

RATING REPORT

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

REPORT DATE:

October 20, 2022

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
Entity	AA-/A-1	AA-/A-1
Rating Date	October 20, 2022	April 02, 2021
Rating Outlook	Stable	Stable
Rating Action	Reassessed	Reaffirmed

COMPANY INFORMATION

Incorporated on February 27, 2015.	External auditors: Riaz Ahmed, Saqib, Gohar & Co. Chartered Accountants
Private Limited Company	Chairman of the Board: Maj. Gen. Kamal Azfar
Key Shareholders (with stake 5% or more): Frontier Works Organization – 100%	Chief Executive Officer: Brig. Waqar Hafeez Abbasi

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Toll Roads (August 2020)
<https://docs.vis.com.pk/docs/TollRoads202008.pdf>
 VIS Entity Rating Criteria: Industrial Corporates (August 2021)
<https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf>

Superhighway Construction Operation & Rehabilitation Engineering (Private) Ltd

PROFILE	RATING RATIONALE
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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” or “the Company”) 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 road i.e. the M9. The project was acquired by FWO on Build, Operate and Transfer (BOT) basis. SCORE entered into a 25-year concession agreement with National Highway Authority (NHA) starting in March 2015. Furthermore, SCORE also signed an Operations and Maintenance (O&M) contract with FWO, which was also involved in the construction of the road. FWO 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 included construction of 275 km long service road (TST), 2 Motorway Service Areas (MSA), 11 bridges, electronic toll collection system and fencing of Motorway (leaving the urbanized area). The motorway has been completed in terms of percentage of work done, as the Company received substantial completion certificate from the Quality Assurance Inspector (QAI) in June 2018. The formal completion certificate is pending, as some of the fencings of the motorway are yet to be completed coupled with finalizing pavement of side roads in some areas. These last few deliverables are being affected by political challenges. The 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.

Business Update

Traffic Mix and Revenue

- Average monthly traffic volumes posted notable improvement in FY22, as average monthly traffic count and revenue base was up 18.6% and 22.9% respectively. In volumetric terms, major proportion of traffic accounts for Cars, followed by Multi Axle and Trucks.

Table 1: Traffic Mix and Revenue

	<i>FY20</i>	<i>FY21</i>	<i>FY22</i>
<i>Revenue (Rs. In Mn)</i>	5,646.9	6,772.5	8,320.2
<i>Avg. Monthly Traffic Count (No. of Vehicles)</i>	1,303,716	1,435,819	1,702,449
<i>Proportion in Traffic Count</i>	<i>FY20</i>	<i>FY21</i>	<i>FY22</i>
<i>Cars</i>	57.3%	58.7%	62.0%
<i>Wagons</i>	4.2%	3.8%	2.4%
<i>Coasters</i>	5.8%	5.4%	6.9%
<i>Buses</i>	3.2%	3.4%	3.3%
<i>Trucks</i>	11.3%	10.4%	9.2%
<i>Multi Axle</i>	18.2%	18.2%	16.1%
<i>Total</i>	100%	100%	100%

Given breach of debt covenants, cash flow coverage were affected, albeit they have now improved given waiver from banks

- In FY21, the Company's DSCR came under stress. This was primarily due to a breach of covenants with the lender for current ratio falling below the pre-defined benchmark specified in the financing agreement. As a result, the Company no longer had an unconditional right to postpone the repayment of the loan (including Musharaka) for at least 12 months, and the entire loan amount was classified as current liability.

