RATING REPORT

Malir Expressway Limited (MEL)

REPORT DATE:
October 12, 2023

RATING ANALYSTS:
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RATING DETAILS		
	Initial Rating	
Rating Category	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	*October 12, 2023*	
Rating Action	Initial	

COMPANY INFORMATION	
Incorporated in 2020	**Chairman:** Mr. Shoaib Ismail
Public Limited Unquoted Company	**Chief Executive Officer**: Mr. Tanweer Ahmed Khan
Key Shareholders (with stake 5% or more):	**External Auditor:** Grant Thornton Anjum Rahman Chartered Accountants
- JN & Co. – 44% (Class A Shares)	
- Government of Sindh – 37% (Class B Shares)	
- Niaz Muhammad Khan & Brothers (NKB) – 13% (Class A Shares)	
- Habib Construction Services Limited (HCS) – 6% (Class A Shares)	

APPLICABLE METHODOLOGY(IES)

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

VIS Rating Criteria: Toll Roads (September 2023)
https://docs.vis.com.pk/docs/TollRoads_2023.pdf

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

Malir Expressway Limited (MEL)

PROFILE	RATING RATIONALE

Malir Expressway Limited is a public limited unquoted company incorporated on March 22, 2022, as a Special Purpose Vehicle for the Construction of Malir Expressway under Public Pricate Partnership (PPP) mode.

Profile of Chairman: *Mr. Shoaib Ismail is a Civil Engineer by profession and also holds a Master's Degree from Asian Institute of Technology, Bangkok. He is a Member of Members Institute of Engineers Pakistan and has a consulting Engineer license from Pakistan Engineering Council. He has over 54 years of professional experience in industrial and commercial projects comprising planning, designing, supervision and execution.*

Profile of Chief Executive: *Mr. Tanveer Ahmed Khan is an enterpreneur by profession and the owner of JN & Co. He holds Bachelor's Degree in Civil Engineering and has supervised and completed diversified construction projects in Pakistan. He has over two decades of experience of working*

Malir Expressway Limited ('MEL' or 'the Company') is a publicly limited unlisted company established on March 22, 2020, under the regulations of the Companies Act, 2017. It was established with the primary objective of constructing the Malir Expressway (ME), a three-lane dual carriageway that runs alongside the Malir Riverbed, spanning approximately 38.75 kilometers (KM). The registered office of the Company is situated at A-22, KDA Scheme No. 1, Karsaz Road, Gulshan Town, Karachi.

On July 31, 2019, the local government department, Government of Sindh (GoS), issued a Request for Proposals (RFP) along with related advertisements to invite bids from potential bidders. The purpose of this solicitation was to grant a Concession for the project's execution through a Public Private Partnership (PPP) arrangement, based on the Design-Build-Finance-Operate-Transfer (DFBOT) model. Following a competitive bidding process, the Consortium, which consists of Nazeer Ahmed Khan & Others (JN & CO.) (as the lead member), Niaz Muhammad Khan & Brothers (NKB) (EPC contractor one), and Habib Constructions Services Limited (HCS) (EPC contractor two), was selected by the GoS for this purpose. The letter of award was issued to the Consortium by the GoS on January 22, 2020.

Subsequently, on April 21, 2020, the Company entered into a Concession Agreement with the GoS for the comprehensive execution of the ME Project. This agreement covers the Engineering, Procurement, Construction, Financing, Operation, and Maintenance of the project. According to the terms of the Concession Agreement, the anticipated duration of the Concession period extends for 25 years from the date of substantial completion.

About the Project

The ME project is a mega infrastructure development initiative in Karachi with a starting point at Jam Sadiq Bridge and a destination at Kathore Bridge. The project benefits from the expertise of the design consultant, LOYA-ZEERUK (JV), who is responsible for shaping the project's architectural and engineering aspects. To ensure quality and compliance, an Independent Engineer (IE), comprising Engineering Consultants International (Pvt.) Limited (ECIL) in association with AA Associates (AAA), Exponent Engineers (Pvt.) Limited (EEL), and Euro Consultancy (Pvt.) Limited (EC), has been engaged. A.F. Ferguson & Company, Chartered Accountants, serves as the Independent Auditor (IA), ensuring financial transparency and accountability throughout the project's lifecycle. In addition to adhering to the standards outlined in the Concession Agreement, GoS agreement, Applicable Laws, Environmental Standards, Specific Requirements, and local (National Highway Authority (NHA)) standards, the parties also comply with international standards, such as those established by the American Association of State Highway and Transportation Officials (AASHTO) and the American Society for Testing (ASTM).

This dualized three-lane expressway project entails construction of 6 interchanges (Jam Sadiq, EBM, Shahfaisal, Quaidabad, New Memon Goth and Dumlotte), 4 bridges, 1 underpass, 2 main toll plazas, and 5 weight stations. Financial closure of the project was achieved on May 10, 2022. Commencing on May 12, 2022, the project is scheduled for completion within a 30-month period, symbolizing a significant step forward in enhancing transportation infrastructure and connectivity in the region.

