RATING REPORT

Veda Transit Solutions (Private) Limited

REPORT DATE:
December 13, 2023

RATING ANALYSTS:

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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	BBB	A-2	BBB	A-2
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Initial	
Rating Date	*December 13, 2023*		*August 24, 2022*	

COMPANY INFORMATION	
Incorporated in 2017	**External auditors:** Nasir Javaid Maqsood Imran Chartered Accountants
Private Limited Company	**Chairman:** Muhammad Naeem Khan
Key Shareholders (with stake 5% or more):	**CEO:** Muhammad Mikail Khan
Raaziq International (Pvt.) Limited – 31%	
JW-SEZ (Pvt.) Limited – 29%	
MCBFSL Trustee PNO Pakistan Fund – 16%	
Transit Associated (Pvt.) Limited – 14%	

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates (MAY 2023)
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

VIS Rating Scale
https://docs.vis.com.pk/docs/ratingscale.pdf

Veda Transit Solutions (Private) Limited

OVERVIEW OF THE INSTITUTION

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 associated with the boards of Atlas Group, Mitchell's Fruit Farms Limited, and Raaziq Group

Profile of CEO:

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

RATING RATIONALE

Founded in 2017, Veda Transit Solutions (Pvt.) Limited (Veda), specializes in mass transit services, with a primary emphasis on government-subsidized public transportation initiatives. The core function of the company involves participating in competitive bidding processes conducted by Provincial Government entities, with a particular focus on the Punjab Mass Transit Authority (PMA). Veda oversees the deployment, maintenance, and operation of vehicles, all on behalf of the government.

The company began as a collaboration effort between Raaziq Group and Transit Associated (Pvt.) Limited. Subsequently, in 2018, Pakistan Catalyst Fund (JS Bank and USAID) became an equity partner in the company. During FY21, JW-SEZ (Pvt.) Limited and PNO Capital also became equity partners to support the financing of the new project. These sponsoring entities bring a wide range of expertise to the table including logistics, manufacturing, engineering, public transportation, real estate development, product sales and marketing.

Veda's first operational project was the Multan Metro Bus Feeder Project which began its operations in 2017, overseen by the PMA. The company's second project was the contract for Lahore Metro Bus System Project (Gajjumatta to Shahdara) which was won after a competitive bidding process.

A mass transit network encompasses a dedicated covered corridor, complemented by feeder routes linking the primary line to other regions. The process for launching a new project begins with the government's issuance of a tender. This is followed by an internal pre-bid meeting between the regulatory authority and the prospective bidding company, where project requirements are outlined. In line with these guidelines, Veda prepares a detailed financial model, proposing a rate/kilometer/bus. This proposal is subsequently submitted to the relevant authority for approval by the Board of Directors. Once a bid is successfully awarded, the management solicits proposals from various suppliers for bus procurement. Veda has established partnerships with Chinese suppliers, chosen for their reputation for reliability and cost-efficiency.

JW-SEZ (Pvt.) Limited, holding a 29% stake in the company, is in discussions to divest 10.3m of its shares out of a total of 15.5m shares within the company. The potential buyer is Raaziq International (Pvt.) Limited, an existing shareholder with a 31% stake in the company. The management anticipates the transaction to be completed in the ongoing financial year.

Key terms of the Contracts with the Punjab Mass Transit Authority (PMA)

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.)

covering diversified 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.

		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.

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

Business risk profile is supported by limited level of competitive intensity for Government tender projects. However, weakness in revenue model has been exposed due to unprecedented fuel price hike that has resulted in heightened financial risk.

The transport sector in Pakistan largely consists of numerous small private transport entities. Within the realm of mass Bus Rapid Transit (BRT), significant market share in terms of successful bids is held by Veda and Daewoo Express. Initially, a Turkish firm secured and managed bus transit initiatives in Lahore and Rawalpindi in 2012 and 2015, respectively. As of now, the Turkish firm has lessened its involvement in bid submissions, subsequently lessening the level of competition. This transition has been beneficial in improving the market standing of the existing companies for comparable future projects.

While there's ongoing investment and development in the mass transit sector, the broader economic instability in Pakistan poses multiple risks to the development of the segment. Pakistan's limited GDP growth and high inflation has impacted the financial sustainability and growth of the transport industry. The industry is seeing limited progress with new projects and government attention, while systemic issues and broader economic challenges remain a concern.

Business risk profile also incorporates 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. Risk of rising input costs is partially mitigated through some 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.

Fuel price adjustment

Despite the existence of a fuel price adjustment clause within the contract between Veda and PMA, the company faced a significant challenge due to an unprecedented surge in fuel prices. Unlike previous years, where price fluctuations were of a relatively minor scale and were being managed by the company, prices increased significantly during FY23. For an increase of every Rs. 1 in fuel price, the rate is adjusted by Rs. 0.52 and Rs. 0.22 for Lahore and Multan projects, respectively.

$$\Delta CF = \frac{(PI_{Fuel} * F * Bid\ Value)}{10{,}000}$$

Key:

	Lahore	Multan
PI_{Fuel} = Percentage increase in fuel price	-	-
F = Fuel	17.4/km	16.73/km
Bid Value	304/km	134.99/km

These concerns were brought before PMA but the process was prolonged without resolution. Consequently, the company took a decisive step in March 2023 by filing a petition with the court, seeking a revision of fuel prices as the existing contract clauses were no longer aligned with the heightened fuel costs. The petition included the plea to be completely reimbursed for the fuel value or otherwise PMA providing the company with the fuel.

