

RATING REPORT

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

REPORT DATE:

December 05, 2024

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A2	A-	A2
Rating Outlook/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	December 05, '24		October 06, '23	

COMPANY INFORMATION

Incorporated in 2016

Chairman: Mr. Abdul Sami

CEO: Mr. Hammad Yousaf Malik

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

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

VIS Rating Criteria: Toll Roads

https://docs.vis.com.pk/docs/TollRoads_2023.pdf

VIS Rating Scale

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

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

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
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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.

Swat Expressway Planning Construction and Operations (Private) Limited ('SEPCO' or 'the Company') is a Special Purpose Company (SPC), jointly owned by Frontier Works Organization (FWO) and Pakhtunkhwa Highways Authority (PKHA). 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 on 17th October, 2016. FWO is responsible for Engineering, Procurement, and Construction (EPC) as well as Operations & Maintenance (O&M) of SER.

The project is a major infrastructure development that aims to provide alternate route for District Swat, Dir Lower, Dir Upper, Shangla, Malakand Agency, Bajour Agency and other parts of Malakand region promoting interconnectivity with developed regions of the country. SER project comprises 4-lane 81-km long controlled-access motorway, 3 twin tube tunnels, 26 bridges, and 7 interchanges, starting from Kernal Sher Khan (KSK) interchange at M-1 near Nowshera up to Chakdara Interchange in lower Dir district. Toll collection for a part of the expressway began in January 2019. Although the project was initially scheduled for completion by May 31, 2019, the construction was finally completed on March 31' 2022, after a delay of around 34 months. Delays occurred due to the unavailability of the Concession Area and revisions to the original construction plan, which required additional structures. SER offers various savings to commuters including lower vehicle operating cost, lesser time and distance, which are its competitive advantage vis-à-vis alternative routes. The expressway will reduce traffic congestion on the existing National Highway and will also make it easier to navigate through the mountainous terrain of the region.

Business Update

Revenues & Profitability:

Revenue generation is entirely dependent on toll collections and service area charges. Due to high inflation amid an economic slowdown during the period under review, overall vehicle counts decreased. However, the impact of the decline in vehicle counts was offset by an 8% annual increase in toll rates, implemented on October 1 of each calendar year, in accordance with the concession agreement. Hence, net revenues rose to PKR 1.1b (FY23: PKR 961.2m), which included toll collection amounting of PKR 1.0b (FY23: PKR 895.0m) and service area charges of PKR 71.1m (FY23: PKR 66.2m).

As a result of higher depreciation charge on road infrastructure, overall profitability profile has remained stressed. Administrative expenses amounted to PKR 46.8m (FY23: PKR 36.6m) in FY24. Finance cost incurred was recorded higher at PKR 2.8b (FY23: PKR 2.0b) mainly due to higher mark-up rates. The Company posted net losses amounting to PKR 3.2b (FY23: PKR 3.1b).

Liquidity and Capitalization

The liquidity profile remains under pressure due to net losses. Consequently, funds from operations (FFO) were negative during the review period, leading to insufficient cash flow coverage. Similarly, the debt service coverage ratio (DSCR) has also remained inadequate. However, comfort is derived from the sponsor support agreement provided by the Frontier Works Organization (FWO) to cover any shortfall in debt repayments. This arrangement, along with the strength of the sponsors and the strategic importance of the road to Khyber Pakhtunkhwa (KPK), underpins the proposed rating.

As of June 2024, the Company's equity base has eroded to PKR 5.8 billion (June 2023: PKR 9.1 billion) due to significant losses incurred since operations began. Total long-term loans, including current maturities, increased to PKR 18.6 billion (FY23: PKR 16.3 billion). These include unsecured loans from the Pakhtunkhwa Highway Authority (PKHA) and FWO, as well as a secured long-term loan mobilized from NBP.

Key Rating Drivers

Assigned rating incorporates strong sponsor profile

The 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 (PPP) and Build Operate Transfer (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 syndicate term finance facility

As of June 2024, majority (~72%) of the debt is sponsor debt. The remaining is syndicate terms financing (STFF) loan from NBP. The sponsor loans are subordinated to the loan from NBP, with a support agreement in place to fund any shortfall in debt servicing and/or operational and related costs of SEPCO to keep the business up and running until complete adjustment of the facility. 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 STFF.

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

FINANCIAL SUMMARY			
<i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>	Jun'22	Jun'23	Jun'24
Property, Plant & Equipment	27,050.5	24,011.6	21,909.9
Long term advance	0.0	0.0	0.0
Deferred Tax Asset	2,000.1	3,327.2	4,193.4
Cash and Bank Balances	173.5	34.1	155.1
Other Assets	63.5	14.7	219.3
Total Assets	29,287.6	27,491.2	26,477.5
Long-Term loan <i>(Inc. current maturity)</i>	13,063.8	14,278.2	16,596.0
Long-Term musharka <i>(Inc. current maturity)</i>	1,974.3	2,059.5	1,984.7
Retention money payable (Inc. current maturity)	1,016.1	1,016.1	1,016.1
Deferred Liabilities (Provision for handback)	194.8	208.2	222.5
Trade and other payables	768.0	0.0	772.7
Other Liabilities	2.5	779.2	9.9
Total Liabilities	17,019.5	4.5	20,609.2
Paid-Up Capital	19,815.3	18,345.7	19,815.3
Tier-1 Equity/ Total Equity	12,268.1	19,815.3	5,868.4
<u>INCOME STATEMENT</u>	FY22	FY23	FY24
Net Sales	1,006.5	961.2	1,074.7
Gross Profit	-2,551.3	-2,402.0	-1,370.4
Finance Cost	1,436.2	2,010.8	2,840.2
Other Income	25.1	11.6	127.6
Profit Before Tax	-4,003.3	-4,437.8	-4,129.8
Profit After Tax	-2,780.9	-3,122.6	-3,277.03
FFO	-200.0	-88.6	-2,014.0
<u>RATIO ANALYSIS</u>	Jun'22	Jun'23	Jun'24
Gross Margin (%)	-253.5%	-249.9%	-127.5%
Net Margin (%)	-276.3%	-323.6%	-303.7%
Current Ratio (x)	0.06	0.04	0.06
Net Working Capital	-3422.1	-3816.5	-5430.2
FFO to Long-Term Debt	-0.01	-0.01	-0.11
FFO to Total Debt	-0.01	-0.01	-0.11
Adjusted FFO to Total Debt*	-0.04	-0.02	-0.39
Adjusted FFO to Long-term Debt*	-0.04	-0.02	-0.39
Debt Servicing Coverage Ratio (x)	0.70	0.87	(1.89)
ROAA (%)	-9.2%	-11.0%	-12.4%
ROAE (%)	-20.4%	-29.1%	-46.5%
Gearing (x)	1.23	1.79	3.17
Adjusted Gearing (x)*	0.22	0.58	0.81
Debt Leverage (x)	1.39	2.01	3.19

*Adjusted for sponsors debt from FWO & PKHA

REGULATORY DISCLOSURES		Annexure II			
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 Watch	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	05/12/2024	A-	A2	Stable	Reaffirmed
	06/10/2023	A-	A2	Stable	Reaffirmed
	04/08/2022	A-	A2	Stable	Reaffirmed
	12/07/2021	A-	A2	Stable	Reaffirmed
	30/06/2020	A-	A2	Stable	Reaffirmed
	26/06/2019	A-	A2	Stable	Reaffirmed
	25/04/2018	A-	A2	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		14 th November 2024	