RATING REPORT

Malir Expressway Limited (MEL)

REPORT DATE:
November 20, 2024

RATING ANALYSTS:
Musaddeq Ahmed Khan
musaddeq@vis.com.pk

Husnain Waheed
husnain.waheed@vis.com.pk

RATING DETAILS				
	Lastest Rating		**Previous Rating**	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A2	A-	A2
Rating Outlook/Rating Watch	Stable		Stable	
Rating Date	*November 20, 2024*		*Octoner 12, 2023*	
Rating Action	*Reaffirmed*		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
- Nazeer Ahmed Khan (Propriter 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
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***

Malir Expressway Limited (MEL)

OVERVIEW OF THE INSTITUTION

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 the 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 CEO

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 for both government and private sectors.

RATING RATIONALE

Company profile

Malir Expressway Limited ('MEL' or 'Company') is a publicly limited unlisted company established on March 22, 2020, under the Companies Act, 2017. It was established with the primary objective of constructing the Malir Expressway (ME), a six-lane dual carriageway that runs alongside the Malir Riverbed, spanning approximately 38.75 kilometers (KM). The registered office of the Company is situated in Karachi.

On July 31, 2019, the local government department, Government of Sindh (GoS), issued a Request for Proposals (RFP) for construction of ME through a Public Private Partnership (PPP) arrangement, based on the Design-Build-Finance-Operate-Transfer (DFBOT) model. Following a competitive bidding process, the Consortium, comprising 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 award of the Concession. The letter of award was issued to the on January 22, 2020.

Subsequently, on April 21, 2020, the Company entered into a Concession Agreement with the GoS for 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 to 25 years from the date of substantial completion.

About the Project

The ME project is a major infrastructure initiative in Karachi, spanning from Jam Sadiq Bridge on main Korangi Road to Kathore Bridge near M9 motorway. The design consultant, LOYA-ZEERUK (JV), oversees the project's architectural and engineering design. Quality and compliance are ensured by the 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). A.F. Ferguson & Company, Chartered Accountants, serves as the Independent Auditor (IA) for financial transparency and accountability throughout the project's lifecycle.

This dualized six-lane expressway project entails construction of six interchanges (Jam Sadiq, EBM, Shahfaisal, Quaidabad, New Memon Goth and Dumlotte), four bridges, one underpass, two main toll plazas, and five weight stations. Financial closure of the project was achieved on May 10, 2022. Commencing on May 12, 2022, the project was 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 phases: Phase-01, which extends from 0 to 15 kilometers, commences at the Jam Sadiq Interchange and concludes at the Quaidabad Interchange. Phases-02, encompasses 15 to 38 kilometers of road infrastructure, starting from Quaidabad Interchange and concluding before the Kathore Bridge. The estimated time for completion of the two phases was 18 months and 30 months, respectively. As of June 2024, the completion rate for Phase-01 was approximately 90%. The primary challenge the Company faces in completing this phase is the relocation of K-Electric's overhead installations. To meet the operational target by the end of 2024, management has indicated that the Company is developing an alternative temporary route to connect the starting point of the ME to Shaheed-e-Millat Expressway, near the Imtiaz Mega Store. In contrast, the completion rate for Phase-02 was nearly 38% based on the initial design. Following a scope change in February 2024, the design was modified to include an elevated structure starting from the Quaidabad Interchange onward. This change has increased the steel requirements, leading to further delays. Management anticipates completion by June 2025, contingent on the timely availability of steel. The Company is currently in discussions with steel manufacturers for early procurement of the required steel. The additional costs incurred due to this scope change are being covered by the GoS.

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 the surrounding roads.

Project Cost: The Engineering, Procurement & Construction (EPC) cost has risen from PKR 24b in FY23 to PKR 37.82b, while non-EPC costs have increased from PKR 3.58b in FY23 to PKR 8.22b. This brings the total project cost to PKR 46.04b, up from PKR 27.58b in FY23, inclusive of initial financing fees, interest during construction, and provisions for KIBOR fluctuations.

Capital Structure: Sponsors' equity constitutes 20% of the total project financing, accounting for PKR 5.52b, signifying a significant commitment, with PKR 5.43b having been infused as of Jun'24. The GoS contributes 15% of the project's equity, amounting to PKR 4.14b, reflecting a substantial public-sector interest, all of which has been injected as of Jun'24. 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. Cost overruns accruing for the change in project scope will be entirely born by the GoS via sub-ordinated loan of PKR 18.62b.

Details of disbursement of each bank as of June 30, 2024 is as follows:

Bank Name	**Islamic/ Conventional**	**Amount in PKR.**
Habib Bank Limited	Commercial	2,554,882,500
Bank Alfalah Limited	Commercial	1,792,900,000
Pak Kuwait Investment Company	Commercial	380,991,250
Meezan Bank Limited	Islamic	1,546,374,250
United Bank Limited	Islamic	1,792,900,000
Total		**8,068,050,000**

Key Rating Drivers

Experienced and resourceful sponsors ensure smooth execution of the project.

