RATING REPORT

Veda Transit Solutions (Private) Limited

REPORT DATE:
August 24, 2022

RATING ANALYSTS:

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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	BBB	A-2
Rating Outlook	Stable	
Rating Action	Initial	
Rating Date	*August 24, 202*	

COMPANY INFORMATION	
Incorporated in 2017	**External auditors:** EY Ford Rohodes & Co.
Private Limited Company	**Chairman:** Muhammad Naeem Khan
Key Shareholders (with stake 5% or more):	**CEO:** Muhammad Mikail Khan
Raaziq International (Pvt.) Limited – 31.5%	
JW-SEZ (Pvt.) Limited – 29.5%	
PNO Capital – 16.4%	
Transit Associated (Pvt.) Limited – 13.9%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria Methodology – Industrial Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Veda Transit Solutions (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Veda Transit Solutions (Private) Limited (Veda) was established in 2017 as joint venture between Raaziq Group and Transit Associated (Pvt.) Limited. The entity is engaged in the business of providing transport facilities for the carriage of passengers and goods and to organize, maintain and operate for hire and transportation services in all parts of Pakistan. The company commenced its feeder route bus operations in Multan in 2017. Registered office of the company is situated in Lahore.

Profile of Chairman:

Mr. Muhammad Naeem Khan possesses general management professional experience of more than 40 years as a chartered accountant. He has varied experience of local and multi-national companies with exposure of different disciplines. He has been serving on the boards of Atlas Group, Mitchell's Fruit Farms Limited, and Raaziq Group

Profile of CEO:

Mr. Muhammad Mikail Khan has been accompanying Raaziq Group for over 14 years. He is the Managing Director / Director in multiple Group Companies covering diversified

Established in 2017, Veda Transit Solutions (Pvt.) Limited (Veda) is mass transit providing company, which mainly focuses on government's concessionary rates mass transit projects. Principal activity of the company is to bid for tenders floated by Provincial Government bodies particularly PMA (Punjab Mass Transit Authority). Post winning the bid, the company procures vehicles and organize, maintain and operate them on behalf of the Government.

The company was initially formed as joint venture between Raaziq Group and Transit Associated (Pvt.) Limited. Later in 2018, Pakistan catalyst Fund (JS Bank and USAID) joined as equity partner in the company. During FY21, JW-SEZ (Pvt.) Limited, and PNO Capital also joined in as equity partners for financing of new project. These sponsor companies have a diverse set of expertise comprising Logistics, Manufacturing, Engineering, Public transport, Real Estate Development and Product Sales & Marketing.

Veda commenced its operations with Multan Metro Bus Feeder Project in 2017, which is being managed by Punjab Mass Transit Authority (PMA). Subsequently, in 2021, the company was awarded the contract for Lahore Metro Bus System Project (Gajjumatta to Shahdara) after a competitive bidding process. Head office of the company is located in Lahore.

A mass transit network consists of a dedicated line, which is the covered corridor, further added by feeder routes that connect the main line with other areas. The process for any new project initiates with the issuance of tender by the government. This is followed by an internal pre-bid meeting between the regulatory authority and the company wishing to bid where the requirements are explained. In accordance to the same, a detailed financial model is prepared by Veda through which the rate/km/bus is proposed which is then submitted to the relevant authority after approval by the Board of Directors. Once a bid is awarded, the management seeks proposals from different suppliers for the procurement of buses. Veda has established relationships with Chinese suppliers, which are favored due to their reliability and cost-effectiveness.

Business risk profile is supported by limited level of competitive intensity for Government tender projects and favorable revenue model.

Overall transport industry of Pakistan comprises many small private transport companies. However, in the mass BRT segment, Veda and Daewoo Express hold the major market share in terms of bids won. Historically, a Turkish company won and operated bus transit projects in Lahore and Rawalpindi in 2012 and 2015, respectively. Currently, the Turkish company has reduced participation in the bids further reducing competitive intensity. This has helped in strengthening the market position of existing companies for similar upcoming projects.

