The Pakistan Credit Rating Agency Limited

Rating Report

K-Electric Limited | PPSTS-28 | PKR 7.0bln | TBI

Report Contents

Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Jul-2024	AA	A1+	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The ratings reflect the strategic significance of K-Electric Limited ("the Company" or "KE") as a vertically integrated power utility company responsible for the generation, transmission, and distribution of electricity in Karachi and adjacent areas of Sindh and Balochistan. KE's Investment Plan of PKR 392bln for FY24 to FY30 and the Power Acquisition Programme (PAP) for FY24 to FY28 have been approved by the Authority on April 24, 2024, and May 20, 2024, respectively. However, KE's Multi Year Tariff (MYT), which expired in June’23, has been filed and the KE management is actively in discussion with NEPRA for its early finalization. Drawing from previous MYT experiences, KE has filed separate tariff petitions for its business segments (Generation, Transmission, Distribution and Supply). The Generation Tariff is at more advance stage with a decision expected by end of July’24. For the Transmission, Distribution and Supply tariff petition, public hearing was held on 27th June 2024 and the subsequent deliberations are expected to be concluded soon. The management expects that the entire procedure to be completed by the first quarter of FY25.Consequently, due to non-availability of approved tariff determinations, the financial reports for the all quarters of FY24 remain unavailable. In the absence of these financial statements, forecasted figures for FY24 based on actualized operational results and new MYT considerations were analyzed along with projections incorporating the approved investment plan, actual cashflows, and debt profile. According to projections, the Company's debt profile is expected to rise, mainly to enhance the transmission and distribution network. The cash flow position provides comfort in timely debt servicing. Additional support has been drawn from the fact that KE has marked its funds in Master Collection Accounts (MCA) for repaying its long-term debt for meeting its obligations timely.KE reduced its Transmission and Distribution (T&D) loss to 15.3% in FY23 and is actively working to reduce these losses, moving forward.

The outcome of the tariff determination exercise and its subsequent impact on KE remains pivotal in determining and maintaining the validity of the assigned ratings. Timely completion of the process is imperative for ratings as well as assessment of KE's financial stability and operational performance.

Disclosure	
Name of Rated Entity	K-Electric Limited | PPSTS-28 | PKR 7.0bln | TBI
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology | Debt Instrument Rating(Dec-23),Methodology | Independent Power Producer Rating(Jul-23),Methodology | Rating Modifiers(Apr-24)
Related Research	Sector Study | Power(Jan-24)
Rating Analysts	Ali Arslan Malik | Ali.Arslan@pacra.com | +92-42-35869504

Issuer Profile

Profile K-Electric (KE), was incorporated in 1913 under the Companies Act, 2017 and its shares are quoted on the Pakistan Stock Exchange. KE's current power generation capacity is 2,817MW. In addition to its own generation capacity, KE has power purchase agreements (PPA) with several IPPs & NTDC for 1650MW. KE's transmission network is interconnected with NTDC and comprises 220KV, 132KV, and 66KV transmission lines, 71 grid stations, and 181 power transformers. KE is principally engaged in the generation, transmission and distribution of electric energy under the Electricity Act, 1910 and the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 (the NEPRA Act 1997) to its licensed areas.

Ownership KES Power Limited holds 66.4% shares in K-Electric, while the Government of Pakistan owns 24.4%. KES Power has three major shareholders i.e. Al-Jomaih Group of KSA, NIG of Kuwait and IGCF SPV 21 Limited (an SPV registered in Cayman Islands).

Governance The overall control of the Company vests in thirteen-member board of directors (BoD) including the CEO. The board is majority controlled by KESP. Mr. Mark Gerard Skelton was appointed by the BOD as Chairman. Furthermore, Mr. Boudewijn Clemens Wentink, Ch. Khaqan Saadullah Khan and Ms. Sadia Khurram resigned from the position of Non-Executive Directors in October 2022 resulting in casual vacancies on the board. However, K-Electric cannot change its current Board composition till further orders from SECP in addition to the suit filed by Al Jomiah Power Limited & Denham Investments against IGCF SPV 21 restricting the Company to make any change in composition of the board. Mark Skelton is a Managing Director with Alvarez & Marsal's (A&M) Advisory practice in London. He brings more than 20 years of experience in corporate finance and advisory. His primary areas of concentration are cross border assignments crossing different legal jurisdictions and waterfall classes. There are currently four committees at the board level, namely (i) Audit, (ii) Finance, (iii) Human Resource & Remuneration, and (iv) Board Strategy & Project to ensure the smooth flow of operations. Presence of GoP representatives in the board committees bode well with the governance. A.F. Ferguson & Company, Chartered Accountants is the external auditor of the Company. The auditors have given unqualified opinion and review report on the Company's financial statements for the year ended June 30, 2023. Due to non-availability of approved tariff determinations, the financial reports for the first three quarters of FY24 remain unavailable.

