



The Pakistan Credit Rating Agency Limited

## Rating Report

### Pak Elektron Limited | PPCP | TBI

#### 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
16-Mar-2022	A+	A1	Stable	Initial	-
04-Jan-2022	A+	A1	Stable	Preliminary	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect 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, 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 3QCY21 Household Appliances showed recovery and highest production growth was recorded in Refrigerators by 151.87%, Air Conditioners by 73.71% as compared to same period last year. Power division also followed upward trajectory where production of Transformers, Energy Meters and Switch Gears increased by 16.81%, 63.81% and 186.91%, 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

<b>Name of Rated Entity</b>	Pak Elektron Limited   PPCP   TBI
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Debt Instrument Rating
<b>Applicable Criteria</b>	Methodology   Debt Instrument Rating(Jun-21),Methodology   Corporate Rating(Jun-21),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Household Appliances(Feb-22)
<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 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 Siagol (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, with three executive directors, two non-executive directors and three independent directors. The Board has high representation of Saigol Group, with three individuals (two executive and one non-executive) belonging to the group. Additionally, there is one nominee of National Bank while one independent director is a nominee of National Investment Trust. 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 3 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% and 22%. On the Power side, PEL is the market leader, with 100%, 24% and 77% of the market held in power & distribution transformers and switchgears respectively. The Company sources its revenue from two divisions, namely, Power (33%) and Home Appliances (67%). Company experienced an overall boost after a drop in COVID-19 spread. During 9MCY21, sales clocked in at PKR 31,827mln, registering a significant growth of 47.4%, (CY20: PKR 28,799mln, CY19: PKR 27,900mln). Revenue from the home appliances division came out of pressure on account of resumed related economic activities after Global Pandemic Crises. Power division's revenue registered a growth of 63.21% in 9MCY21, due to early resumption of operations after lock down and timely ordering from WAPDA Distribution Companies. During 9MCY21, gross margin slightly declined to 21.6% which stood at 22.2% during CY20. This is attributable to high raw material costs aggravated by rupee devaluation. The Company largely passed on costs to the consumers. Due to reduced operating expenses, operating profit has also improved to 11.3% in 9MCY21 from 9% in CY20. The Company posted a net profit of PKR 1,375mln in 9MCY21 (CY20: PKR 224mln) along with lower finance costs (9MCY21: PKR 1,604mln, CY20: PKR 2,198mln). Net profit margin of the Company significantly improved to 4.3% (CY20: 0.8%).

**Financial Risk** During 9MCY21, the Company's gross working capital days have decreased to 180 days from 235 days in CY20 and 249 days during CY19. Receivables of the company were recorded at 95 days (CY20: 125 days, CY19: 128 days). As a result, PEL's net working capital days reduced to 174 which stood at 228 days during CY20. A remarkable improvement in profitability led to higher free cash flow from operations (FCFO) during 9MCY21 and was clocked in at PKR 3,201mln (CY20: PKR 2,631mln). The interest coverage has improved (9MCY21: 2.2x, CY20: 1.3x, CY19: 1.7x). Similarly, core and total coverage also improved (9MCY21: 1.0x, CY20: 0.6x, CY19: 0.8x). The Company's capital structure comprises a debt-to-equity ratio of 37.8% during 9MCY21 (CY20: 37.9%, CY19: 34.7%).

## Instrument Rating Considerations

**About The Instrument** Pak Elektron Limited (PEL) raised PKR 1,200mln through an unsecured, privately placed Commercial Paper under the SECP's Issue of Commercial Paper Regulations 2013 and any subsequent amendments ("Transaction"). The offer rate of the instrument was 9MK+1.50% p.a. with a tenor of nine (9) months. Commercial Paper was issued in the form of promissory notes at a discount to face value. At the end of every three (3) months, if there is an increase in discount rate during the preceding three months period, Issuer will pay prorated fee equivalent to the change in 9 Months Kibor during the period according to the share of each investor. Issue proceeds will be utilized by the Company to meet its working capital requirements. PEL is to maintain minimum current ratio of 1.0x and maximum Debt/Equity ratio of 1.5x during the tenor.

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

**Credit Enhancement** The instrument is unsecured.



Pak Elektron Limited Household Appliances	Sep-21	Dec-20	Dec-19	Dec-18
	9M	12M	12M	12M

**A BALANCE SHEET**

1 Non-Current Assets	25,505	25,496	24,836	23,745
2 Investments	32	32	22	22
3 Related Party Exposure	13	11	6	7
4 Current Assets	31,324	29,254	26,447	28,325
<i>a Inventories</i>	10,058	9,499	7,794	10,786
<i>b Trade Receivables</i>	11,767	10,436	9,318	10,182
<b>5 Total Assets</b>	<b>56,874</b>	<b>54,793</b>	<b>51,311</b>	<b>52,100</b>
6 Current Liabilities	1,911	1,931	1,708	1,332
<i>a Trade Payables</i>	654	656	469	415
7 Borrowings	19,813	19,066	16,054	17,814
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	2,571	2,531	3,311	3,125
<b>10 Net Assets</b>	<b>32,580</b>	<b>31,265</b>	<b>30,239</b>	<b>29,830</b>
<b>11 Shareholders' Equity</b>	<b>32,580</b>	<b>31,265</b>	<b>30,239</b>	<b>29,830</b>