- Subsequent to end-FY21, the banks waived off the compliance requirements with respect to current ratio as required in the financing agreement

Table 2: Cash flow indicators (In PKR' Millions, unless stated otherwise)

	<i>FY21</i>	<i>FY22*</i>
Debt	17,925	13,752
<i>Short-term debt</i>	-	-
<i>Long-term debt</i>	244	11,367
<i>Current Maturity</i>	17,681	2,385
FFO	5,879	6,611**
FFO to Debt (x)	0.33	0.48**
DSCR (x)	0.34	0.46**
<i>* Unaudited</i>		
<i>** Estimated</i>		

- For FY22, given reclassification of entire debt as short term, the DSCR was reported at 0.46x. However, subsequent to waiver provided by banks and reclassification of debt, DSCR is estimated at ~1.8x, which is viewed as comfortable.
- Further comfort is drawn from improvement in current ratio 0.48x (FY21: 0.09x) as of Jun'22.
- Cash outflows in the rating horizon are limited albeit are expected to rise over the longer term, ahead of FY24-25 as the highway will require a layover after 7 years of operations.
- The financial risk profile of the entity has depicted improvement on a timeline with gearing falling from 1.72x as of Jun'21 to 1.46x as of Jun'22.

Key Rating Drivers

Unconditional guarantee from FWO

- The assigned rating factors in the unconditional guarantee of debt repayment provided by FWO in favor of SCORE.
- FWO is a military engineering organization established in 1966. Its objectives include projects related to civil, construction, combat, structural, and military engineering. The FWO led the design and construction of the Karakoram Highway. It builds civil and military infrastructure for the Government of Pakistan and the Pakistan Armed Forces.

Rating incorporates Business and Financial Risk Profile of SCORE

- The business risk profile of the SCORE is viewed as 'low' given that construction risk has almost entirely been concluded. The operational Risk is assuaged by that fact that FWO is overseeing the O&M of M-9; FWO has significant experience overseeing O&M of toll roads in the country.
- Given the reclassification of debt and part repayment, gearing has dropped, which has been incorporated into the financial risk profile of SCORE.
- The rating incorporates revenue generation capacity of SCORE, which is viewed as constrained and leaves room for improvement.

Superhighway Construction Operation & Rehabilitation Engineering (Private) Ltd. Appendix I

FINANCIAL SUMMARY				
	(Rs. in m)			
<u>BALANCE SHEET</u>	June'19	June'20	June'21	June'22*
Fixed Assets	29,391	26,479	25,709	21,202
Long Term Advance	3,132	1,805	1,805	1,805
Stock-in-Trade	-	-	-	-
Trade Debts	-	-	-	-
Cash & Bank Balances	2,007	1,099	680	680
Total Assets	35,055	31,617	29,416	25,418
Trade and Other Payables	187	1,308	465	356
Long Term Debt (incl. current maturity)	23,407	20,938	17,925	13,752
Short Term Debt	-	-	-	-
Total Debt	23,407	20,938	17,925	13,752
Total Liabilities	24,996	22,563	19,022	14,347
Paid Up Capital	10,800	10,800	10,800	10,800
Total Equity	10,058	9,054	10,394	11,027
<u>INCOME STATEMENT</u>	FY19	FY20	FY21	FY22*
Net Sales	5,691	5,647	6,772	8,320
Operating Profit	1,943	1,946	4,137	4,033
Profit Before Tax	(784)	(1,374)	2,390	1,080
Profit After Tax	(705)	(1,005)	1,340	633
<u>RATIO ANALYSIS</u>	June'19	June'20	June'21	Jun'22*
Net Profit Margin	(12.4%)	(17.8%)	19.8%	7.6%
Net Working Capital	(22,428)	(19,675)	(16,604)	(1,421)
Current Ratio (x)	0.09	0.12	0.09	0.48
ROAA (%)	(1.9%)	(3.0%)	4.4%	2.3%
ROAE (%)	(6.8%)	(10.5%)	13.8%	5.9%
Gearing (x)	2.33	2.31	1.72	1.25
Leverage (x)	2.49	2.49	1.83	1.30
<i>*Unaudited</i>				

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix

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				
	20-Oct-2022	AA-	A-1	Stable	Reassessed
	29-Jun-2022				Suspended
	02-Apr-2021	AA-	A-1	Stable	Reaffirmed
	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.				
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Due Diligence Meetings Conducted	Name	Designation	Date		
	Muhammad Adil	Chief Financial Officer	27-Sept-2022		