

RATING REPORT

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

REPORT DATE:

January 14, 2025

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
Outlook/Rating Watch	Stable		Stable	
Rating Date	Jan 14, 2025		Dec 27, 2023	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION

Incorporated in 2016	Chairman: Mr. Abdul Sami
Private Limited Company	Chief Executive Officer: Mr. Jamad Maroof
Key Shareholder (with stake 5% or more):	External Auditor: RSM Avais Hyder Liaquat Nauman Chartered Accountants
Frontier Works Organization – 27.5% (Class ‘A’ Shares) National Highway Authority – 72.5% (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>

PROFILE OF THE INSTITUTION

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. Sponsor of the company include National Highway Authority (NHA) and Frontier Works Organization (FWO).

The assigned rating reflects a strong sponsor profile, with equity held by Frontier Works Organization (FWO) and National Highway Authority (NHA) (Class B shares). Both entities bring extensive expertise in infrastructure development under Public-Private Partnership (PPP) and Build-Operate-Transfer (BOT) arrangements, ensuring operational and financial backing for the Company.

Lahore Sialkot Motorway Infrastructure Management Limited (LSMIML) experienced growth in vehicle turnover and toll rates during the year, driven by increased public awareness and the adoption of M-tag services. This contributed to higher revenues; however, the Company continues to face financial challenges mainly on account of lower than expected traffic flow. Following the conclusion of the operations and maintenance (O&M) contract with FWO, LSMIML assumed project management responsibilities, which led to overall decrease in maintenance and operations cost. Additionally, significant depreciation costs on road infrastructure and rising finance expenses have resulted in persistent net losses.

Liquidity remains constrained, with limited cash reserves and negative cash flow coverage, although debt servicing has been maintained through sponsor support from FWO. In response to cash flow pressures, the Company successfully negotiated extension in debt repayment timeline, capping installment amounts and deferring excess markup payments to the last installment date. Sponsor loans, primarily from FWO and NHA, provide long-term flexibility with substantial grace period by way of deferring commencement of repayment till the bank loans are repaid.

The equity base has eroded due to sustained losses; however, the Company's debt ratios remain manageable, primarily due to the support provided by sponsor loans. These loans, along with the strategic importance of the project and debt restructuring efforts, underscore the sponsors' commitment to stabilizing the Company's financial position. Sponsors unwavering commitment along with expectation for normalization of cashflows over time improves prospects of LSMIML for long-term recovery and financial stability.

About the Company

Lahore Sialkot Motorway Infrastructure Management (Pvt.) Limited ('LSMIML' or 'the Company') is a Special Project Company (SPC) headquartered in Rawalpindi, Punjab. The Company has a 25-year concession agreement with the National Highway Authority (NHA) for the construction, operation, and maintenance of the 89.2 kilometer (KM) long 4-lane access control the Lahore-Sialkot Motorway (LSM). This project operates under the Public-Private Partnership (PPP) framework on a Build-Operate-Transfer (BOT) basis in collaboration with the Frontier Works Organization (FWO). Under the agreement, LSMIML, as the concessionaire, is responsible for construction as well as operations and maintenance (O&M). Since completion of the motorway, FWO was operating and maintaining the project, however, upon completion of O&M contract with FWO in Sept'21, the O&M responsibility was transferred to LSMIML.

Operations Update:

LSMIML began operations on March 18, 2020, and received a substantial completion certificate in August 2020. However, the project has not achieved full completion due to pending construction of the Sambrial Interchange. According to management, the Sambrial Interchange remains incomplete as NHA has yet to acquire the necessary land. Temporary arrangements have been made by renting land from a private party and building a tolling structure, with FWO covering the rental cost as part of its contractual EPC obligations. During the review period, both the southside and northside service area became operational. Current traffic data reveals that most motorway users are cars, coasters, and

other public transportation vehicle, with low commercial traffic. Revenue is entirely generated from toll collections, though some rental income from service areas is also generated, which makes a marginal contribution to the total revenue.