Business risk profile also incorporates favorable revenue model encompassing guaranteed receipt of payment against minimum guaranteed kilometers/bus/annum as per the contract awarded. This is received regardless of the bus operating on the route or not. Furthermore, in case the bus operates *range of businesses including Logistics, Manufacturing, Engineering, Public transport, Real Estate Development and Product Sales & Marketing. He holds a degree from the University of Melbourne.*

in excess to the designated kilometers, excess kilometer rate is also determined in the contract, however the same is priced as (0.475 * Bid Price). Risk of rising input costs is mitigated through rate adjustment clause built in the contract for fuel (as per notification by OGRA), lubricants (monthly adjustment), tires & salaries (annual), and repair & maintenance (quarterly) costs. Ratings also incorporate track record of five years on the Multan Project since 2017.

Key terms of the Contracts with the Punjab Mass Transit Authority

Veda currently operates two contracts for the PMA:

1. Multan Feeder Buses for Integrated Bus Operations (commenced in 2017, contract for a period of 8 years. The tenure may increase as per the contract with consensus between both parties.)
2. Lahore Metro Buses (commenced in 2021, contract for a period of 8 years. The tenure may increase as per the contract with consensus between both parties.)

		Lahore	Multan
Rate/km		Rs. 304/km	Rs. 134.99/km
Guaranteed number of Kilometers/Bus/Year		70,000	60,000
Number of buses		64 (18m long)	100 (8m long)
Number of reserve buses in the total fleet		10%	10%
Key KPIs	**Formula**		
Trip Efficiency	(No. of trips operated*100)/No. of trips assigned in schedule	98%	98%
Punctuality	(No. of trips on time from first station*100)/total no. of trips operated	95%	95%
No. of breakdowns		Maximum 2	Maximum 1
Clealiness of buses?No. of buses found dirty		Maxiumum 10	Maximum 10
Safety of operations/Rate of Accidents		Nil	Nil

In case of any deficiencies in performance, a penalty amount is levied. In addition to that, liquidated damages are imposed if there is a delay in the performance of any obligation such as delay in procurement of buses against the time defined in the contract. The company incurred liquidated damages on delay in procurement of buses in Multan (Rs. 80m) and have also paid normal operational non-compliance related penalties for the Multan project (on average Rs. 5-7m per month). Going forward, management targets operational penalties to be not more than 3% of the revenue base.

Penalty & Liquidated Damages (LKD)
Penalty amount = R * Sum of K
R = Adjusted Non Excess Km Rate
Sum of K = Total penalty kilometers in a month
LKD per day in case of buses = F * 191.78 * Number of buses * Bid price
LKD per day in other cases = F * 100 * Bid price
For 0-10 days F = 0.25, For 11-20 days F = 0.5, For 21-30days F = 0.75, For 31 days and above F = 1.0

Healthy topline growth in FY22 due to commencement of Lahore Metro Bus Project.

Revenue of the company increased significantly in 11MFY22 and was reported at Rs. 2.2b (FY21: Rs.852m, FY20: Rs.780m). Revenue base in FY20 was lower due to impact of COVID-19 and absence of revenue on excess kilometers. The revenue uptick in 11MFY22 was mainly attributable to contractual payments received against the Lahore Metro Bus System during the year. Around 56% of the revenue in 11MFY22 was contributed by the Lahore project with the remaining provided by the Multan project. Buses deployed comprised more than 95% of the total available fleet depicting fleet efficiency to be on the higher side. The nature of contract encompassing built-in escalation clause for rising input costs helps to ensure stability in revenue base over the duration of the contract. Going forward, in the medium to long-term, the management is eyeing contracts for upcoming projects in Lahore and Islamabad, which will help to achieve further growth in the topline.