The entire project is split into two segments: Segment-01, which extends from 0 to 15 kilometers, commences at the Jam Sadiq Interchange and concludes at the Quaidabad Interchange. Segment-02, *for both government and private sectors.*

encompasses 15 to 38 kilometers of road infrastructure, starting from Quaidabad Interchange and concluding before the Kathore Bridge. The estimated time for completion of each segment is 18 months and 12 months, respectively. The project progress is being closely monitored with a clear breakdown of planned versus actual percentages, highlighting variances in different project segments. As of Jul'23, Segment-01 completion rate stands at 51.46%, indicating a slight deviation of 2.64% from the planned progress. In contrast, Segment-02 completion rate was 8.41%, surpassing the planned progress by a significant 7.40%. Overall, project progress stands at ~25%. According to the management, Segment-01 is scheduled for completion and operations by mid-November 2023. The constraints faced by the Company to complete this segment, mainly include removal of K-electric installations and obtaining the No Objection Certificate (NOC) from the railway department.

Key Rating Drivers

Sponsor Profile: The assigned ratings take into account sound profile of the four shareholders of MEL. 'Class A' shareholding of the Company is vested with JN & Co., Habib Construction Services Limited, Niaz Muhammad Khan & Brothers while 'Class B' is issued to Government of Sindh (GoS). As of Jun'23, JN & Co. has 44% equity stake and it holds voting rights; while GoS shareholding is 37%, which has no voting right and varied rights to dividend. The shareholders of the MEL has considerable experience and sound track record in executing infrastructure projects under public private partnership and DFBOT mandates.

Engineering, Procurement & Construction (EPC) Agreement: The EPC agreement was signed between ME (the Owner), HCS (Contractor One), and NKB (Contractor Two). According to this agreement, the Owner will pay the contractors the agreed-upon price and will abide by the agreement's terms. The Owner will supply the necessary materials to the contractors for the completion of the work and will also handle payments to the suppliers for these materials. Additionally, the Owner will ensure that there is continuous access to the project site for the duration of the work.

Whereas the contractors commit to carrying out the work diligently and in line with the agreed schedule to ensure that it meets its intended purpose. They will complete the project so that it is suitable for its intended use. The contractors will ensure that they achieve Segment Substantial Completion and Substantial Completion on or before the scheduled dates, and that the overall project construction is finished on or before the scheduled Project Construction Completion Date.

Operation and Maintenance (O&M): The concessionaire will perform the O&M in accordance with the applicable standards and will ensure that the same complies with the application standards. The concessionaire will perform the O&M either itself or through the O&M contractor appointed in accordance with the terms of Concession agreement, provided however the concessionaire will remain solely responsible and liable for performance and compliance of the O&M with the applicable standard.

Construction and O&M performance Security: JN & Co., on behalf of the concessionaire, has provided the GoS with a construction performance security. This security covers all of the Sponsor's obligations, liabilities, payments, indemnities, representations, guarantees, warranties, and responsibilities under the GoS agreement that they are a party to. It also secures all the concessionaire's obligations, liabilities, payments, liquidated damages, indemnities, representations, guarantees, warranties, and responsibilities under the GoS agreement. This includes ensuring the integrity and quality of the concessionaire's and its contractors' work, the timely completion of project works, the quality and quantity of materials supplied, compliance with applicable standards, and all other services provided by the concessionaire under the GoS agreement.

The concessionaire is required to adjust the construction performance security as needed to account for any amounts payable by the GoS due to changes in the project scope. This adjustment is equal to two percent of the amount payable to the concessionaire at any given time. Furthermore, the construction performance security must be adjusted as a condition before the final project construction completion certificate can be issued, ensuring that it equals two percent of the total project cost, minus any encashments made by the GoS before the adjustment date.

The concessionaire agrees to arrange for the issuance and delivery of the O&M performance security to the GoS as needed. They will provide the O&M performance security to the GoS at least ninety days before the expiration of the construction performance security. The O&M performance security can be cashed by the GoS upon their initial written request, without requiring prior notice, reference, or recourse to the concessionaire, the sponsor, or any other entity.

The O&M performance security, provided by the concessionaire for a specific operational year, will remain valid until the end of that operational year. This is contingent upon the GoS receiving a fully valid and effective O&M performance security for the subsequent operational year, as outlined in the terms of the concession agreement, on or before the specified date.

Demand Risk (Volume): Traffic profile depicts that majority travel will pertain to commuter and cargo related travel. Since time savings over the course of the entire journey on this route would be significant (~1.5 hours) vis-à-vis competing route, traffic volumes are expected to be sustainable. Higher time taken over the competing route is a function of greater distance and vehicle congestions on the road. Given it is a greenfield project, the traffic study conducted in 2019 for this expressway is based on traffic volumes on surrounding roads.