Revenues & Profitability:

Due to a ~10% increase in vehicle turnover and 8% increase in toll rates, net revenue increased to PKR. 1.46b (FY23: PKR. 977.48m; FY22: PKR. 1.03b) in FY24. M-tag (Pre-paid toll) services contributed majority of the income. The increase in traffic volume in FY24 was mainly attributed to public awareness of the route.

Traffic Detail	FY22	FY23	FY24
No. of Vehicles	6,626,296	7,203,563	7,891,557
Toll Revenue (PKR)	1,028,950,080	959,410,505	1,077,569,140
Average Toll/ Vehicle	155.3	133.2	136.54

Operating cost declined to PKR 2.45b (FY23: PKR. 3.07b; FY22: PKR. 2.8b) in FY24, reducing gross loss to PKR 3.95b, compared to PKR. 4.0b in the prior year. Previously, FWO handled O&M as the contractor; payments for such services has been deferred and will commence once bank loans are repaid. The O&M contract was concluded in FY22, following which LSMIML assumed the O&M responsibilities. Project management expenses, recorded under cost of sales, increased to PKR. 378.77m (FY23: PKR. 356.8m; FY22: PKR. 212.5m), primarily due to inflation-driven salary and wage adjustments. Administrative expenses amounted to PKR. 55.0 m (FY23: PKR. 47.6m; FY22: PKR. 59.4m). Finance costs rose to PKR. 2.63b (FY23: PKR. 1.88b; FY22: PKR. 1.2b) in FY24. Consequently, LSMIML reported a lower net loss of PKR. 3.95b (FY23: PKR. 4.0b; FY22: PKR. 3.04b) for the outgoing year.

As per management, NHA is separately working on extension of the Lahore Sialkot Motorway to Kharian, in the second phase and then to Rawalpindi in the third phase. These developments will reduce the travel distance from Lahore to Rawalpindi by at least 90-km. The extensions once completed will provide LSMIML with a competitive edge vis e vis GT Road, facilitating in increasing the traffic flow. Till then, management expects that traffic involving loader vehicles, articulated trucks, and trolleys will remain subdued due to the availability of more cost-effective alternative routes. The Company's financial performance is expected to face continued challenges, with net losses likely to persist in the near term. The project is currently in a phase where cash flows lag behind annual revenue growth, a characteristic of long-gestation infrastructure projects. Normalization of cash flow and financial performance is expected in the coming years.

Liquidity Profile:

The liquidity position of LSMIML has remained under strain due to persistent net losses, resulting in continuous negative Funds from Operations (FFO) of PKR (186m) (FY23: PKR (196m); FY22: PKR (215m)) and inadequate cash flow coverage in FY24. Consequently, the debt service coverage ratio (DSCR) was also recorded as negative (0.39) (FY23: 0.30; FY22: 0.40) in FY24. Despite these challenges, debt servicing on bank loans has been met on time, supported by a sponsor's commitment to cover debt repayment shortfalls.

To address cash flow challenges, the Company in FY24 negotiated reprofiling the bank loans' extending the repayment period by six months to June 2028. Each installment has been capped at PKR 1.134b, with FWO committing to fund any shortfall to ensure timely payments. Markup exceeding the capped installment amount will be deferred and made along with the last installment on

June 30, 2028. Sponsor's support coupled with the strategic importance of the motorway for commercial traffic, underpins the assigned ratings.

Capitalization Profile:

The equity base has continued to erode due to substantial losses since operations began, declining to PKR 8.01b (FY23: PKR 11.98b; FY22: PKR 16.0b) in FY24. Post-reprofiling, 42% of the debt mix comprises sponsor loans, which are subordinated to the bank loans. Total long-term loans increased to PKR 14.36b (FY23: PKR 14.21b; FY22: PKR 15.75b in FY24), including unsecured loans from NHA and FWO and secured loans from a consortium of conventional and Islamic banks.

Subordinated loans from sponsor increased to PKR 9.32b (FY23: PKR 6.86b; FY22: PKR 7.63b) by the end of FY24. This includes a PKR 5.0b loan from the National Highway Authority (NHA), with the remainder provided by FWO. The terms of the subordinated loan offer a 10-year grace period for repayment of principal and interest from the drawdown date. Bi-annual repayments are scheduled to commence in year 12, with full repayment expected within 25 years from the effective date.