Statement of Profit or Loss **For the Period Ended May 31, 2022**				
Description	**Notes**	**Amount in Rs**		
		Multan	**Lahore**	**Total**
Sales	1	984,302,802	1,230,241,080	2,214,543,882
Less: Cost of sales	2	(845,488,891)	(937,912,501)	(1,783,401,392)
Gross profit		**138,813,911**	**292,328,578**	**431,142,489**

Profitability profile subdued due to elevated finance charges to fund Lahore project.

Gross margin of the entity has been reducing on a timeline basis with the same reported at 20.4% (FY21: 24.1%, FY20: 24.0%) during FY22. Profitability model of the entity is such that Gross Margins for a project decreases over tenure of the contract due to greater fuel consumption over time and consequent reduction in mileage. On the flip side, net margins for a project increases over the tenure with reduction in financial charges. Therefore, as evident from the break-up of profitability in 11MFY22, lower consolidated GMs are on account of the subdued margins yielded by the Multan project. Also, the adjustment in fare is not usually proportionate to the change in fuel prices. Net margins of the company declined to 2% (FY21: 5.6%, FY20: 2.5%, FY19: 5.6%) due to substantially higher finance charges incurred on financing arrangement for the Lahore project and increasing tax expense due to higher revenue base as tax is charged as 3% of sales revenue. For penalties, the management has set a consolidated target of 3% of revenue; however, the same was less than 1% for the Lahore project due to experience gained over the years. Going forward, net margins are expected to gradually increase with projected reduction in finance costs over time consequently easing the pressure off the bottom-line. Meeting projected profitability indicators is considered important.

With thin net margins in 11MFY22 and elevated debt levels, cash flow coverages against outstanding obligations reduced. Projected improvement in the same is considered important.

Funds from Operations increased noticeably during 11MFY22 and was reported Rs.524m (FY21: Rs. 177m, FY20: Rs. 155m). However, due to the drawdown of a significant amount of long-term debt, FFO to Total Debt was reported lower at 25% (FY21: 87%, FY20: 55%) at end-May'22. Debt servicing coverage was adequate at 2.0x and cash conversion cycle of the company is negative. Therefore, the company does not avail running finance facilities for working capital requirements. Trade receivables turnover is considered satisfactory with payments usually received within 60 days. Current ratio of the company was reported at a below par level of 0.4x (FY21: 1.0x, FY20: 0.5x) at end-May'22, owing to higher quantum of loans from related party and current portion of long-term financing. Sensitizing the projections provided by the company, VIS forecasts pressurized debt servicing ability over the rating horizon. Hence, attaining a sustainable increase in the quantum of cash flows in line with higher projected profitability will be important to achieve an adequate level of liquidity profile.

Elevated leverage indicators at end-May'22.

Equity base of the company grew from Rs. 180m in FY20 to Rs. 1.14b at end-May'22 provided by profit retention and equity injection by the sponsors. During FY20, paid up capital of the company increased by 215m due to conversion of sponsor's loan for Multan project into equity. During FY21 and 11MFY22, the sponsors injected Rs. 870m to finance Lahore Project. Quantum of long-term debt rose to Rs. 2.3b (FY21: Rs. 202m, FY20: Rs. 284m) at end-11MFY22. This mainly consisted of a term loan offered by a syndicate of banks led by the Bank of Punjab. The purpose of this project financing was to acquire buses for the Lahore Metro Bus System. The company also has outstanding short-term interest-free loans on their books from related parties to the tune of Rs. 416m, some of which are under consideration of converting into equity. Therefore, assigned ratings draw consistent support from related parties. With elevated debt levels, leverage ratio and gearing ratio were reported higher at 2.74x (FY21: 0.57x, FY20: 2.39) and 2.04x (FY21: 0.18x, FY20: 1.58x) at end-May'22. Going forward, with debt repayments and growing equity base through projected 100% profit retention, leverage indicators of the company are expected to improve over the rating horizon.

