

## RATING REPORT

# Ghotki Kandhkot Road & Bridge Company (Pvt.) Limited (GKRBC)

**REPORT DATE:**

October 23, 2020

**RATING ANALYST:**

Narendar Shankar Lal  
[narendar.shankar@vis.com.pk](mailto:narendar.shankar@vis.com.pk)

### RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-Term
Entity	A	A-2
TFCs/Sukuk	AA	
<i>Rating Date</i>	<i>October 23, 2020</i>	
Rating Outlook	Stable	

### COMPANY INFORMATION

Incorporated in 2018	Chief Executive Officer: Mr. Abdul Karim Qureshi
Private Limited Company	
<b>Key Shareholders (with stake 5% or more):</b>	
Sachal Engineering Works (Pvt.) Limited – 53%	
Government of Sindh – 47%	

### APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Industrial Corporates (April 2019)

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Corporate-Methodology-201904.pdf>

VIS Rating Criteria: Toll Roads Rating (August 2020)

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/TollRoads202008.pdf>

## Ghotki Kandhkot Road &amp; Bridge Company (Pvt.) Limited (GKRBC)

PROFILE	RATING RATIONALE
<p><i>Ghotki Kandhkot Road &amp; Bridge Company (GKRBC) was incorporated as a Private Limited Company in May 2018 to Design, Build, Finance, Operate, and Transfer (DFBOT) two sections of the road located at Ghotki Kandhkot site of Sindh province.</i></p>	<p>Ghotki Kandhkot Road &amp; Bridge Company (GKRBC) has been established to develop two sections of the road and bridge located at Ghotki Kandhkot site of the Sindh province. This Project will connect N-5 and N-55 between Ghotki on one side and Kandhkot on the other side of River Indus and end on existing by-pass of Indus Highway, N-55. At present, the distance between Kandhkot and Ghotki via Guddu Barrage, the alternate route, is approximately 151 km. Post construction of the project, the distance between the two cities will be reduced to 42 km, resulting in significant fuel cost and time savings. Commuter travel time would be reduced by approximately two hours. The project will be established under the Public Private Partnership (PPP) regime on Design, Finance, Build, Operate &amp; Transfer (DFBOT) basis, with one of the sponsors, Sachal Engineering Works (Pvt.) Limited (SEWPL), acting as the Engineering, Procurement &amp; Construction (EPC) Contractor. GKRBC has entered into concession agreement with Government of Sindh (GoS) for a period of 28 years, out of which construction period is up to three-years and operations and maintenance period is up to twenty-five years. At the end of the concession period, the ownership of the project will be transferred to the GoS. Financial close is underwritten by the Government of Sindh and construction is expected to be completed in July 2023. Total project cost is Rs. 14.3b; project will be funded with 70% debt and 30% equity.</p>
	<p><b>Key Rating Drivers:</b></p>
	<p><b>Sponsor Profile:</b> The assigned ratings take into account sound profile of the two shareholders of GKRBC. Shareholding of GKRBC is vested with Sachal Engineering Works (Pvt.) Limited (SEWPL) and Government of Sindh (GoS). SEWPL has 53% equity stake in the project and it holds ordinary Class A voting shares in the company along with the management control; the remaining shareholding (47%) is held by GoS, which has non-voting Class B shares. SEWPL has considerable experience and sound track record in executing infrastructure projects especially toll roads &amp; bridges. The company has executed more than Rs. 21b worth infrastructure projects since its inception. Financial profile of SEWPL is also sound.</p>
	<p><b>Demand Risk:</b> Demand risk, associated with uncertainty in future traffic volumes and toll rates, will not be borne by GKRBC as the company will receive fixed annuity payments from the GoS, which will include O&amp;M costs component, tax component, debt component and a fixed Return on Equity (ROE) for the Class A shareholders.</p>
	<p><b>Risk of delay in annuity payments:</b> While fixed annuity payments mitigate demand risk for the company, the delay in payment of the same may pose operational challenges for the company as the annuity payments cover both O&amp;M costs and debt payments. However, provisions in the annuity payment agreement ensure that delay risk is also minimal. Annuity payment agreement mandates that the GoS is required to deposit the funds equal to the annuity payment in the annuity payment account 105 days in advance. In case, GoS is unable to deposit the funds by the annuity payment due date, the same shall constitute a GoS event of default. In such a scenario, the GoS is liable to pay the outstanding principal financing provided by the financiers, interest/rental accrued on the debt, termination equity &amp; termination dividend amount.</p>

**Cost overrun risk:** Increase in the prices of escalable raw materials which include cement, bitumen, steel and POL for construction and machinery is an inherent risk in the project. Project costs already incorporate 10% increase in the costs of the escalable items. Concession agreement stipulates that in case the cost of any escalable item exceeds by more than 10%, the GoS shall bear 50% of such escalation cost and the sponsor shall fund the remaining 50% escalation cost. In order to further mitigate cost overrun risk, management of GKRBC has set aside additional Rs. 100m for such contingencies in addition to 10% increase in prices already incorporated in project costs.

**Construction delay risk:** Both the GKRBC and the GoS have agreed on specific project construction milestones relating to the performance of Construction Works and other obligations to be performed by the Concessionaire until the Project Construction Completion Date. These milestones will have to be achieved as per specific dates mentioned in the construction program. In the event that the concessionaire fails to achieve any project construction milestone within a period of 30 days of the stipulated project milestone date, GKRBC will be liable to pay liquidated damages mandated in the concession agreement to the GoS. Moreover, if the project milestone is not achieved within 90 days of the Project Milestone Date, the same will constitute a concessionaire event of default and the government has the right to terminate the concession agreement. Similarly, GKRBC will also be liable to pay liquidated damages to GoS in case it fails to achieve Substantial Completion by the Scheduled Substantial Completion Date (36 months from Project commencement date).

**Debt Servicing:** For the purpose of raising debt, GKRBC will be issuing privately placed TFCs/Sukuk (the "Issue") to the tune of PKR 10bn. The Issue will be priced at average three (03) month Karachi Inter Bank Offered Rate ("KIBOR") plus 2.5% per annum. The tenor of the facility is 8 years, including grace period of up to 3 years during which construction of the road will take place. The principal will be redeemed in 20 equal quarterly installments. Given that debt payments are covered under annuity payments, cushion in debt servicing is adequate.

## VIS Credit Rating Company Limited

### RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

#### 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](http://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](http://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](http://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			
<b>Name of Rated</b>	Ghotki Kandhkot Road & Bridge Company (Pvt.) Limited				
<b>Sector</b>	Toll Roads				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity & TFCs/Sukuk Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: Entity</b>				
	23/10/2020	A	A-2	Stable	Initial
	<b>RATING TYPE: TFCs/Sukuk</b>				
23/10/2020	AA		Stable	Preliminary	
<b>Instrument Structure</b>	Instrument is privately placed TFCs/Sukuk amounting to Rs. 10.0b. The tenor of the facility is 8 years, including 3 years grace period. Applicable profit rate is 3-month KIBOR + 2.5%. The principal will be redeemed in 20 equal quarterly				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>S.No</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>	
	1	Mr. Fuad Kehar	Executive Director – Financial Unit – Sachal Engineering	September 14, 2020	