Long term loan-conventional decreased to PKR 1.91b (FY23: PKR 2.89b; FY22: PKR 4.87b) by FY24. These loans were mobilized from a consortium of banks, priced at KIBOR + 0.74% with semi-annual payments. After a grace period of two years, principal repayments are structured into 16 semi-annual installments.

Long-term loans-Musharaka declined to PKR 1.61b (FY23: PKR 2.44b; FY22: PKR 4.12b). These Islamic loans were secured from a consortium of commercial banks at KIBOR + 0.74%, with semi-annual payments. The loan has a similar repayment structure, with a two-year grace period followed by 16 semi-annual principal repayments.

The gearing and debt leverage ratios have shown deteriorating trend due to the declining equity base. However, excluding the sponsor loans, the gearing ratio was recorded at 1.2x (FY23: 0.61x; FY22: 0.47x). Despite these trends, the gearing remains within a manageable range. The improvement in economic conditions and a potential reduction in policy rates are expected to positively impact profitability and equity growth in the medium to long term.

Lahore Sialkot Motorway Infrastructure Management (Pvt.) Ltd.

Appendix I

FINANCIAL SUMMARY		(Amounts in PKR million)		
BALANCE SHEET	FY22	FY23	FY24	
Property, plant and equipment	32,270.69	29,878.20	28,149.33	
Concession Work in Progress	-	-	-	
Mobilization Advance	1,244.14	1,244.14	1,244.14	
Advances and Other Receivables	247.20	247.87	288.80	
Advance Tax	11.52	2.25	-	
Cash and Bank Balances	44.61	32.85	90.54	
Total Assets	33,818.14	31,405.31	29,772.80	
Long Term Loan (including current maturity)	15,753.98	14,210.59	14,363.26	
Subordinated loans	-	-	-	
Trade and Other Payables	1,628.39	1,808.57	1,918.54	
Total/Tier-1 Equity	16,000.04	11,984.72	8,013.06	
Paid-up Capital	24,827.42	24,827.42	24,827.42	
INCOME STATEMENT	FY22	FY23	FY24	
Net Sales	1,031.25	977.48	1,169.98	
Gross Profit / (Loss)	(1,756.65)	(2,101.22)	(1,286.74)	
Other Income	19.22	26.59	24.59	
Finance Cost	1,231.84	1,880.86	2,639.83	
Profit / (Loss) Before Tax	(3,028.71)	(4,003.10)	(3,957.03)	
Profit After Tax	(3,038.76)	(4,003.10)	(3,957.03)	
FFO	(215.09)	(196.00)	(186.37)	
RATIO ANALYSIS	FY22	FY23	FY24	
Gross Margin (%)	-170.3%	-215.0%	-110.0%	
Net Margin (%)	-294.7%	-409.5%	-338.2%	
Current Ratio (x)	0.62	0.34	0.47	
Net Working Capital	(947.81)	(2,956.09)	(1,818.26)	
FFO to Total Debt (x)	(0.01)	(0.01)	(0.01)	
FFO to Long Term Debt	(0.01)	(0.01)	(0.01)	
Debt Leverage (x)	1.11	1.62	2.71	
Gearing (x)	0.98	1.19	2.37	
Gearing Excluding Sponsor Loans (x)	-	0.61	1.20	
DSCR (x)	0.40	0.30	(0.09)	
ROAA (x)	(0.09)	(0.13)	(0.13)	
ROAE (x)	(0.17)	(0.29)	(0.40)	

REGULATORY DISCLOSURES		Appendix II			
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 Watch	Rating Action
	RATING TYPE: ENTITY				
	14/01/2025	A-	A2	Stable	Reaffirmed
	27/12/2023	A-	A2	Stable	Reaffirmed
	14/11/2022	A-	A2	Stable	Reaffirmed
	07/10/2021	A-	A2	Stable	Reaffirmed
	19/08/2020	A-	A2	Stable	Reaffirmed
	11/03/2019	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		
	1	Mr. Imran Umer	Financial Controller	24 th Dec, 2024	