



Rating Action

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Applicable Criteria and Related Research

- Corporate Rating Methodology
- Debt Instrument Rating Methodology

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PACRA Maintains Rating of TFCs (Azm Certificates III) issued by K-Electric Limited

The Pakistan Credit Rating Agency Limited (PACRA) has maintained the rating of outstanding rated and listed TFC III of PRK 500mln issued by K-Electric Limited (KE) at 'AA+' (Double A Plus). The rating denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

The ratings reflect demonstrated history of timely repayments of outstanding retail TFCs - Azm - issued by KE. Strong security structure of instrument outline that TFC holders have a first pari passu charge on bills receivable from two sets (core and additional) of carved out consumers. The bill collection ratio of these sets is strong. A minimum throughput of 1.2x is to be maintained from receivables of carved out consumers - 250 specific entities (core) and 495 specific entities (additional). The amounts received are directly deposited into Debt Payment Account (DPA), which is gradually built over a period prior to each repayment date to avoid pressure on any single month. Historical pattern of collections is robust and hence, cashflow coverages are expected to remain strong. Meanwhile, coverages since the issuance of the instrument have been stronger than expected. This is attributable to good collection pattern, and increase in underlying revenues. Out of the series of TFCs issue, KE has successfully redeemed TFC (I) and TFC (II) in Sep13 and Aug15 as per agreed timelines. Volatile domestic socio-political environment may exert some pressure on the issuer though its impact on TFCs performance is expected to remain limited.

The ratings are dependent on the continued compliance with the predefined security structure of the instrument. Moreover, any significant deterioration in the performance of KE, impacting the projected collection stream, would have negative implications for the rating though the likelihood of this is remote.

About the TFCs

The TFCs were issued in three simultaneous tranches in Aug12: (i) TFC I of PKR 300mln was redeemed in Sep13, (ii) TFC II of PKR 1,200mln redeemed in Aug15, and (iii) TFC III of PKR 500mln with tenor of 60 months, carries a profit rate of 15.5% payable quarterly with principal repayment in Aug17.

About the Company

K-Electric, formerly Karachi Electric Supply Company Limited (KESC), a vertically-integrated power utility, is ~66% owned by KES Power Limited (KESP), while Government of Pakistan holds ~24% stake. KESP is majority owned (~52%) by Abraaj Capital (a Private Equity Investor).

Thirteen member board comprises nine representatives of KESP, three GoP members and one independent member. The CEO - Mr. Tayyab Tareen - is supported by an experienced team.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity.

PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.