K-Electric Limited *(formerly Karachi Electric Supply Company Limited)*

Chairman: Mr. Tabish Gauhar; Chief Executive Officer: Mr. Tayyab Tareen

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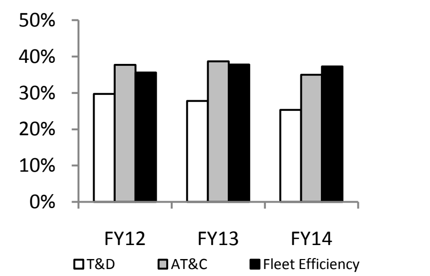
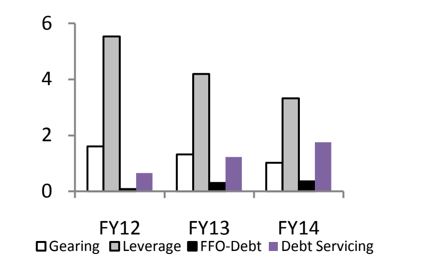
Category	Latest	Previous
Entity	AA/A-1 *Nov 28, '14*	A+/A-2 *Jan 2, '14*
Outlook	***Stable*** *Nov 28, '14*	***Positive*** *Jan 2, '14*
Sukuk-1 (Rs. 0.75b)	AA	A+
Sukuk-2 (Rs. 3.75b)	AA	A+
Sukuk-3 (Rs. 1.5b)	AA	A+
	Nov 28, '14	*Jan 2, '14*
Sukuk-4 (Rs. 22b)*	AA+	N/A
**Preliminary*	*Jan 29, '15*	-

Key Operational & Financial Trends





(All figures in PKR Billions)	FY12	FY13	FY14
Net Sales	162.8	189.0	194.7
Net Profit/(loss)	2.6	6.8	12.9
Gross Margin	10.0%	15.2%	16.6%
Net Margin	1.6%	3.6%	6.6%
Tier-1Equity	15.4	28.5	43.5
Total Debt	72.7	70.9	72.7
Long Term Debt*	43.4	31.8	25.8
FFO	5.3	21.1	26.0
FFO/Total Debt	7.9%	29.8%	35.8%
ROAE	-	14.1%	21.5%
ROAA	1.0%	2.5%	4.4%

Rating Rationale

The ratings assigned to K-Electric Limited (KE) are underpinned by the strategic importance of the company as a vertically integrated utility having exclusive rights to distribute electricity in the largest metropolitan city of Pakistan. The upgrade takes into account the strong business risk profile of KE as evident from continuous improvement across various operational metrics.

The company has achieved notable improvement in fleet efficiency in the last few years. Further improvement in this area is expected in view of the on-going conversion of three open cycle power plants to combined cycle power plants. Moreover, major capacity enhancement projects such as development of 660 MWs coal fired project and various other small scale initiatives, are expected to add to the company's capacity, including the utilization of alternate energy sources, and look promising for the company's projected generation profile, in the backdrop of the demand-supply gap.

Positive trend in Transmission & Distribution (T&D) losses (FY14: 25.3%; FY13: 27.8%) along with management's projections for continuity of this trend have also been factored into the assigned ratings. At current levels, T&D losses are weaker than NEPRA's benchmark. Management has projected continued reduction in T&D losses on the back of aggressive detection drive along with initiatives such as Aerial Bundled Cabling, Smart Grid and Mobile Meter Reading solutions. Aggregate Technical & Commercial (AT&C) losses have also trended down with overall improvement in recovery ratio to 87.0% (FY13: 84.9%); however recovery from public sector consumers at 63% continues to be a drag. Some improvement may be witnessed in the same during FY15 in view of allocation of funds to Karachi Water & Sewerage Board in Finance Bill 2015 of Sindh Government, for payment of electricity bills. Further investments in the distribution infrastructure may also be required to replace the ageing equipment.

