

RATING REPORT

Ghotki Kandhot Road & Bridge Company (Pvt.) Limited

REPORT DATE:

July 31, 2024

RATING ANALYSTS:Muhammad Subhan
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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
<i>Rating Date</i>	July 31, 2024		March 15, 2023	
<i>Rating Outlook/Rating Watch</i>	Stable		Stable	
<i>Rating Action</i>	Reaffirmed		Reaffirmed	
<i>Bank Loan Rating</i>	AA(bl, plim)		AA (bl)	
<i>BLR Action</i>	Preliminary		Reaffirmed	

COMPANY INFORMATION

Incorporated in 2018	External auditors: Reanda Haroon Zakaria & Company Chartered Accountants
Private Limited Company	CEO/Chairman: Mr. Shafi Ullah Khan
Key Shareholders (with stake 5% or more):	
Sachal Engineering Works (Pvt.) Ltd. – 53.33%	
Government of Sindh (GoS) – 46.67%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Industrial Corporates<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>**VIS Rating Criteria: Toll Roads Rating**https://docs.vis.com.pk/docs/TollRoads_2023.pdf**Issue/Issuer Rating Scale**<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Ghotki Kandhot Road & Bridge Company Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Ghotki Kandhkot Road & Bridge Company (Pvt.) Ltd. 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.

Corporate Profile:

Ghotki Kandhot Road & Bridge Company (Private) Limited ('GRBC' or 'the Company') was incorporated on May 21, 2018 under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017). It is a subsidiary of Sachal Engineering Works (Private) Limited ('SEWL' or 'the Holding Company'), which currently owns 53.33% of the Company. GRBC operates as a special purpose vehicle (SPV) for undertaking the design, finance, construction, operation, and transfer of projects.

Group Profile:

The Sachal Group is a prominent Pakistani engineering and construction conglomerate, recognized for its leadership in engineering, procurement, and construction (EPC) projects nationwide.

Salient Features of the Project	
Concession Agreement Date	May 28, 2018
Date of Commencement	July 20, 2020
Expected date of Completion	January 2028
Construction period	7.5 years
Concession period	25 years
Design Consultants	AA Associates (Pvt.) Ltd.
Independent Engineer	Consortium of Loya Associates & Techno-Consult International (Pvt.) Ltd.
Project Scope Auditor	Riaz Ahmad & Co. Chartered Accountants
EPC Contractor	M/s Sachal Engineering Works (Pvt.) Ltd.
Transaction Advisors	Habib Bank Limited

Scope Of The Project:

In November 22, 2017, the Works and Services Department of GoS issued a Request for Proposals (RFP) inviting bids for the development of a road and bridge project at Ghotki and Kandkhot locations on the River Indus, Sindh Province (the "Project") under a Public-Private Partnership (PPP) basis. The Holding Company submitted a bid, which was selected by the GoS, leading to the award of the Project. According to the RFP terms, the Holding Company and the GoS were required to establish this Company as a SPV to execute the Project. The Company subsequently awarded the EPC as well as the Operation and Maintenance (O&M) contracts to the Holding Company, the Project Sponsor. A concession agreement was executed on May 28, 2018 between the Company and the GoS, outlining the operational modalities of the Project, with construction commencing in the FY21.

The Project originally involved designing, financing, operating, and transferring a 30.2-kilometer, 2-Lane highway with a 4-Lane bridge over the River Indus (approximately 2 kilometers long). It started southwest of Ghotki on the National Highway (N5) and connected to the existing Kandkhot Bypass on N-55. Additionally, there was a 4.548-kilometer, 2-Lane link highway from west of Kandkhot Town on the existing Indus Highway (N-55) to Thull Road in Kandkhot District.

However, in its 187th meeting on November 3, 2022, the Indus River Commission (IRC) decided that all future bridges over the Indus River would be constructed bank-to-bank, following a post-flood scenario in August 2022. Consequently, the IRC mandated a modification and redesign of the existing bridge to span the river bank-to-bank over its full length. These decisions necessitated changes to the Project scope, including an increase in the proposed highway length from 30.2 km to 30.941 km and a significant expansion of the bridge over the River Indus from 2 km to 12.2 km. These modifications extended the completion date of the Project from the original target of FY24 to January 2028.

Project Cost:

The total estimated project cost originally amounted to PKR 14,028 mln, comprising PKR 11,290 mln for EPC expenditures, PKR 1,305 mln for non-EPC expenditures, and PKR 1,433 mln for expected interest during construction (IDC) payments. As per the Equity Funding and Utilization Agreement dated December 23, 2019, between GoS, the Company, and the Holding Company, the Holding Company was to finance 16% of the total project cost, while the GoS was to finance 14%. The remaining 70% was to be funded by financial institutions.