An adequate corporate governance frame work. Formation of a separate internal audit function may further strengthen corporate governance framework.

The company's Board of Directors consists of eleven members, with each one of them representing a sponsor group. Four members (including CEO and Chairman) are from Raaziq International, three are from JW SEZ, two represent MCBFSL Trustee PNO Pakistan Fund, while one each belongs to Transit Associated and JS Bank. Board meetings take place on a quarterly and annual basis and minutes for the same are documented. EY Ford Rhodes & Co. are the external auditors of the entity, who also do half-yearly review and nine-month review. Reports of the auditors are shared with the financiers. There are no regular audits of departments; however, a committee consisting of senior management personnel is formed in the case of specific assignments. All the capital expenditures are approved by the CEO, and further approval is also taken from the board at the end of the year.

There is a separate compliance department in place. It is responsible for ensuring the safety and security of premises and buses. The department also operates a control room, which offers real time monitoring of buses. Maintenance teams are also deployed at different routes to deal with any unexpected issues. On the IT front, Oracle Fusion was implemented during FY22 which includes financial, procurement and other relevant information. The data is backed up on a regular basis, while the back-up of accounts is done on a periodic basis (every three months) on an external hard drive.

FINANCIAL SUMMARY *(amounts in PKR millions)* *Appendix I*							
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**11MFY22**	**FY23**	**FY24**	**FY25**
Fixed Assets	563	501	425	3,307	2,773	2,284	1,795
Stock-in-Trade							
Trade Debts	41	29	144	403	332	337	353
Cash & Bank Balances	21	41	261	8	282	621	1,017
Total Assets	678	609	1,726	4,264	4,022	3,881	3,809
Trade and Other Payables	194	108	363	185	189	196	211
Long Term Debt	371	284	202	2,327	1,744	1,207	671
Short Term Debt							
Total Debt	371	284	202	2,327	1,744	1,207	671
Paid Up Capital	6	226	440	526	526	526	526
Total Equity	(55)	180	1,097	1,141	1,361	1,751	2,200
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**11MFY22**	**FY23**	**FY24**	**FY25**
Net Sales	921	780	852	2,215	3,858	4,050	4,241
Gross Profit	274	187	205	450	816	869	866
Profit Before Tax	97	36	96	114	401	556	649
Profit After Tax	51	20	48	44	281	390	450
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**11MFY22**	**FY23**	**FY24**	**FY25**
Gross Margin (%)	29.8%	24.0%	24.1%	20.3%	21.1%	21.4%	20.4%
Net Margin	5.6%	2.5%	5.6%	2.0%	7.3%	9.6%	10.6%
FFO	234	155	177	524	755	863	926
FFO to Total Debt (%)	63%	55%	87%	25%	43%	71%	138%
FFO to Long Term Debt (%)	63%	55%	87%	25%	43%	71%	138%
Current Ratio (x)	0.2	0.5	1.0	0.4	1.0	1.4	1.8
(Stock+Trade Debts)/ Short term borrowing	NA	NA	NA	NA	NA	NA	NA
Debt Servicing Coverage Ratio (x)		0.7	2.0	2.0	2.7	4.1	6.3
Gearing (x)	(6.72)	1.58	0.18	2.04	1.28	0.69	0.30
Leverage (x)	(13.29)	2.39	0.57	2.74	1.96	1.22	0.73
ROAA (%)		3%	4%	2%	7%	10%	12%
ROAE (%)		32%	7%	4%	23%	25%	23%

RATING SCALE & DEFINITION Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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

Name of Rated Entity	Veda Transit Solution (Private) Limited
Sector	Mass Transit
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
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.
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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
24-08-2022	BBB	A-2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Syed Hammad Hussain	Chief Financial Officer	22 July, 2022
Abdul Rehman Janjua	Chief Operating Officer	20 July, 2022
Anwar Karim	Chief Compliance Officer	20 July, 2022