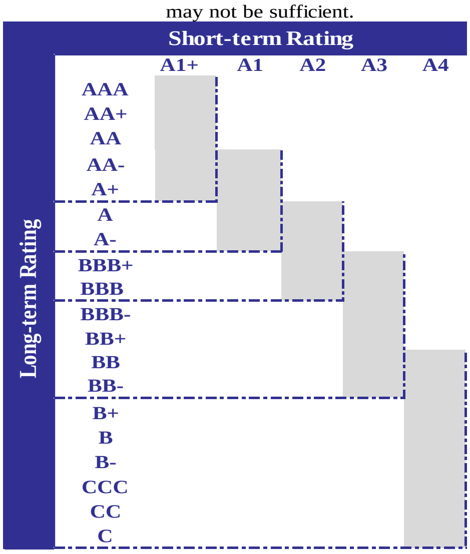
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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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Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Book Value of Assets (PKR mln)	Nature of Assets	Trustee
Rated, Secured, Privately Placed Short Term Sukuk ("PPSTS" or the "Issue")	Up to PKR 2,000 Million	Up to 6 months	◦ The Sukuk Issue will be secured against First Joint pari passu hypothecation charge over Current Assets of the Issuer with 25% Margin. The charge shall be initially registered as a ranking charge and will subsequently be upgraded to first pari passu charge within 120 days from the Issue date. ◦ Any other Security as required by the Investment Agent.	-	Current Assets	BOP

Name of Issuer	Pak Elektron Limited
Issue Date	TBI
Maturity	6-Months from Issue Date
Profit Rate	6MK+100bps

Pak Elektron Limited - PPSTS II - PKR 2bln - TBI | Repayment Schedule | Estimated

Sr.	Due Date Principal/markup	Opening Principal	6M Kibor	Markup/Profit Rate (6MK + 1.75%)	Markup/Profit Payment	Principal Payment	Total	Principal Outstanding
		PKR				PKR		