However, due to the change in the scope of the Project, the total project cost escalated from PKR 14,028 mln to PKR 32,148 mln.

Financing Plan:

Initially estimated at PKR 14,028 mln, the project's funding structure comprised 70% debt and 30% equity, with construction commencing on July 20, 2020, supported by equity from the Concessionaire and the GoS. By November 3, 2021, nearly all equity was consumed on EPC and non-EPC expenditures. To resume construction during a low floodwater period in the Indus River, the Sindh Cabinet extended a PKR 1.0 bln short-term debt until a Bridge Finance Facility (BFF) could be secured from Financial Institutions. The loan was utilized by April 2022 and fully repaid in July 2022 using a Bridge Finance Facility (BFF) arranged with Habib Bank Limited and Meezan Bank Limited for up to PKR 5,000 mln. The facility was arranged and first disbursement occurred on the same date, with the agreement specifying that part of the BFF would be used to repay the initial short-term loan.

With the extension of the Company's project scope, the revised project cost has been estimated at PKR 32,148 mln. However, the funding structure will remain the same, comprising 70% debt and 30% equity. The following table defines the cost and funding structure.

PKR (Mln)	Project Cost (Bid Model)	Revised Project Cost
EPC Cost	11,290	24,945
Non- EPC Cost	1,305	3,110
Interest During Construction (IDC)	1,433	4,093
Total Project Cost	14,028	32,148
Debt	9,820	19,000
Equity	4,208	8,143
Class A- Sponsor Equity	2,244	4,343
Class B- GoS equity	1,964	3,800
GoS Additional Cost Contribution	-	5,004

Due to the increase in project cost with the Project's expanded Project scope, there was a funding gap of PKR 5,000 mln. To cover this, the GoS agreed to provide additional support of PKR 5,000 mln, of which PKR 3,979 mln was used to pay off the Bridge Finance Facility, while the remaining PKR 1,021 mln will be retained for the purpose of incremental IDC.

As of June 2024, the total work completed amounts to PKR 8,267 mln. This includes an equity contribution of PKR 3,273 mln from SEWL and PKR 2,864 mln from GoS, taking the total equity to PKR 6,137 mln.

Going forward, a debt amount of PKR 19,000 mln through a Syndicated Term Finance Facility (STFF) is planned to be drawn from different commercial banks where Habib Bank Limited (HBL) (the lead bank) and Meezan Bank Limited (MBL) have agreed on contributing PKR 5 bln each. The Company is also in negotiations with Bank of Punjab (BOP) and Bank Alfalah Limited (BAFL) for PKR 5,000 mln and PKR 4,000 mln, respectively.

Additionally, the GoS in June 2024 has provided an amount of PKR 1,100 million loan until the Company secures a Project Finance Facility from financial institutions.

Changes in the terms of STFF:

The STFF previously amounted to PKR 9,820 mln has been revised to PKR 19,000 mln corresponding to increase in project cost to PKR 32,148 mln from PKR 14,028 mln. The material changes in the revised Indicative Term Sheet for the PKR 19,000 mln loan are outlined below:

- The spread has been adjusted to 3M KIBOR + 150 basis points per annum from 130 bps/annum.
- The tenor now stands at 11 years from previously 12 years door-to-door (inclusive of the availability period).

Proposed Security Structure for the facility however remains unchanged.

Status Of Agreements In Place:

1. **Concession Agreement:** The Concession Agreement Amendment duly signed between GoS and GRBC dated May 28, 2018 in respect of DFBOT is in place.
2. **Concession Agreement Amendment:** The Concession Agreement Amendment duly signed between GoS and GRBC dated November 30, 2023 in respect of DFBOT is in place.
3. **EPC Agreement Amendment:** The EPC Agreement Amendment duly signed between GRBC and SEWL dated August 09, 2023 is in place.
4. **Equity Funding & Utilization Amendment Agreement:** The Equity Funding & Utilization Amendment Agreement duly signed between GoS, GRBC and SEWL dated November 30, 2023 is in place.
5. **EXCROW Agreement:** The ESCROW Agreement duly signed between GoS and GRBC regarding DFBOT dated February 14, 2024 in respect of DFBOT is in place.
6. **Annuity Amount Payment Agreement:** The Draft for Annuity Amount Payment Agreement between GoS and GRBC is in place. The final document is pending from the Company's end.
7. **Price Escalation Agreement:** The Price Escalation Agreement duly signed between GoS, GRBC, and SEWL dated February 20, 2023 is in place.