Management KE has a very organized Management Structure with defined hierarchy with three segments (Generation, Transmission & Distribution) guiding the way. KE's management team comprises qualified and experienced professionals. Mr. Moonis Alvi has been spearheading the Company since being the CEO in June 2018. He is supported by an experienced team. Mr. Muhammad Aamir Ghaziani is the CFO of the Company. KE has constituted four strategic divisions – (i) Supply Chain, (ii) Corporate Strategy, (iii) Health Safety and Environment, and (iv) Special Projects – which aids in the execution of the company's overall strategy. Each division head reports directly to the CEO, with the exception of Internal Audit, who reports directly to the Audit Committee of the board. KE has implemented SAP's Industry Solution for Utilities/Customer Care System, along with SAP Customer Relationship Management and SAP Business Warehouse/ Business Intelligence Solution. KE is also making its transition towards SAP S4HANA. These modules address the needs of a customer oriented utility company as well as managing day to day operations such as meter-to-cash cycle, customer level financial management, energy loss management, etc. The modules also support upcoming regulations like 'Time of Use' tariffs and potential deregulation of the power sector. Another key initiative is integration of the state-of-the-art Supervisory Control and Data Acquisition communication system at the nine newly constructed grids with the Load Dispatch Center.

Business Risk As on June 30,2023 the total installed capacity of the country stood at 45,885MW including 3,523MW of KE, which is largely distributed towards the thermal side followed by the hydel. Currently, the renewable energy holds approximately 5% of the total installed capacity which is expected to increase going forward. Total electricity generated in the country during FY23 amounted to 138,029 GWh (FY22: 154,056 GWh). Out of which KE distributed ~7% of the electricity. KE is the only vertically integrated power utility company responsible for the generation, transmission, and distribution of electricity in Karachi and adjacent areas of Sindh and Balochistan. KE has a registered customer base of ~3.7mln at end-Mar'24, of which 84.34% constitute residential consumers, 14.96% commercial, Industrial 0.64%, and the remaining comprises of agricultural and public consumers. KE reduced its Transmission and Distribution (T&D) loss to15.3% in FY23 and is actively working to reduce these losses, moving forward. Drawing from previous MYT experiences, KE has filed separate tariff petitions for its business segments (Generation, Transmission, Distribution and Supply). The Generation Tariff is at more advance stage with a decision expected by end of July'24. For the Transmission, Distribution and Supply tariff petition, public hearing was held on 27th June 2024 and the subsequent deliberations are expected to be concluded soon.

Financial Risk KE manage its working capital through mix of short-term borrowings and internally generated cash. KE has finalized PPA with the Authority, the formally signed agreement enable KE to adjust payments to CPPA-G with Tariff Differential Claims receivable from the Government, thereby ensuring a balanced net position. As per management, the actual position of cashflows and the debt profile of the Company is in comfortable position and it's expected that the same trend continue going forward. The approval of the Investment Plan of PKR 392 billion is expected to contribute to a surge in debt, primarily directed towards enhancing the transmission and distribution segments. However, support drawn from fact that KE has marked its funds in Master Collection Accounts (MCA) for repaying its long-term debt, ensuring timely obligations.

Instrument Rating Considerations

About The Instrument KE had previously issued a Privately Placed Short-term Sukuk (PPSTS-23) of PKR 5,000mln on February 14, 2024 to support its working capital requirements which will be mature on August 15, 2024. Hence the Company is in process to issue rated, privately placed, unsecured, debt instrument in the nature of Short Term Sukuk (STS) PPSTS-28 of PKR 7,000mln in July, 2024. The tenor of PPSTS-28 will be 6 months and is carrying a profit rate of 6MK+ (up to) 30bps. Profit and principal will be realized at the time of maturity.

Relative Seniority/Subordination Of Instrument The sukuk is unsecured and in the hierarchy of creditors the investors shall rank after the secured lenders/investors of the Company.

