RATING REPORT

Lahore Sialkot Motorway Infrastructure Management (Private) Limited (LSMIML)

REPORT DATE:
December 27, 2023

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 Date	*Dec 27,2023*		*Nov 14, 2022*	
Rating Action	*Reaffirm*		*Reaffirm*	

COMPANY INFORMATION	
Incorporated in 2016	**Chief Executive Officer**: Brig. Fakhar Udin Qadri
Private Limited Company	**Chairman:** Major General Abdul Sami
Key Shareholders (with stake 5% or more):	**External Auditor:** Yousuf Adil Chartered Accountants
Frontier Works Organization - 21% (Class 'A' Shares)	
National Highway Authority - 79% (Class 'B' Shares)	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates ***https://docs.vis.com.pk/docs/CorporateMethodology.pdf*** **VIS Rating Scale** ***https://docs.vis.com.pk/docs/VISRatingScales.pdf*** ***VIS Rating Criteria: Toll Roads*** ***https://docs.vis.com.pk/docs/TollRoads_2023.pdf***

Lahore Sialkot Motorway Infrastructure Management (Private) Limited (LSMIML)

PROFILE OF THE INSTITUION	RATING RATIONALE

LSMIML was incorporated as a private limited company in 2016. The company is formed for the purpose of construction, collecting toll and operation and maintenance of Lahore Sialkot Motorway. Sponsors of the company include National Highway Authority (NHA) and Frontier Works Organization (FWO).

Lahore Sialkot Motorway Infrastructure Management (Pvt.) Limited (LSMIML) is a Special Project Company (SPC) with registered office based in Rawalpindi, Punjab. The company has entered into a concession agreement for a period of 25 years with NHA for construction, management and maintenance of Lahore-Sialkot Motorway (LSM). The project is established under the Public Private Partnership (PPP) regime on BOT basis, with FWO. Under the agreement, LSMIML as concessionaire is responsible for construction as well as operations and maintenance. During the outgoing year, Operations and Maintenance (O&M) responsibility has been transferred from FWO to LSMIML.

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 National Highway Authority (NHA) (Class B shares), both having extensive experience in infrastructure development projects, including public private partnership (PPP) and Build Operate Transfer (BOT) mandates.

Operations Update:
LSMIML commenced operation on 18th March, 2020, while substantial completion certificate was awarded to the company in August 2020. The project has not achieved full completion as some of the concession area is not available and some additional works are pending related to construction of Sambrial Interchange and a service areas across the motorway. During the review period, southside service area became operational, while the northside service area is expected to commence operations by end-CY23. Furthermore, as per the management, Sambrial Interchange completion is still pending as NHA has not yet acquired the land. In this regard temporary work arrangements have been made by renting the land from a private party and building a tolling structure. The rent is paid by FWO to the third party due to the contractual EPC obligation.

Revenues & Profitability:
The traffic profile indicates that the majority of travel involves trucks, trailers, and loader vehicles for commercial purposes. Revenue is entirely derived from toll and M-tag related facilities. However, as soon as the service areas become completely operational, rental income is also expected to marginally contribute to the topline. Despite increase in vehicle turnover by ~9%, net revenue was recorded lower at Rs. 977.5m (FY22: Rs. 1.03b) due to the subdued volume of commercial vehicles; income from M-tag services have remained limited on a timeline basis. In the outgoing year, volume of commercial vehicles, particularly heavy vehicles entailing higher toll revenue, experienced a decline. This downturn was primarily attributed to a combination of factors including increase in fuel costs amidst economic slowdown, and the preference of heavy vehicles for the alternative route (i.e., GT Road), where compliance requirements and axle-load regulations are more lenient.

	FY22	FY23
No. of Vehicles	6,626,296	7,203,563
Toll Revenue (Rs.)	1,028,950,080	959,410,505
Average Toll/ Vehicle	155.3	133.2

Cost of sales were recorded at Rs. 2.9b (FY22: Rs. 2.8b), out of which Rs. 2.4b pertained to depreciation charge on road infrastructure. This resulted in a gross loss of Rs. 1.9b vis-à-vis Rs. 1.76b in the previous year. Furthermore, in previous arrangement FWO was the O&M contractor, with the company obligated to make payments consistent with the revenue projections in the original financial model. However, during FY23, the O&M contract with FWO concluded, leading to the transfer of all operations and maintenance responsibilities to the project management team of the company. This shift allowed the company to incur costs based on actual expenditures instead of fixed payments. As a result, the O&M expenses for the past year totaled to Rs. 95.4m, compared to Rs. 141.5m in FY22. Project management team expenses, included in cost of sales were recorded higher at Rs. 356.8m (FY22: Rs. 212.5m), primarily due to inflationary impact on salaries and wages. Administrative expenses amounted to Rs. 47.1m (FY22: Rs. 59.4m). Moreover, massive hike in markup rates has further dragged the bottomline in the outgoing year; finance cost augmented to Rs. 1.5b (FY22: Rs. 1.2b) during FY23. Resultantly, the company posted higher net losses amounting to Rs. 3.4b (FY22: Rs. 3.04b), during the outgoing year.