Current Physical Status Of The Project:

- EPC Contractor M/s Sachal Engineering Works (Pvt.) Ltd. has established camps at Ghotki & Kandhkot with well-equipped laboratories for on-site and off-site quality testing.
- Machinery and equipment are mobilized at KM 25+500 (Kandhkot) for highway and structural works and at Ghotki for bridge approach road construction.
- Two concrete batching plants (1.5 CuM and 1.0 CuM capacity each) are operational at KM 25+500; two more (1.5 CuM each) are commissioned at KM 20+700.
- Survey teams are actively engaged in centerline marking, right-of-way designation, and cross-section recording for bridge approach roads over the River Indus.
- Section-4 notifications under the Land Acquisition Act issued 4.5 KM Thull Link Road (Nov 2, 2020), 12 KM Ghotki bridge approach (Jan 21, 2021), and 10 KM Kandhkot bridge approach (Feb 11, 2021).
- Material exploration, sampling, and testing ongoing at established laboratories on both sides.
- Third party testing and verification ensure quality compliance.
- Concrete mix designs for various specifications and Job Mix Formulae (JMFs) for asphaltic base courses prepared in project site laboratories.

- Mass production of Ø-910 mm RCC pipes completed at the manufacturing facility, with 585 pipes cast to date.

Key Rating Drivers:

Sponsor Profile:

Strong sponsor profile of SEWL.

The ratings reflect the sound profile of GRBC, owned by SEWPL and the GoS. SEWPL holds a 53.33% equity stake, with ordinary Class A voting shares and management control, while the GoS owns the remaining 46.67% through non-voting Class B shares. SEWPL brings extensive experience and a strong track record in infrastructure projects, particularly toll roads and bridges across the River Indus. SEWPL's financial standing is also robust, supporting the project's stability and execution capability.

The Holding Company has the following ongoing projects valuing approximately PKR 35 bln.

Project Name	% Completed	COD
Ghotki-Kandhkot Road & Bridge Project on BOT Basis	33.39%	July 2027
Construction of Makri Intake Weir and Installation of Flow Metering System	73.84%	June 2024
Establishment of 200 Bed General Hospital i/c MCH and Eye Hospital Rawalakot, District Poonch, AJ&K	68.10%	June 2024
Dualization of Jahangira-Swabi Road Left Over Portion, Package-I	33.29%	December 2024
Dualization of Jahangira-Swabi Road Left Over Portion, Package-II	43.55%	December 2024
Construction of Naya Nazimabad Flyover	84.13%	June 2024
Improvement and Rehabilitation Mianwali - Muzaffargarh (N-135) Road 120+00 Kms to 160+000 Kms	42.90%	December 2024
Improvement and Rehabilitation Mianwali - Muzaffargarh (N-135) Road 200+00 Kms to 240+000 Kms	57.25%	December 2024
Construction of Balance Infrastructure Works Sector-4 (Package-1, 2, 3, 4 & 5) at DHA City, Karachi	16.34%	December 2024

Ratings derives support from GoS sub sovereign rating of AA+

GoS is assigned a sub sovereign credit rating of AA+ on a national scale, which provides comfort to the Company's ratings.

Business risk profile of the Company supported by minimal demand risk, lower project delay risks, and set construction milestones between GoS and GRBC

GRBC faces no demand risk, as it will receive fixed annuity payments from the GoS. These payments, disbursed quarterly, will cover operational expenses including taxes, debt service payments (rental/interest), agreed compensation for equity redemption (with 80% of Class A Shares redeemed in equal quarterly installments post-debt redemption, and 20% at the concession's end), and a return on equity targeting an agreed Equity IRR of 17% for sponsors.

While fixed annuity payments mitigate demand risk, delays in payment could challenge operations as these payments cover both O&M costs and debt obligations. However, safeguards in the annuity agreement

minimize delay risks. The agreement requires the GoS to deposit funds equivalent to the annuity payment into the designated account 105 days prior to the due date. Failure to do so constitutes a GoS event of default, obligating the GoS to settle outstanding principal financing, accrued interest/rental on debt, termination equity, and termination dividends to financiers in such instances as per the Concession Agreement.

