

Case Study: Karachi Electric Supply Company (Pakistan)

KESC's Story

The Karachi Electric Supply Company (KESC), incorporated in 1913, is one of the few vertically-integrated power utilities remaining globally. Throughout the company's nearly 100-year history, KESC has undergone a variety of management changes, including privatization in 2005.

KESC manages the generation, transmission and distribution of electricity to Karachi—one of the top ten most populous cities in the world with 18 million inhabitants. KESC supplies electricity to 2.3 million consumers that fall under a network spanning 6,000 square kilometers. It has a workforce of 18,000 employees and is listed on the Karachi, Lahore and Islamabad Stock Exchanges.

In March 2008, having been familiar with the privatization case for KESC and knowing the history of the asset—along with the resulting challenges and opportunities—Abraaj was presented with an opening to take over management.



Incumbent shareholders noted Abraaj's track record of business transformation through its acquisitions and exits across the region since 2002.

Following the due diligence process, completed in May 2008, Abraaj Capital agreed to invest US\$361 million for a 50% stake in KES Power—the holding company that owned 71.5% of KESC—with the aim of finally realizing the power company's goal of implementing a turnaround and growth plan. Existing shareholders retained equity in the business, with Abraaj assuming full management control.

The Role Played by Private Equity

Following the departure of KESC's CEO in 2008, existing shareholders approached Abraaj to invest in KES Power and take over 100% management control of KESC. The owners sought to leverage Abraaj's established management and operational track record in large-scale turnaround investments, as well as its deep pool of capital and credibility with regional lenders, all of which would be necessary to finance and implement an ambitious series of power projects. After taking management control in September 2008 and establishing capable senior management and operational teams, Abraaj pursued a number of core initiatives for KESC.

To reverse cash losses upwards of US\$15 million per month, KESC's CFO Tayyab Tareen (a Principal at Abraaj) targeted capital expenditures to improve system efficiency and rationalized the tariff structure to improve cash flow management. KESC also focused on

reducing transmission and distribution (T&D) losses and increasing the efficiency of KESC's generation fleet. Reductions in T&D losses and improvements in system efficiency cut KESC's net losses by 48% from Q1 2010 to Q1 2011, representing a savings of US\$24 million.

Parallel to this, Abraaj undertook a program to engage KESC's core stakeholders—its customers, the Government of Pakistan, local businesses, regulators, its workforce and the media—to rebuild the company's damaged reputation. This included direct engagement with customers by hosting 11 "Open Kutcheries," where customers could meet with senior management—including the CEO—to provide feedback and discuss grievances.

Part of a renewed focus on people included a recruitment drive that saw investment in the number of employees in KESC's '118' Call Center operations, which provide instant customer support via a team of trained telephone operators, grow from 70 to over 350 agents.

The Company



Essentials

Company: Karachi Electric Supply Company, www.kesc.com.pk/en

Country: Pakistan

Sector: Energy/Utilities

Business focus: Generation, transmission and distribution of electricity

Size: Total revenue US\$1.2 billion (FY 2010)

GP: Abraaj Capital, a private equity firm focused on investing in emerging markets, with US\$6 billion in assets under management (www.abraaj.com)

Date of investment: May 2008

Investment: Abraaj acquired a 50% stake with management control in KES Power, the holding company that owned 71.5% of KESC; Abraaj committed a total of US\$361 million, staggered over a three year period

Impact Highlights

Abraaj developed a line loss reduction model—Integrated Business Centres (IBCs)—that ended the split between the commercial and technical sides of the business and reduced losses by 8% over two years

KESC put in place maintenance systems and overhaul cycles for existing generation plants, improving fleet efficiency by 3%

New management turned around a 220 MW plant within one year, re-negotiated a contract for a 560 MW plant and commissioned two new 90 MW plants, adding 1000 MW to the city's grid

Abraaj focused on a stakeholder engagement strategy in parallel to operational transformation; it engaged customers and employees in open and continuous dialogue and partnered with government, business and the media to improve KESC's broken reputation

The Company View

“Bringing KESC out from its bunker mentality and turning the company around has been a real team effort and the task and challenges continue: long-term investment, external stakeholder engagement, operational efficiency improvement and employee engagement have all been essential to improving the company’s image and performance.”

Tabish Gauhar, CEO, KESC

“Though our core intention is financial value creation, particularly in this case we saw the opportunity to create deeper sustainable value through engaging the people of Karachi and winning their hearts and minds through delivery, coupled with an array of community programming. This has been an essential and continuing theme in KESC’s transformation.”

Ovais Naqvi, Senior Vice President, Abraaj Capital’s ASSET Team (and KESC CMO 2008–2010)



KESC’s executive management team, formed through a combination of members of Abraaj and utility industry veterans, includes: Abraaj Partner Tabish Gauhar, CEO; Tayyab Tareen, Group CFO; Nayyer Hussain, CSO – Distribution; Arshad Zahidi, CSO – Generation and Transmission; Eram Hasan, Head of Supply Chain and a number of other senior executives from across the region, including Zulfiqar Ali and Mazher-ul-Haq.

Beyond the Bottom Line

CSR forms a key component of Abraaj’s transformation strategy. With its own history of strategic philanthropy and social investment through its Abraaj Strategic Stakeholder Engagement Track (ASSET) program, Abraaj deployed a team with a budget to focus on sustainable programming and build bridges between the community and KESC through long-term partnerships and engagement. The CSR programming spans education and sports, women’s empowerment, sanitation and healthcare and even local heritage conservation.



Employee engagement and CSR initiatives include the Flood Relief Operation program governed and operated by KESC employees in collaboration with the Government of Sindh and civil service organizations. Following the heavy monsoon flooding in Pakistan in 2010, KESC helped over 30,000 Internally Displaced Persons (IDPs) by collecting US\$650,000 (PKR56 million) in donations, primarily from personal contributions.



KESC also provided food, shelter and medical assistance to the IDPs, treating over 200–300 patients per day. The IDPs residing in KESC Care Camps were provided with around 10,000 ration bags throughout the program. The Overseas Investors Chamber of Commerce & Industry, Karachi’s Chamber of Commerce, ranked KESC’s flood relief operation as the fourth largest nationwide corporate relief effort during the crisis.