According to the management, it is expected that the turnover of traffic, mainly including loader vehicles, articulated trucks, and trolleys will stay relatively low due to the prevailing economic slowdown. Furthermore, the company's financial performance is expected to face ongoing challenges, with the expectation of sustaining net losses in the current year. Albeit, the financial risk profile has been deteriorating, the project is passing through a phase where its cash flows are falling behind its annual revenue build up which is normal in long gestation infrastructure projects. This is expected to be normalized in the next few years as envisaged in planning. Furthermore, the Sialkot-Kharian motorway is currently under construction, and is expected to bolster the topline of LSMIML once it is operational.

Liquidity Profile: Liquidity profile has remained under pressure on account of net losses. Resultantly, funds from operations (FFO), were recorded negative during the review period, leading to negative cash flow coverages. Similarly, debt service coverage ratio (DSCR) was also recorded negative. Nonetheless, debt servicing on bank loans have been made on timely basis until now. Comfort is drawn by the sponsor support agreement with FWO to cover debt repayment shortfall to the company. Given the arrangement by FWO, the strength of the sponsors and the importance of the road for commercial travel forms the basis of the proposed rating.

The outstanding mobilization advances remained unchanged at Rs. 1.24b by end-FY23. This represents 30% mobilization advance extended to FWO under the "Engineering, Procurement and Construction" (EPC) contract between FWO and the Company for implementing the Project, which is being amortized against interim payment certificates (IPC) from FWO throughout the progress of the construction. According to management, the outstanding payments to FWO would be cleared after the settlement of commercial liabilities due to cash flow constraints. Advances and other receivables were recorded at Rs. 247.9m (FY22: Rs. 247.2m). These largely pertained to receivables from National Highway Authority (NHA), representing amount paid by the Company to independent auditor and independent engineers on behalf of NHA. As per the concession agreement, NHA is responsible for 50% of the fees of independent auditor and independent engineer. Trade and other payables stood higher at Rs. 792.4m (FY22: Rs. 687.7m). These mainly include M-tag recharge payable to FWO amounting to Rs. 312.8m (FY22: Rs. 218.2m) and retention money payable amounting to Rs. 312.1m (FY22: Rs. 418.5m) which is priced at KIBOR +2%. Cash and bank balances were recorded at Rs. 32.9m (FY22: Rs. 44.6m) by end-FY23.

Capitalization Profile: Equity base of the company has continued to erode (FY23: Rs. 13.0b; FY22: Rs. 16.4b; FY21: Rs. 19.5b) on a timeline basis on account of sizable losses incurred since commencement of operations. During FY23, the company reprofiled its debt due to cash flow challenges. Consequently, the debt repayment period has been extended by six months period, till end-June, 2028, and each repayment has been capped at Rs. 1,134m. FWO have irrevocably and unconditionally agreed and made a commitment to fund the capped installment amount, in case any shortfall occurs, such that on each Repayment/Payment Date the Financing Payment Account (FPA) is fully funded up to the Capped Installment Shortfall Amount and all amount payable to the Finance Parties under the Finance Documents have been paid on or prior to 28th June, 2028 and in accordance with the respective Finance Documents. Any markup amount exceeding the capped installment amount shall be deferred by the bank and will be pooled together to be cumulatively paid on the last installment date i.e., 30th June, 2028. Total Long-term loans (including current maturity & loan interest payable) were recorded higher at Rs. 16.7b (FY22: Rs. 15.75b). Around 52% (FY22: 48.4%) of the debt mix comprised unsecured loan from NHA and FWO, while the rest included secured long-term loans mobilized from a consortium of conventional and Islamic Banks. The debt repayment schedule after reprofiling of banks' loans is tabulated below:

Repayment Date	Markup Rate	Outstanding Principal	Principal Repayment	Total Markup (Settled)	Total Payment	Total Deferred Markup (Cumulative)
In PKR millions						
Jun-23	17.80%	7,427.33	737.21	396.79	1,134.0	340.41
Dec-23	23.70%	6,690.13	914.12	219.88	1,134.0	994.17
Jun-24	23.70%	5,776.01	861.70	272.30	1,134.0	1,486.85
Dec-24	23.70%	4,914.31	801.57	332.43	1,134.0	1,816.97
Jun-25	20.70%	4,112.73	661.19	425.32	1,134.0	1,816.97
Dec-25	20.70%	3,451.54	705.27	358.91	1,134.0	1,769.47
Jun-26	20.70%	2,746.28	811.06	284.01	1,134.0	1,699.65
Dec-26	20.70%	1,935.22	855.14	201.23	1,134.0	1,660.71
Jun-27	20.70%	1,080.09	1,080.09	53.91	1,134.0	1,640.86
Dec-27	20.70%	-	-	-	1,134.0	1,640.86
Total			**7,427.33**	**4,419.53**		
Jun-28						**506.86**