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' shares are issued to GoS. As of June 2024, JN & Co. holds a 42% equity stake with accompanying voting rights. The GoS holds a 41% stake, which includes no voting rights and limited dividend rights. Additionally, NKB holds a 12% stake, and HCS holds a 6% stake. The shareholders of the MEL possess considerable experience and have sound track record in executing infrastructure projects under public private partnership and DFBOT mandates.

A well-defined contractual framework, along with financial backing from the GoS, significantly mitigates the implementation risk.

The EPC agreement was signed between MEL (Owner), HCS (Contractor One), and NKB (Contractor Two). Under this agreement, the Owner will pay the contractors the agreed price, supply necessary materials, handle supplier payments, and provide continuous site access. The contractors are well experienced and commited to complete the project by the scheduled dates. Moreover under the Concession Agreement, the GoS has commited and providing all incremental finances required for completion of the project.

Furthermore, JN & Co., on behalf of the concessionaire, has provided the GoS with a construction performance security. This security covers all obligations, liabilities, guarantees, and responsibilities under the GoS agreement, including ensuring the quality, integrity, and timely completion of project work, compliance with standards, and material quality.

Prior arrangements for operation and maintainance reduces operartional risk

The concessionaire will conduct Operations and Maintenance (O&M) in compliance with applicable standards, either directly or through an appointed O&M contractor as per the Concession Agreement. However, the concessionaire retains sole responsibility and liability for ensuring O&M meets the required standards.

Additionally, the concessionaire agrees to issue an O&M performance security to the GoS at least ninety days before the construction performance security expires. The O&M performance security is valid for the specified operational year, provided that the GoS receives a renewed O&M security for the following year by the due date, as stipulated in the concession agreement.

Comprehensive risk coverage through the Concession Agreement supports debt servicing assurance.

From the substantial completion date until the debt repayment date, the GoS will ensure the concessionaire receives minimum payments equal to the Minimum Revenue Guarantee (MRG) on each MRG payment date. The MRG includes financing based on current KIBOR rates, O&M costs, and taxes as outlined in the financial model. If actual revenue falls short of the MRG, the GoS will pay the difference into the escrow account per the escrow agreement terms. For the first year, the MRG amount will be deposited six months before the substantial completion date. According to projections, toll rates will increase by 15% in the third year of operations, then every two years until the ninth year, after which they will grow by 12% for the rest of the concession period.

If the actual cost of escalable items (cement, bitumen, steel, and POL) exceeds the base price, the GoS will cover the excess, provided it is verified by the IE and IA against the monthly Pakistan Bureau of Statistics (PBS) bulletin. For items not listed by PBS, the IE and IA will determine the cost. 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. For non-escalable items, if actual costs exceed the base price, the sponsors will cover the overrun in proportion to their ownership stakes (JN & Co.: 70%, NKB: 20%, HCS: 10%). They may do so by subscribing to Class A shares, arranging cash advances against Class A shares, or extending a loan subordinate to the Secured Obligation.

Further, the concession agreement provides penalties on the concessaire for delays in completion of the project within the stipulated time period.

Malir Expressway Limited (MEL) — Appendix I

Financial Summary			(Amounts in PKR million)
BALANCE SHEET	**June 22**	**June 23**	**June 24**
Property, plant and equipment	1,632.2	8,481.6	19,153.2
Long-term Deposits	0.2	0.2	0.2
Advance and Prepayment	880.6	772.0	2,042.5
Cash and Bank Balances	1,038.1	308.2	16,676.6
Total Assets	3,551.1	9,562.1	37,872.8
Trade and Other Payables	204.6	738.3	851.2
Long-term Loans	1,899.6	4,610.9	8,068.05
Subordinated Loan from GoS	-	1,153.5	22,517.3
Paid-up Capital	984.0	2,960.5	6,525.9
Advance against Equity	516.6	189.8	16.7
Accumulated Losses	(53.6)	(90.9)	(106.4)
Total Equity	1,447.0	4,212.9	28,953.5
INCOME STATEMENT	**2022**	**2023**	**2024**
Net Sales	-	-	-
Gross Profit / (Loss)	-	-	-
Operating Profit	-	-	-
Profit / (Loss) Before Tax	-	-	-
Profit After Tax	-	-	-
RATIO ANALYSIS	**June 22**	**June 23**	**June 24**
Gross Margin (%)	-	-	-
Net Margin (%)	-	-	-
Current Ratio (x)	9.38	1.47	21.99
Funds from Operations (FFO)	-	-	-
FFO to Total Debt (%)	-	-	-
Leverage (x)	1.45	1.27	0.31
Gearing (x)	2.45	2.27	1.31
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-	A2	Stable	Initial
20-Nov-2024	A-	A2	Stable	Reaffirmed

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	Tanveer Ul Bari	Chief Financial Officer	**October 30, 2024**