Credit Enhancement The instrument is unsecured.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

K-Electric Limited	Jun-23	Jun-22	Jun-21	Jun-20
Power	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	581,434	489,791	424,484	361,321
2 Investments	26,232	19,249	2,987	3,048
3 Related Party Exposure	429	275	182	-
4 Current Assets	416,567	550,813	408,024	339,045
a Inventories	*5,435*	*4,030*	*3,024*	*647*
b Trade Receivables	*104,283*	*136,843*	*104,714*	*99,832*
5 Total Assets	1,024,662	1,060,128	835,677	703,414
6 Current Liabilities	385,933	476,818	382,145	295,387
a Trade Payables	*288,600*	*379,069*	*297,613*	*217,625*
7 Borrowings	309,804	283,088	184,300	155,574
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	73,770	50,050	45,281	41,795
10 Net Assets	255,155	250,172	223,952	210,658
11 Shareholders' Equity	255,155	250,172	223,952	210,658
B INCOME STATEMENT				
1 Sales	519,471	518,777	325,049	288,807
a Cost of Good Sold	*(466,659)*	*(450,241)*	*(265,854)*	*(244,914)*
2 Gross Profit	52,812	68,536	59,195	43,893
a Operating Expenses	(27,415)	(23,719)	(25,225)	(21,523)
3 Operating Profit	25,397	44,817	33,970	22,370
a Non Operating Income or (Expense)	*(33,200)*	*(24,049)*	*(7,511)*	*(5,275)*
4 Profit or (Loss) before Interest and Tax	(7,802)	20,769	26,459	17,096
a Total Finance Cost	*(34,570)*	*(15,120)*	*(11,113)*	*(16,737)*
b Taxation	*11,476*	*2,875*	*(3,348)*	*(3,318)*
6 Net Income Or (Loss)	(30,897)	8,524	11,998	(2,959)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*64,797*	*68,380*	*59,424*	*48,785*
b Net Cash from Operating Activities before Working Capital Changes	*16,564*	*48,261*	*44,556*	*27,160*
c Changes in Working Capital	*44,245*	*(75,117)*	*(2,296)*	*(4,512)*
1 Net Cash provided by Operating Activities	60,809	(26,857)	42,259	22,648
2 Net Cash (Used in) or Available From Investing Activities	(49,646)	(63,843)	(74,465)	(49,411)
3 Net Cash (Used in) or Available From Financing Activities	(218)	84,804	22,061	26,415
4 Net Cash generated or (Used) during the period	10,946	(5,896)	(10,144)	(349)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	0.1%	59.6%	12.5%	-0.1%
b Gross Profit Margin	10.2%	13.2%	18.2%	15.2%
c Net Profit Margin	-5.9%	1.6%	3.7%	-1.0%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	21.0%	-1.3%	17.6%	15.3%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	-12.2%	3.6%	5.5%	-1.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	88	87	117	134
b Net Working Capital (Average Days)	-147	-151	-172	-124
c Current Ratio (Current Assets / Current Liabilities)	1.1	1.2	1.1	1.1
3 Coverages				
a EBITDA / Finance Cost	2.1	5.9	6.6	3.7
b FCFO / Finance Cost+CMLTB+Excess STB	0.6	1.3	0.6	0.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	6.7	3.4	3.1	3.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	54.8%	53.1%	45.1%	42.5%
b Interest or Markup Payable (Days)	196.3	341.8	360.1	229.0
c Entity Average Borrowing Rate	8.8%	5.2%	5.3%	9.3%

#	Notes
	The financial reports for the first nine months of FY24 are yet to be finalized, due to pending decision on tariff determination.

Credit Rating

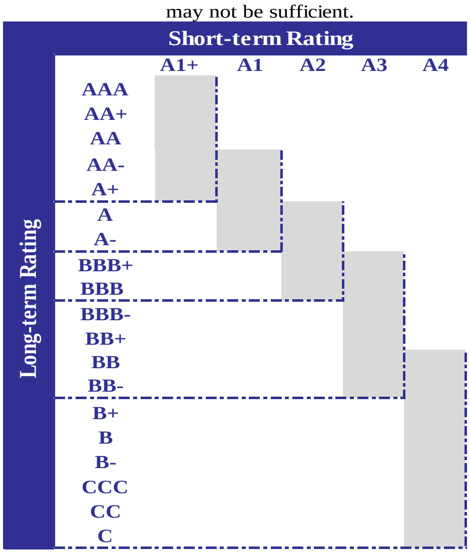
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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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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, Unsecured, Privately Placed Short Term Sukuk (PPSTS-28)	7,000 mln	6 months	Unsecured	N/A	N/A	HBL	N/A

Name of Issuer	K-Electric Limited
Issue Date	July, 2024
Maturity	January, 2025
Profit Rate	6M KIBOR + upto 30bps p.a.

Due Date Principal*	Opening Principal	Principal Repayment*	Due Date Markup/ Profit*	Markup/Profit rate	6M Kibor Plus upto 30bps	Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln					PKR in mln		
Issuance								7,000
July, 2024	7,000			6M KIBOR + 0.3%	20.39%		-	7,000
January, 2025	7,000	7,000	January, 2025	6M KIBOR + 0.3%	20.39%	714	7,714	-
		7,000				**714**	**7,714**	