Revenue Risk: Following substantial completion date until the debt repayment date, the GoS shall in order to assist the concessionaire in terms of the revenue ensure that the concessionaire receives minimum payments equivalent to the Minimum Revenue Guarantee (MRG) amounts, on each MRG payment date. The MRG amount will include financing due (actualized based on the prevailing KIBOR rates), Operation & Maintenance (O&M) Cost and taxes provided by the concessionaire in the financial model. If the revenue falls below the MRG amount, then the difference between the MRG amount and the actual revenue shall be paid by the GoS on each MRG payment date into the escrow account in accordance with the terms of the escrow agreement. For the purpose of the first year, the MRG amount shall be deposited into the MRG funding account six months prior to the Substantial Completion Date. According to the financial model, the toll rates are projected to undergo a 15% increase in the third year of operations. Subsequently, there will be a growth in toll rates every alternate year until the ninth year, at which point the rate of growth will shift to 12% for the remainder of concessionary period.

Cost Overrun Risk: In the event the actual cost of escalable items (cement, bitumen, steel and Petroleum, Oil and Lubricant (POL)) exceeds the base price, the GoS shall bear and fund such portion of the escalation cost (provided such escalation cost is duly verified by the IE and the IA with reference to the price set out in the monthly statistical bulletin issued by the Pakistan Bureau of Statistics (PBS)). In any case, any escalable item is not mentioned in the bulletin issued by PBS the same shall be determined by the IE and the IA. The GoS will fund the specific cost overrun by either subscribing for Class B shares or by extending a subordinated loan to the concessionniare which shall be subordinated to the Secured Obligation (GoS Sub-debt). The repayment of any GoS Sub-debt will be through the share of the GoS in the Excess Revenue as per the concession agreement. If the actual cost of items, excluding escalable items, exceeds the base price, the sponsors shall cover the particular cost overrun, by contributing as per ownership percentage (i.e: JN & Co: 70%; NKB: 20%; HCS:

10%). They can do this in one of the following methods: subscribing to Class A shares, entering into a cash payment arrangement where the funded amounts will be treated as an advance against Class A shares, or extending a loan to the concessionaire, with the loan being subordinate to the Secured Obligation.

Construction Delay Risk: If the concessionaire fails to meet any of the project construction milestones, or if the IE reasonably determines that the construction progress is insufficient to achieve project construction completion by the scheduled date, the IE will issue a notice to the concessionaire. Upon receiving this notice, the concessionaire must, within seven (7) days, provide the IE with a detailed plan outlining the steps it intends to take to expedite progress and specify the timeframe for achieving project construction completion and substantial completion by their respective scheduled dates. If the concessionaire fails to achieve segment substantial completion or substantial completion by their respective scheduled date, they will be obligated to pay damages to the GoS as follows:

a. If there is a delay in achieving segment substantial completion, the concessionaire must pay PKR 2m per day of delay in achieving segment substantial completion.
b. If there is a delay in achieving substantial completion, the concessionaire must pay PKR 3m per day of delay in achieving substantial completion.

However, it is important to note that the total construction period damages payable by the concessionaire shall not exceed an aggregate amount of PKR 600m.

Project Cost: The EPC cost is set at PKR 24b, while non-EPC costs amount to PKR 1.26b. Initial financing fees and interest during construction (IDC) stand at PKR 2.32b, contributing to an initial project cost of PKR 27.58b. To accommodate KIBOR fluctuations, an additional provision of PKR 752m has been included, resulting in a revised project cost of PKR 28.33b.

Capital Structure: Sponsors' equity constitutes 20% of the total project financing, accounting for PKR 5.52b, signifying a significant commitment, with PKR 1.84b having been infused as of Jun'23. The GoS contributes 15% of the project's equity, amounting to PKR 4.14b, reflecting a substantial public-sector interest, out of which PKR 1.1b have been injected as of Jun'23. The majority of project funding, 65%, is secured through commercial loans, totaling PKR 17.93b, out of which conventional financiers contribute 59% while 41% is contributed by Islamic financiers, adhering to Sharia-compliant principles. These facilities have a grace period of 30 months from the first draw down or 6 months of commercial operations date which ever is earlier. These facilities are repayable in 20 semi- annual installments commencing from 6 months after the end of grace period i.e. May 2025. The facilities carry markup at the rate of 6 months KIBOR + 1.5% per annum.

