

## FINAL REPORT

# Superhighway Construction Operation & Rehabilitation Engineering (Private) Ltd.

**REPORT DATE:**

27 Oct, 2016

**RATING ANALYSTS:**

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### RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	AA-	A-1
Rating Date	21 Oct'16	
Rating Outlook	Stable	

### COMPANY INFORMATION

Incorporated on February 27 <sup>th</sup> , 2015.	External auditors: KPMG Taseer Hadi & Co.
Private Limited Company	Chairman of the Board: Major General Muhammad Afzal
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Major General Muhammad Afzal
Frontier Works Organization – 100%	

### APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Industrial Corporates (May, 2016)

## Superhighway Construction, Operation & Rehabilitation Engineering (Private) Limited

### OVERVIEW OF THE INSTITUTION

Superhighway Construction Operation and Rehabilitation Engineering (Pvt) Limited was incorporated in February, 2015 under the companies ordinance, 1984. The company is principally formed for the purpose of conversion of existing 4-lane Karachi-Hyderabad Superhighway into 6-lane motorway (M-9) on build, operate and transfer basis, pursuant to a concession agreement dated 10th March, 2015, entered into between the NHA and SCORE. FWO holds 100% shares of the company.

### RATING RATIONALE

The ratings assigned to Superhighway Construction, Operation & Rehabilitation Engineering (Private) Limited (SCORE) takes into account its strong ownership profile with Frontier Works Organization (FWO) holding 100% stake in the company. Experience of FWO in executing similar projects in the past and presence of sponsor's irrevocable and unconditional guarantee in favor of SCORE is a key rating factor. Project cash flows are a function of timely completion, estimated traffic volumes and user's willingness to pay for service; material deterioration in these factors may put pressure on entity's ability to timely service its debt obligations.

**Project Profile:** SCORE entered into concession agreement for 25 years with National Highway Authority (NHA) in March, 2015 to convert existing 4-lane Karachi-Hyderabad superhighway into 6-lane motorway (M-9) on Build, Operate and Transfer (BOT) basis. The M-9 will be a 136 kilometers long, 6-lane motorway from Karachi to Hyderabad. It will have total of 10 interchanges of which 8 will be newly constructed while existing two will be rehabilitated. Project deliverables also include construction of 275 kilometers long service road (TST), 2 Motorway Service Areas (MSA), 11 bridges, electronic toll collection system and fencing of Motorway (leaving the urbanized area). Project construction began on October 10, 2015 and is expected to be completed in April, 2018.

**Project Cost and Capital Structure:** Total Project cost is estimated at Rs. 44.25b with EPC contract cost amounting to Rs. 37.653b. 70% of the project cost is funded through debt while remaining being the equity contribution from FWO. Moreover, toll collected during construction period will also be used for construction purposes. SCORE has secured long-term financing amounting to Rs. 25.2b, with conventional financing facility amounting to Rs. 20.5b and musharaka facility amounting to Rs. 4.7b. The facility carries a markup rate of 6M-KIBOR plus 1.2% and will be repaid semi annually over a period of 9 years including a grace period of 2.5 years with principal repayment beginning in FY18. As per the arrangement, SCORE is required to maintain a Debt Service Coverage Ratio (DSCR) of 1.25. At end-FY16, total equity of SCORE amounted to Rs. 4.7b while debt drawdown stood at Rs. 11b.

**Revenue Risk:** Traffic profile depicts a mix of commuters with revenue from trucks and articulated trucks representing more than 60% of total revenue. M-9 is expected to offer various savings to commuters including lower vehicle operating cost, lesser time and distance which may not be available in the alternative route. As per concession agreement, toll rates will be fixed during the construction period. After the completion of each section, toll will be charged according to the distance travelled by each vehicle. Toll rates will be subject to annual escalation of 8% after completion of the entire project. Meanwhile, presence of Electronic Toll & Traffic Management (ETTM) system will help in minimizing collection losses.

**Completion Risk:** Project involves land acquisition and settlement issues which may cause delays in project completion. However, proven track record of FWO in executing similar projects in the past mitigates the completion risk to a larger extent.

**Liquidity and Cashflows:** Liquidity profile of the project draws comfort from the strong revenues which are expected to remain stable. Funds from operations (FFO) are projected to remain positive beginning FY18 till the end of the concessionary period with a CAGR of 9.8%.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

### Superhighway Construction, Operation & Rehabilitation Engineering (Private) Limited Appendix II

<b>FINANCIAL SUMMARY</b>		
	<i>(amounts in PKR millions)</i>	
<b>BALANCE SHEET</b>	<b>JUNE 30, 2016</b>	<b>JUNE 30, 2015</b>
Fixed Assets <i>(Property, plant and equipment)</i>	0.38	0.07
Long term advances	8993	9,413
Cash & Bank Balances	168.7	7.8
Advance Tax	0.085	.006
Total Assets	16,622	9,421
Trade and Other Payables	84.4	9,432
Total Equity	4,732	(11.39)
<b>INCOME STATEMENT</b>	<b>JUNE 30, 2016</b>	<b>JUNE 30, 2015</b>
Revenue	586.8	-
Gross Profit	365.4	-
Operating Profit	319.4	(11.49)
Profit Before Tax	20.3	(11.49)
Profit After Tax	14.5	(11.49)
<b>RATIO ANALYSIS</b>	<b>JUNE 30, 2016</b>	<b>JUNE 30, 2015</b>
Gross Margin (%)	62%	N/A*
Profit Before Tax Margin (%)	3.5%	N/A*
Net Working Capital	68.4	(9,425)
FFO to Total Debt (x)	0.03	N/A**
FFO to Long Term Debt (x)	0.03	N/A**
Debt Servicing Coverage Ratio (x)	2.14	N/A**
Gearing (x)	2.33	N/A**
Debt Leverage (x)	2.51	N/A**
ROAA (%)	0.11%	-0.12%
ROAE (%)	0.61%	-101%

\*No revenues generated

\*\*No debt outstanding

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Appendix III**

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](http://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](http://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](http://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.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES		Appendix IV																		
<b>Name of Rated Entity</b>	Superhighway Construction & Operation Rehabilitation Engineering (Private) Ltd.																			
<b>Sector</b>	Toll Roads																			
<b>Type of Relationship</b>	Solicited																			
<b>Purpose of Rating</b>	Entity rating																			
<b>Rating History</b>	<p style="text-align: center;">Medium to</p> <table border="1"> <thead> <tr> <th>Rating Date</th> <th>Long Term</th> <th>Short Term</th> <th>Rating Outlook</th> <th>Rating Action</th> </tr> </thead> <tbody> <tr> <td colspan="5" style="text-align: center;"><b><u>RATING TYPE: ENTITY</u></b></td> </tr> <tr> <td style="text-align: center;">21/10/2016</td> <td style="text-align: center;">AA-</td> <td style="text-align: center;">A-1</td> <td style="text-align: center;">Stable</td> <td style="text-align: center;">Initial</td> </tr> </tbody> </table>					Rating Date	Long Term	Short Term	Rating Outlook	Rating Action	<b><u>RATING TYPE: ENTITY</u></b>					21/10/2016	AA-	A-1	Stable	Initial
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