In April 2023, the court ruled in favor of the company, instructing PMA to either supply the required fuel or reimburse the company for the increased fuel expenses. However, this ruling was challenged by the PMA, resulting in a temporary stay which was subsequently overturned by the court. As of now, the company has invoiced PMA an amount of Rs. 370m to compensate for the fuel price increase from the date of the court's decision to September 30, 2023.

Revenue increased in line with monthly fuel price adjustment. However, the existing formula led to relatively slower growth in revenue vis-à-vis actual fuel prices resulting in pressure on margins. Despite lower operating expenses and higher other income, the company posted loss due to higher financial charges and lower margins.

Revenue increased in line with monthly fuel price adjustment to Rs. 3.4b (FY22: Rs. 2.5b) in FY23. Majority of the revenue (FY23: 62%; FY22: 56%) emanated from the Lahore project, while the Multan project contributed the remaining portion. Both projects have a provision for fuel adjustment in their contracts. However, the recent spike in petrol prices have resulted in disproportionate fare adjustments. The cost of sales escalated due to higher fuel prices and inflation, resulting in a more pronounced increase in the cost of sales and a subsequent reduction in profit margins. Fuel costs doubled from Rs. 905m in FY22 to Rs. 1.8b in FY23.

Veda Transit Solutions Pvt Limited			-	
Statement of Profit or Loss				
For the Period Ended Jun 30, 2023				
		As on 30th June-23		
Description	**Notes**	**Amount in Rs**		
		Multan	**Lahore**	**Total**
Sale	**1**	1,264,451,556	2,085,098,788	3,349,550,344
Less: Cost of sales	**2**	(1,303,039,193)	(1,798,292,738)	(3,101,331,931)
Gross profit		**(38,587,637)**	**286,806,050**	**248,218,413**

Given the existing financial model, the company has posted continuous reduction in gross margin on a timeline basis to 7.4% (FY22: 20.1%; FY21: 24.1%) in FY23. Despite lower operating expenses and higher other income, the company posted loss due to higher financial charges and lower margins. Tax incidence was also higher as it is assessed at 4% of revenue. Going forward, the management is projecting profit on the back of increase in margins and lower financial charges. The margins are projected to increase on the basis of favorable change in fuel price adjustment formula.

Lower cash flows and coverages

Given lower profitability, Funds from Operations (FFO) decreased to Rs. 119m (FY22: Rs. 410m; FY21: Rs. 174m) in FY23. Resultantly, despite lower debt, FFO to total debt ratio decreased to 7% (FY22: 18%; FY21: 86%) in FY23. Furthermore, debt servicing coverage ratio fell below the minimum threshold to 0.6x (FY22: 1.5x; FY21: 2.0x) during FY23. The company's cash conversion cycle remains negative, which leads to un-utilized running finance for working capital requirements. Current ratio remained low at 0.5, below the desired level, primarily due to higher volume of short-term loans from related parties.

Support from related parties and elevated leverage indicators

In line with the reported loss, equity base decreased to Rs. 719.6m (FY22: Rs. 1b) by end-FY23. Given scheduled repayments, long-term borrowings decreased to Rs. 1.7b (Rs. 2.3b) by the end-FY23. The company does not rely on commercial short-term borrowings. However, the company utilizes short-term interest-free loans from related parties that amounted Rs. 253m (FY22: Rs. 107m) at end-FY23. The assigned ratings draw support from related parties. With lower equity base, gearing and debt leverage increased to 2.4x (FY22: 2.3x; FY21: 0.2x) and 4.6x (FY22: 3.2x; FY21: 0.6x) respectively. Revision in fuel adjustment formula and conversion of sponsors’ loan into equity would be critical for future profitability and capitalization.

Veda Transit Solutions (Private) Limited — Appendix I

FINANCIAL Summary	*(amounts in PKR millions)*		
BALANCE SHEET	**FY21**	**FY22**	**FY23**
Fixed Assets	425	3,328	2,840
Trade Debts	144	298	462
Advances, deposits and prepayments	27	36	58
Cash & Bank Balances	261	302	249
Other Assets	870	279	423
Total Assets	1,726	4,243	4,033
Trade and Other Payables	201	667	892
Long Term Debt	202	2,258	1,724
Short Term Debt	-	-	-
Total Debt	202	2,258	1,724
Related Party Loan	162	107	360
Other Liabilities	64	205	337
Total Liabilities	629	3,237	3,313
Paid Up Capital	440	526	526
Total Equity	1,097	1,006	720
INCOME STATEMENT	**FY21**	**FY22**	**FY23**
Net Sales	852	2,469	3,350
Gross Profit	205	497	248
Profit Before Tax	96	(33)	(184)
Profit After Tax	48	(80)	(286)
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**
Gross Margin (%)	24.1%	20.1%	7.4%
Net Margin	5.6%	-3.3%	-8.5%
FFO	174	410	119
FFO to Total Debt (%)	86%	18%	7%
FFO to Long Term Debt (%)	86%	18%	7%
Current Ratio (x)	0.8	0.5	0.5
Debt Servicing Coverage Ratio (x)	2.0	1.5	0.6
Gearing (x)	0.18	2.25	2.40
Leverage (x)	0.57	3.22	4.60
ROAA (%)	4%	-3%	-7%
ROAE (%)	7%	-8%	-33%
CCC	(52)	(48)	(50)

**Unaudited financials for FY23*

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Veda Transit Solution (Private) Limited
Sector	Mass Transit
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see table below
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	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
13-12-2023	BBB	A-2	Stable	Reaffirmed
24-08-2022	BBB	A-2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Syed Hammad Hussain	Chief Financial Officer	27 Oct, 2023