Details of disbursement of each bank as of June 30, 2023 is as follows:

Bank Name	**Islamic/ Conventional**	**Amount in Rs.**
Habib Bank Limited	Commercial	1,460,115,417
Bank Alfalah Limited	Commercial	1,024,642,398
Pak Kuwait Investment Company	Commercial	217,736,510
Meezan Bank Limited	Islamic	883,754,069
United Bank Limited	Islamic	1,024,642,398
Total		**4,610,890,792**

The Security structure is as follows:

Claims <u>of Project Assets</u>

1) Exclusive hypothecation charge of moveable assets (current and future) of the Company along with margin of 25% for abundant clarity.
2) Lien over and set-off rights in respect of all accounts (excluding the distribution account) of the project Company

Claim on Project Cashflows

3) Assignment of toll collection/ revenue of the Company and routing of the same through designation collection accounts to be held under the lien of accounts bank.

Assignment of rights and benefits

4) Exclusive assignments/mortgage/pledge over the Company's rights and benefits/receivables (including liquidated damages) under the concession agreement and all other project documents and any guarantees/SBLC/bonds issued there under and any amendments thereto. Assignments may be coupled with direct agreements between senior financiers and counter parties to project documents.
5) Assignment over all rights and benefits of Company under any and all Project insurances (including any cut-through agreements) as co-loss payee for benefit of Senior Financiers.

GoS Financial Instrument and MRG Account

6) Assignment/issuance of a SBLC by the Class B 5ponsor's (in favour of the Senior Financiers) with a coverage equal to 50%of the Facility Amount at all times. (Over the course of the repayment period / operational period the SBLC shall be to the extent of 50% of the Facility Amount)
7) Lien and right to set off on Escrow Account or any such account which constitutes the GoS MRG account in favor of the Senior Financies. The MRG amount shall include the Annual Finanice Servicing Amount along with O&M & Expenses and Taxed. The MRG account will be topped up by the GoS within 90 days of withdrawal for payment of any debt/finance servicing amount due under the Financing Documents. The finance servicing component of the MRG for the purpose of topping up would be calculated at the Base Rate plus spread and a margin of 2%. For abundant clarity, the initial MRG shall be filled inaccordance with the approved Financial Model at 15.4% interest rate for finance servicing.

Pledge of shares

8) Pledge of 100% shares of Class A in the Company

Force Majeure Event: Force majeure refers to unforeseeable circumstances or events that are beyond the control of parties involved in a contract, which make it impossible or extremely difficult for them to fulfill their contractual obligations. These events typically includes political events (such as wars, any lapse of consent by GoS/IA/IE that have existed for thirty consecutive days or more or any strike or events that is politically motivated) as well as non-political events (such as natural disasters, any lapse of consent by GoS/IA/IE that have existed for less thirty consecutive days, any strike or event that is not politically motivated, explosion, chemical contamination or plague and epidemic.)

In the event of a force majeure occurrence, the allocation of force majeure costs shall be as follows:
(a) In the case of a Non-Political Event, all associated force majeure costs shall be the responsibility of the concessionaire, and the Government of the State (GoS) shall not incur any liability or responsibility for such costs in any manner.
(b) In the case of a Political Event, the GoS shall assume the responsibility for funding and bearing the force majeure costs.

Malir Expressway Limited (MEL) Appendix I

BALANCE SHEET *(in PKR millions)*	June 21	June 22	June 23
Property, plant and equipment	212.9	1,632.2	8,481.6
Long-term Deposits	0.2	0.2	0.2
Advance and Prepayment	-	880.6	772.0
Cash and Bank Balances	3.0	1,038.1	308.2
Total Assets	216.1	3,551.1	9,562.1
Tarde and Other Payables	47.5	204.6	738.2
Long-term Loans	-	1,899.6	4,610.9
Subordinated Loan	-	-	1,153.5
Paid-up Capital	65.0	984.0	2,960.5
Advance against Equity	154.2	516.6	189.8
Accumulated Losses	(50.6)	(53.6)	(90.9)
Total Equity	14.4	1,447.0	4,212.9
INCOME STATEMENT	**2021**	**2022**	**2023**
Net Sales	-	-	-
Gross Profit / (Loss)	-	-	-
Operating Profit	-	-	-
Profit / (Loss) Before Tax	-	-	-
Profit After Tax	-	-	-
RATIO ANALYSIS	**June 21**	**June 22**	**June 23**
Gross Margin (%)	-	-	-
Net Margin (%)	-	-	-
Current Ratio (x)	0.06	9.38	1.47
Funds from Operations (FFO)	-	-	-
FFO to Total Debt (%)	-	-	-
Leverage (x)	3.30	1.45	1.27
Gearing (x)	-	1.31	1.09
DSCR (x)	-	-	-
ROAA (x)	-	-	-
ROAE (x)	-	-	-

REGULATORY DISCLOSURES	**Appendix II**
Name of Rated Entity	Malir Expressway Limited (MEL)
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				
12-Oct-2023	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.
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
1	Tanveer Ul Bari	Chief Financial Officer	**September 12, 2023**