

RATING REPORT

Superhighway Construction Operation & Rehabilitation Engineering (Private) Ltd. (SCORE)

REPORT DATE:

 5th November 2019

RATING ANALYSTS:

Talha Iqbal

talha.iqbal@vis.com.pk

Madeeh Ahmed

madeeh.ahmed@vis.com.pk

RATING DETAILS

Rating Category	Latest Rating	Previous Rating
Entity	AA-/A-1	AA-/A-1
Rating Date	October'30, 2019	November'10, 2018
Rating Outlook	Stable	Stable

COMPANY INFORMATION

Incorporated on February 27, 2015.	External auditors: KPMG Taseer Hadi & Co.
Private Limited Company	Chairman of the Board: Maj. Gen. Inam Haider Malik
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Brig. Waqar Hafeez Abbasi
Frontier Works Organization – 100%	

APPLICABLE METHODOLOGY (IES)

VIS Entity Rating Criteria: Toll Roads (November 2018)

<http://vis.com.pk/docs/Toll%20roads112018.pdf>

VIS Entity Rating Criteria: Industrial Corporates (May 2016)

<http://vis.com.pk/docs/Corporate-Methodology-201605.pdf>

**Superhighway Construction Operation & Rehabilitation Engineering (Private) Ltd.
(SCORE)**

PROFILE	RATING RATIONALE
---------	------------------

Superhighway Construction Operation and Rehabilitation Engineering (Pvt.) Limited (SCORE) was incorporated in February, 2015 under the companies ordinance, 1984. FWO was incorporated in 1966, by the Engineering Corps of Pakistan Army for the construction of Karakoram Highway.

Superhighway Construction Operation and Rehabilitation Engineering (Pvt.) Limited (SCORE) is a Special Purpose Vehicle (SPV), a wholly-owned subsidiary of Frontier Works Organization (FWO). FWO is an autonomous organization which has played a key role in the development of bridges, roads, tunnels, airfield and dams in Pakistan.

SCORE was incorporated for the conversion of existing 4-lane Karachi-Hyderabad Superhighway into a 6 lane (M-9) road. The project is based on build, operate and transfer basis. SCORE has entered into a 25-year concession agreement with National Highway Authority (NHA) starting in March 2015. Furthermore, SCORE has also signed an Operations and Maintenance (O&M) contract with Frontier Works Organization (FWO). FWO was also involved in the construction of the road and has provided an unconditional guarantee for debt repayment in favour of SCORE.

M-9 is a 136 kilometers motorway from Karachi to Hyderabad with 10 interchanges. Project deliverables also include construction of 275 km long service road (IST), 2 Motorway Service Areas (MSA), 11 bridges, electronic toll collection system and fencing of Motorway (leaving the urbanized area). The motorway has been almost entirely been completed in terms of percentage of work done (The company received substantial completion certificate from the Quality Assurance Inspector (QAI) in June 2018); however, the formal completion certificate is still pending, as some of the fencings of the motorway is yet to be completed coupled with finalizing pavement of side roads in some areas. M-9 offers various savings to commuters including lower vehicle operating cost, lesser time and distance which are not available in the alternative route. Toll collection from the road commenced in June 2018.

Traffic Mix and Revenue

Actual traffic volumes during FY19 have been reported significantly higher than the projected volumes. In volumetric terms, major proportion of traffic accounts for cars, followed by trucks and articulated trucks. However, in revenue terms, over 60% of the total revenue is generated from trucks and articulated trucks.

	Assumed Traffic	Actual Traffic
FY19	10,962,852.0	16,889,264.0
HY20	5,652,901.0	4,007,716.0
	Assumed %	Actual %
Cars	45.00%	53.7%
Wagons	8.00%	5.2%
Coasters	7.00%	5.5%
Buses	6.00%	4.3%
Trucks (2&3 Axles)	19.00%	12.6%
Articulated Trucks	15.00%	18.7%
	100%	100%

Despite higher traffic volumes vis-à-vis projected levels, overall revenues remained below projections on account of lower toll charged and distance travelled vis-à-vis assumed in the financial model traffic (*financial model was based on the assumption that traffic that enters via Karachi or Hyderabad travels the whole motorway*). Moreover, right of way revenue has also remained on the lower side; the same is expected to increase in the ongoing fiscal year. Going forward, total revenue is expected to increase on account of expected toll escalation and continuous increase in traffic. Over the medium term, management expects significant increase in traffic volumes with completion of Bahria Town and DHA City while making the motorway a closed loop is planned to reduce pilferages on the road.

Debt Profile and Servicing

SCORE's debt profile primarily comprises long term loan which is a combination of conventional and musharaka funding. Total debt of the company was reported at Rs. 2.5b at end-FY19. During FY19, the company has made a repayment of Rs. 1.79b along with a mark-up payment of Rs. 2.49b. Aggregate debt servicing requirements for FY20 are estimated to be around Rs. 3.3b and have increased significantly due to sizeable hike in interest rates. Cushion in debt servicing has declined due to lower than projected revenues and higher interest rates with the Company not setting aside funds for major maintenance as had initially been planned. VIS expects cash flows (after adjusting for expenses) from operations to be slightly short of debt servicing requirements for FY20. Comfort is drawn from sizeable cash balance available with the Company which can be drawn from in case of shortfall. Ratings remain dependent on restoration of debt servicing buffers and strong commitment of sponsors to meet any projected shortfall.

Financial Summary (amounts in PKR millions)	Appendix I		
	FY17	FY18	FY19 (UA)
<u>BALANCE SHEET</u>			
Fixed Assets	25,010.3	32,510.6	29,053.6
Long term Advance	3,786.7	3,132.2	3,132.2
Stock-in-Trade	-	-	-
Trade Debts	-	-	-
Cash & Bank Balances	127.8	1,438.8	2,008.0
Total Assets	29,080.9	37,338.4	34,546.5
Trade and Other Payables	318.5	132.2	142.6
Long Term Debt (including current maturity)	19,252.3	24,997.0	23,235.2
Short Term Debt	-	-	-
Total Debt	19,252.3	24,997.0	23,235.2
Total Liabilities	20,800.8	26,575.5	24,770.7
Paid-up Capital	8,351.6	10,800.0	10,800.0
Total Equity	8,280.2	10,762.9	9,775.8
<u>INCOME STATEMENT</u>			
Net Sales	0.0	0.0	5,701.1
Operating Profit	(9.8)	60.3	1,607.1
Profit Before Tax	(119.1)	47.2	(915.8)
Profit After Tax	(93.5)	34.3	(987.1)
<u>RATIO ANALYSIS</u>			
Net Profit Margin	N/A	N/A	-17.3%
Net Working Capital	(1,127.9)	(1,531.4)	(1,465.5)
Current Ratio	0.2	0.5	0.6
ROAA (%)	N/A	0.1%	-2.7%
ROAE (%)	N/A	0.4%	-9.6%
Gearing (x)	2.3	2.3	2.4
Leverage (x)	2.5	2.5	2.5

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES		Appendix III			
Name of Rated Entity	Superhighway Construction & Operation Rehabilitation Engineering (Private) Ltd.				
Sector	Toll Roads				
Type of Relationship	Solicited				
Purpose of Rating	Entity rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	30-Oct-2019	AA-	A-1	Stable	Reaffirmed
	30-Nov-2018	AA-	A-1	Stable	Reaffirmed
	21-Ocr-2016	AA-	A-1	Stable	Initial
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2019 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				