**B INCOME STATEMENT**

1 Sales	31,827	28,799	27,900	28,445
<i>a Cost of Good Sold</i>	(24,962)	(22,398)	(21,327)	(21,448)
<b>2 Gross Profit</b>	<b>6,865</b>	<b>6,402</b>	<b>6,573</b>	<b>6,997</b>
<i>a Operating Expenses</i>	(3,281)	(3,804)	(3,191)	(3,289)
<b>3 Operating Profit</b>	<b>3,584</b>	<b>2,598</b>	<b>3,382</b>	<b>3,709</b>
<i>a Non Operating Income or (Expense)</i>	(122)	(44)	(21)	(48)
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>3,462</b>	<b>2,554</b>	<b>3,361</b>	<b>3,661</b>
<i>a Total Finance Cost</i>	(1,604)	(2,198)	(2,480)	(2,103)
<i>b Taxation</i>	(482)	(132)	(2)	(186)
<b>6 Net Income Or (Loss)</b>	<b>1,375</b>	<b>224</b>	<b>879</b>	<b>1,371</b>

**C CASH FLOW STATEMENT**

<i>a Free Cash Flows from Operations (FCFO)</i>	3,201	2,631	3,868	3,356
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	1,977	938	1,737	1,942
<i>c Changes in Working Capital</i>	(1,793)	(471)	2,023	(2,032)
<b>1 Net Cash provided by Operating Activities</b>	<b>185</b>	<b>466</b>	<b>3,760</b>	<b>(89)</b>
<b>2 Net Cash (Used in) or Available From Investing Activities</b>	<b>(859)</b>	<b>(3,230)</b>	<b>(1,905)</b>	<b>(3,375)</b>
<b>3 Net Cash (Used in) or Available From Financing Activities</b>	<b>679</b>	<b>2,780</b>	<b>(1,812)</b>	<b>3,451</b>
<b>4 Net Cash generated or (Used) during the period</b>	<b>5</b>	<b>16</b>	<b>43</b>	<b>(13)</b>

**D RATIO ANALYSIS**

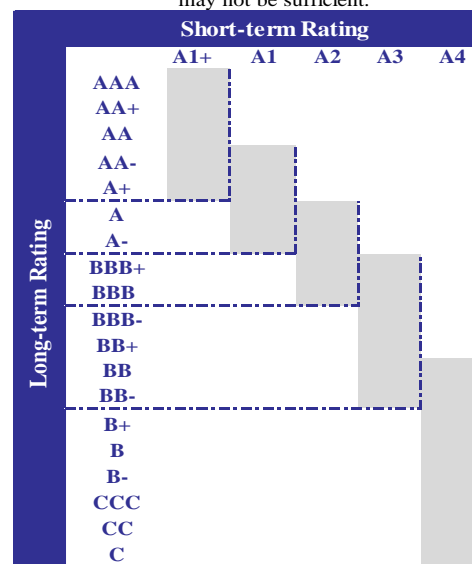
<b>1 Performance</b>				
<i>a Sales Growth (for the period)</i>	47.4%	3.2%	-1.9%	-8.2%
<i>b Gross Profit Margin</i>	21.6%	22.2%	23.6%	24.6%
<i>c Net Profit Margin</i>	4.3%	0.8%	3.1%	4.8%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	4.4%	7.5%	21.1%	4.7%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	5.7%	0.7%	2.9%	5.0%
<b>2 Working Capital Management</b>				
<i>a Gross Working Capital (Average Days)</i>	180	235	249	256
<i>b Net Working Capital (Average Days)</i>	174	228	243	250
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	16.4	15.2	15.5	21.3
<b>3 Coverages</b>				
<i>a EBITDA / Finance Cost</i>	2.8	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>	3.4	13.6	3.1	2.9
<b>4 Capital Structure</b>				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	37.8%	37.9%	34.7%	37.4%
<i>b Interest or Markup Payable (Days)</i>	67.7	67.7	80.2	86.9
<i>c Entity Average Borrowing Rate</i>	10.2%	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	<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+	<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. 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
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

### **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.
- (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)

### **Proprietary Information**

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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 Commercial Paper	1,200,000,000	9 Months	Unsecured	NA	NA	Pak Brunei Investment Company	NA

Name of Issuer	PAK ELEKTRON LIMITD
Issue Date	1-Feb-22
Maturity	9 Months
Option	NA

Tentative Due Date Principal*	Opening Principal	Principal Repayment* (Inclusive of Profit AMT)	Due Date Markup/ Profit*	Markup/Profit rate	9M Kibor Plus 150 bps	Markup/Profit Payment	Installment Payable	Principal Outstanding
PKR in mln			PKR in mln					
28-Dec-21	1,200,000,000	1,097,466,556	29-Oct-22	12.63%	12.63%	102,533,444	-	1,097,466,556
28-Sep-22		1,200,000,000				-		
		<b>1,200,000,000</b>				<b>102,533,444</b>	<b>0</b>	