

RATING REPORT

Swat Expressway Planning Construction and Operations (Private) Limited (SEPCO)

REPORT DATE:

August 04, 2022

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	August 04, '22		July 12, '21	

COMPANY INFORMATION

Incorporated in 2016

Chairman: Mr. Kamal Azfar

CEO: Mr. Farooq Ahmed Joiya

Private Limited Company

External Auditor: M/s BDO Ebrahim & Co.
Chartered Accountants

Key Shareholders (with stake 5% or more):

Frontier Works Organization – 42% (Class 'A' Shares)

Pakhtunkhwa Highways Authority – 58% (Class 'B' Shares)

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (August 2021)

<https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf>

VIS Rating Criteria: Toll Roads Rating (August 2020)

<https://www.vis.com.pk/kc-meth.aspx>

Swat Expressway Planning Construction and Operations (Private) Limited (SEPCO)

PROFILE	RATING RATIONALE
<p>Swat Expressway Planning Construction and Operations (Private) Limited (SEPCO) was incorporated as a private limited company in 2016. The Company is a subsidiary of Frontier Works Organisation (FWO). Registered office of the company is in Rawalpindi.</p>	<p>Swat Expressway Planning Construction and Operations (Private) Limited ('SEPCO' or 'the Company') is a Special Purpose Company (SPC), a jointly owned entity of Frontier Works Organization (FWO) and Pakhtunkhwa Highways Authority (PKHA).</p> <p>SEPCO was formed for construction of Swat Expressway (SER) on Build-Operate-Transfer (BOT) basis. The Company entered into a 25-year concession agreement with the PKHA for construction, management, maintenance & operations of the SER. FWO is responsible for Engineering, Procurement, and Construction (EPC) and Operations & Maintenance (O&M) of SER.</p> <p>SER project comprises 4-lane 81-km long motorway, 3 twin tube tunnels, 26 bridges, and 7 interchanges, starting from Kernal Sher Khan (KSK) interchange up to Chakdara Interchange. The project was initially scheduled to be completed by May 31, 2019, however, due to non-availability of Concession Area and revision in original construction plan entailing additional structures, an independent engineer granted Extension of Time (EOT). SER's construction was concluded on March 31' 2022, which is the date when the Company received the completion certificate from Independent Engineer Associated Consultancy Center (IE). SER offers various savings to commuters including lower vehicle operating cost, lesser time and distance, which are its competitive advantage vis-à-vis alternative route. Toll collection from the road commenced in January, 2019.</p>

Key Rating Drivers

Assigned rating incorporates Strong Sponsor Profile

The assigned ratings take into account strong sponsor profile, as shareholding of the company is held by Frontier Works Organization (FWO) (Class A shares) and Pakhtunkhwa Highways Authority (PKHA) (Class B shares), both having extensive experience in infrastructure development projects, including public private partnership and BOT mandates.

Revenue risk related to toll rates remains largely addressed

Traffic profile depicts that majority travel will pertain to tourism and commuter related travel. Time savings over the course of the entire journey on this route would be significant vis-à-vis competing route. Higher time taken over the competing route is a function of greater distance and challenging terrain of the road. If PKHA or any other public sector entity decides to establish a competing route, then it will be ensured that the competing route shall be tolled at least equivalent to an amount 1.5 times higher than prevailing toll rates imposed at Swat Expressway. Otherwise, SEPCO is entitled to receive losses in toll revenues from PKHA.

Assigned rating incorporates SEPCO's debt servicing capacity on NBP Bridge Financing Facility

Subsequent to the debt re-profiling, majority (59%) of the debt is sponsor debt. The remaining is syndicate terms financing loan from NBP. The sponsor loans are subordinated to the loan from NBP. Given sizable grace period on outstanding obligations and strong coverage of debt servicing on NBP bridge financing, the financial risk profile is considered sound. The rating incorporates the assumption that the repayment on sponsor loan will remain delayed and will be made in accordance with the servicing capacity of the Company, subsequent to making the payment on the NBP bridge financing loan.

Swat Expressway Planning Construction and Operations (Pvt.) Ltd.
Appendix I

BALANCE SHEET <i>(in PKR millions)</i>	Jun'19	Jun'20	Jun'21
Concession Assets	18,303.2	19,988.6	29,611.0
Concession Work in Progress	6,328.7	9,040.8	182.3
Long Term advance	7,921.6	3064.0	206.4
Cash and Bank Balances	141.7	3,412.9	343.5
Other Assets	3.1	722.4	794.7
Total Assets	32,698.3	36,228.7	31,137.9
Deferred Tax Liability	236.7	-	-
Retention Money Payable (including current maturity)	336.0	651.5	981.4
Tarde and Other Payables	195.4	573.4	1,228.7
Bridge Finance	-	-	5,165.3
Other Liabilities	284.6	179.1	185.6
Total Debt	11,651.8	16,092.1	13,693.3
Total Equity	20,086.2	18,732.7	15,049.0
Paid-up Capital	19,170.3	19,815.3	19,815.3
<u>INCOME STATEMENT</u>	2019	2020	2021
Net Sales	47.9	276.1	722.7
Gross Profit / (Loss)	(827.1)	(1,984.4)	(2,781.7)
Operating Profit	(862.0)	(1,803.6)	(2,817.1)
Profit / (Loss) Before Tax	(1,179.8)	(2,932.3)	(3,736.7)
Profit After Tax	(952.3)	(1,998.5)	(3,683.7)
<u>RATIO ANALYSIS</u>	Jun'19	Jun'20	Jun'21
Gross Margin (%)	-	-	-
Net Margin (%)	-	-	-
Current Ratio (x)	0.16	1.70	0.05
Net Working Capital	(746.7)	1,259.4	(6,569.5)
Funds from Operations (FFO)	236.3	340.8	451.6
FFO to Total Debt (%)	2.0%	2.1%	3.3%
Leverage (x)	0.63	0.93	1.07
Gearing (x)	0.58	0.86	0.91
DSCR (x) (calculated in NBP Bridge Financing)	NA	NA	2.93
ROAA (x)	-	-	-
ROAE (x)	-	-	-

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

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.

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.

(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		Annexure III			
Name of Rated Entity	Swat Expressway Planning Construction and Operations (Private) Limited (SEPCO)				
Sector	Toll Roads				
Type of Relationship	Solicited				
Purpose of Rating	Entity ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	04/08/2022	A-	A-2	Stable	Reaffirmed
	12/07/2021	A-	A-2	Stable	Reaffirmed
	30/06/2020	A-	A-2	Stable	Reaffirmed
	26/06/2019	A-	A-2	Stable	Reaffirmed
	25/04/2018	A-	A-2	Stable	Initial
Instrument Structure	N/A				
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.				
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Due Diligence Meetings Conducted	Name	Designation		Date	
	Ms. Farzana Kausar	CFO		23 rd June' 2022	