Both GRBC and the GoS have established specific construction milestones, detailing the Concessionaire's obligations until the Project COD. These milestones must be met according to the dates specified in the construction program. Failure to achieve a milestone within 30 days of its due date will result in GRBC paying liquidated damages as stipulated in the concession agreement to the GoS. Moreover, exceeding 90 days beyond a milestone's date constitutes a Concessionaire default, allowing the GoS to potentially terminate the concession agreement. Similarly, GRBC faces liability for liquidated damages if Substantial Completion is not achieved by the scheduled date (36 months from project commencement). Despite delays in financial close due to project scope revisions, construction began as planned in July 2020 with upfront equity injection from sponsors. Overall, project timelines remain largely on track, albeit with minor setbacks such as design revisions and River Indus flooding, and are anticipated to meet completion deadlines.

Strength of security structure provide comfort to the ratings

The unconditional and irrevocable debit authority on the GoS Non-Food Account No. 1, backed by the Provincial Guarantee in favor of financiers for 50% of the facility amount, supports the assigned ratings. The ongoing availability of this debit authority throughout the tenure of the STFF reinforces the ratings, the continuation of debit authority over the life of STFF further bolster the ratings.

Coverage profile of GRBC expected to remain adequate throughout the project

Quarterly annuity payments from the GoS will be the revenue stream for GRBC, channeled through designated collection accounts held under bank lien. These payments encompass O&M costs and debt obligations. However, major maintenance expenses in the 11th and 21st years are not covered by annuities; grants from the GoS will fund these costs. With debt payments integrated into annuities, GRBC's Debt Service Coverage Ratio (DSCR) is expected to remain sufficient over the project's duration.

GRBC insulated from financial impact of project termination, GoS assumes liability

Under the terms of the Concession Agreement dated May 28, 2018, GRBC will not incur any financial consequences if the project is terminated for any reason. The GoS is responsible for covering all financial damages, including the repayment of overall debt due (principal + interest).

Ghotki Kandhot Road & Bridge Company (Pvt.) Limited
Annexure I

Financial Summary						
Balance Sheet (PKR Millions)	FY19A	FY20A	FY21A	FY22A	FY23A	9MFY24
Property, plant and equipment	58.5	270.3	1,440.3	3,440.0	6,489.7	3,041.2
Cash & Bank Balances	1.0	1.0	22.1	3.0	17.5	38.0
Total Assets	59.5	271.3	3,156.3	5,137.9	8,207.0	4,806.5
Short-Term Borrowings	0.0	0.0	0.0	1,000.0	3,896.9	33.4
Total Debt	0.0	0.0	0.0	1,000.0	3,896.9	33.4
Total Liabilities	58.6	270.4	7.1	1,047.1	4,113.1	67.1
Paid up Capital	1.0	1.0	1.0	1.0	1.0	1.0
Equity (excl. Revaluation Surplus)	1.0	0.9	3,149.3	4,090.8	4,093.9	4,739.4
Ratio Analysis	FY19A	FY20A	FY21A	FY22A	FY23A	9MFY24
Gearing (x)	0.0	0.0	0.0	0.2	1.0	0.0
Leverage (x)	58.6	314.5	0.0	0.3	1.0	0.0
Current Ratio (x)	0.0	0.0	243.1	1.6	0.4	26.3
Return on Average Equity* (%)	0.0%	-7.5%	0.0%	0.0%	0.1%	0.0%
*Annualized, if required A - Actual Accounts P - Projected Accounts M - Management Accounts						

REGULATORY DISCLOSURES		Appendix II			
Name of Rated Entity	Ghotki Kandhot Road & Bridge Company (Pvt.) Limited				
Sector	Toll Roads				
Type of Relationship	Solicited				
Purpose of Rating	BLR Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook/Rating Watch	Rating Action
	RATING TYPE: ENTITY				
	07/31/2024	A	A-2	Stable	Reaffirmed
	03/15/2023	A	A-2	Stable	Reaffirmed
	11/29/2021	A	A-2	Stable	Reaffirmed
	10/23/2021	A	A-2	Stable	Initial
	RATING TYPE: BANK LOAN RATING				
	07/31/2024	AA (blr, plim)	-	Stable	Preliminary
	03/15/2023	AA (blr)	-	Stable	Reaffirmed
	11/29/2021	AA (blr)	-	Stable	Preliminary
Bank Loan Structure	BLR is done for the STFF amounting Rs. 19 bln. The tenor of the facility is 11 years, including 2 years grace period. Applicable profit rate is 3-month KIBOR + 1.5%.				
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	
	Mr. Zafar Bakhtiari	Executive Director – Financial Unit		25 th June 2024	
	Mr. Fuad Kehar	Executive Director – Financial Unit			
	Ms. Varsha Kateja	Officer – Finance & Accounts			