Subordinated loans from sponsors were recorded higher at Rs. 8.35b (FY22: Rs. 7.63b) at end-FY23. It represents subordinated loan received from NHA amounting to Rs. 5.0b along with accrued interest of Rs. 1.48b, while the rest pertains to FWO (FY23: Rs. 2.18b; FY22: Rs. 1.14b). In the outgoing year, FWO extended additional loan amounting to Rs. 1.04b to cover for the shortfall in debt repayment. As per the terms of agreement, grace period of 10 years is allowed for repayment of principal and interest from drawdown date. Bi-annual repayments will start from year 12 from the effective date and the loan will be discharged in 25 years.

Long term loan-conventional (including current maturity) was recorded at Rs. 4.65b (FY22: Rs. 4.87b) by end-FY23. It represents loan obtained from a consortium of lenders including Bank Alfalah Limited, Askari Bank Limited, Soneri Bank Limited and Bank of Khyber priced at the base rate (KIBOR) + 0.74% payable semiannually. Grace period for the loan is two years and principal repayment will be made after that in 16 semiannual installements.

Long-term loans-Musharka (including current portion) was recorded lower at Rs. 3.35b (FY22: Rs. 4.12b). It represents Islamic loan obtained from Bank Alfalah Limited, Habib Metropolitan Bank Limited and Bank of Khyber having interest at the base rate KIBOR +0.74% payable semi-annually. Grace period for the loan is two years and principal repayment will be made after that in 16 semiannual installments.

Gearing and debt leverage, although manageable, have trended upwards due to declining equity base. However, after adjusting for sponsors' debt, gearing stood at 0.56x (FY22: 0.47x). Going forward, improvement in economic conditions and lowering of the policy rate will positively impact the profitability and will contribute to the growth in equity base.

Lahore Sialkot Motorway Infrastructure Management (Pvt.) Ltd. **Appendix I**

FINANCIAL SUMMARY	(amounts in PKR millions)		
BALANCE SHEET	**FY21**	**FY22**	**FY23***
Property, plant and equipment	30,364.16	27,956.70	25,558.89
Concession Work in Progress	3,978.69	4,313.99	4,319.31
Mobilization Advance	1,555.29	1,244.14	1,244.14
Advances and Other Receivables	257.46	247.20	247.87
Advance Tax	18.69	11.52	2.25
Cash and Bank Balances	26.06	44.61	32.85
Total Assets	**36,200.34**	**33,818.14**	**31,405.31**
Long Term Loan (including current maturity)	8,813.31	8,127.66	8,002.89
Subordinated loans	6,694.76	7,626.32	8,663.40
Trade and Other Payables	1,227.14	687.73	792.40
Provision for O&M	-	940.66	940.66
Other Liabilities	-	9.40	10.74
Total Liabilities	**16,735.21**	**17,391.77**	**18,410.08**
Paid-up Capital	**24,827.42**	**24,827.42**	**24,827.42**
Total/Tier-1 Equity	**19,465.13**	**16,426.37**	**12,995.24**
INCOME STATEMENT	**FY21**	**FY22**	**FY23**
Net Sales	794.42	1,031.25	977.48
Gross Profit / (Loss)	(2,170.82)	(1,756.65)	(1,903.74)
Other Income	14.13	19.22	26.59
Finance Cost	1,076.49	1,231.84	1,494.70
Profit / (Loss) Before Tax	(3,301.76)	(3,028.71)	(3,418.92)
Profit After Tax	(3,311.69)	(3,038.76)	(3,431.14)
FFO	(606.78)	(215.09)	(2,603.02)
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**
Gross Margin (%)	-	-	-
Net Margin (%)	-	-	-
Current Ratio (x)	0.97	1.00	1.00
Net Working Capital	(55.31)	(7.15)	(7.39)
FFO to Total Debt (x)	-	-	-
FFO to Long Term Debt	-	-	-
Debt Leverage (x)	0.86	1.06	1.42
Gearing (x)	0.80	0.96	1.26
Gearing Adjusted for Sponsors debt (x)	0.42	0.44	0.56
DSCR (x)	0.12	0.40	(1.40)
ROAA (x)	-	-	-
ROAE (x)	-	-	-

**Unaudited*

REGULATORY DISCLOSURES	Appendix III
Name of Rated Entity	Lahore Sialkot Motorway Infrastructure Management (Private) Limited (LSMIML)
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				
27/12/2023	A-	A-2	Stable	Reaffirmed
14/11/2022	A-	A-2	Stable	Reaffirmed
07/10/2021	A-	A-2	Stable	Reaffirmed
19/08/2020	A-	A-2	Stable	Reaffirmed
11/03/2019	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
1	Mr. Imran Umer	Financial Controller	7th Dec, 2023