Financial risk profile of the company has also improved as reflected by declining leverage indicators and improved cash flow coverage. With higher sales and improved recovery ratio, the company's FFO to total debt ratio improved to 0.36x (FY13: 0.30x). In addition to overall shortfall in recoveries from end consumers, major items affecting the company's working capital cycle include recoveries in lieu of subsidy from the GoP and payments owed to NTDC; the company's net receiver position in this respect is expected to be reversed with increase in tariff for residential consumers. Moreover, the recent dip in international oil prices is expected to reduce the company's working capital requirement and have a positive impact on profitability.

KE is planning to issue Sukuk of Rs. 22b (inclusive of a green shoe option of Rs. 2b). Proceeds of the Sukuk issue will largely be utilized towards repayment of the company's existing long term debt. The entire Sukuk issue will have repayment linked to specific receivables from 495 identified industrial customers, which have an extended history of timely payments with the company and have priority of electricity supply over other consumers. The ratings assigned to the Rs. 22b Sukuk are supported by additional cushion whereby a cash collection mechanism will be triggered if overall entity level debt service coverage falls below a pre-defined threshold and retention of amount equivalent to one-third of the quarterly installment by the collection agent to meet the upcoming installment. Debt repayment capacity is expected to remain comfortable level under realistic stress test scenario. KE also plans to acquire additional debt in FY17 for transmission enhancement and rehabilitation projects; however, the company's growth projections indicate that even after taking additional debt into account, gearing remains at manageable levels on account of internal capital generation.

Key risk factors primarily stem from developments in the external environment and the company's relationship with third parties, including regulatory authority/suppliers/consumers. The provision of 650 MWs from Water and Power Development Authority (WAPDA), the Power Purchase Agreement (PPA) for which expired in January 2015, is a key component of the overall supply by KE. Negotiations for future terms of supply are on-going and will be keenly tracked by JCR-VIS. Chances of complete discontinuation of the 650MW power supply are considered remote, given the strategic importance of Karachi and other relevant factors.

External relations with sole gas supplier, Sui Southern Gas Company Limited (SSGC), have eased with agreement of a Payment Plan. The plan also covers clearing of historical dues of SSGC, though there continues to be uncertainty regarding the total amount payable; timely resolution of the same, in addition to other outstanding legal matters is considered important.

JCR-VIS sensitizes the projections made available by management to determine debt servicing capacity under realistic stress test scenarios; however, the assigned ratings do not incorporate Force Majeure situations.

Overview of the Institution

KE was incorporated on September 13, 1913. KE was initially privatized in 2005 when Saudi Al-Jomaih Group of Companies and Kuwait's National Industries Group acquired major stake in the company. In 2008, Al-Jomaih approached Abraaj Capital and a deal to transfer management control was finalized between the two parties, which entailed investment of $361m by Abraaj Capital over the subsequent few years. Abraaj Capital, through KES Power Limited, is now the major shareholder of KE. Financial Statements for FY14 were audited by M/s KPMG

K-Electric Credit History

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		Rating Type: Entity		
12/1/2014	**AA**	**Stable**	**A-1**	**Upgrade**
1/2/2014	**A+**	**Positive**	**A-2**	**Reaffirmed**
11/25/2013	**A+**	**Positive**	**A-2**	**Initial**

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		Rating Type: Sukuk 1,2 & 3		
12/1/2014	**AA**	**Stable**		**Upgrade**
1/2/2014	**A+**	**Positive**		**Final**
11/25/2013	**A+**	**Positive**		**Preliminary**
12/1/2014	**AA**	**Stable**		**Upgrade**
1/2/2014	**A+**	**Positive**		**Final**
11/25/2013	**A+**	**Positive**		**Preliminary**
12/1/2014	**AA**	**Stable**		**Upgrade**
1/2/2014	**A+**	**Positive**		**Final**
11/25/2013	**A+**	**Positive**		**Preliminary**