

## RATING REPORT

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

**REPORT DATE:**

November 30, 2018

**RATING ANALYSTS:**

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#### RATING DETAILS

Rating Category	Latest Rating	Previous Rating
Entity	AA-/A-1	AA-/A-1
Rating Date	November'30, 2018	October'10, 2016
Rating Outlook	Stable	Stable

#### COMPANY INFORMATION

Incorporated on February 27, 2015.

External auditors: KPMG Taseer Hadi & Co.

Private Limited Company

Chairman of the Board: Lt. General Muhammad Afzal

Key Shareholders (with stake 5% or more):

Chief Executive Officer: Major General Inam Haider Malik

Frontier Works Organization – 100%

#### APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Toll Roads (November 2018)

<http://jcrvis.com.pk/docs/Toll%20roads112018.pdf>

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

<http://jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf>

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

PROFILE	RATING RATIONALE
<p>Superhighway Construction Operation and Rehabilitation Engineering (Pvt.) Limited (SCORE) 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.</p>	<p>Superhighway Construction, Operation &amp; Rehabilitation Engineering (Private) Limited (SCORE) has been primarily formed for conversion of 4-lane Karachi-Hyderabad Superhighway into 6-Lane motorway (M-9) on build, operate and transfer basis. The company had entered into a concession agreement with National Highway Authority (NHA) for a period of 25 years starting in March 2015. Operations and Maintenance (O&amp;M) contract has been signed with Frontier Works Organization (FWO).</p> <p><b>Rating Drivers:</b></p> <p><b>Sponsor Profile:</b> The assigned ratings incorporate sound profile of the sponsor, FWO, which holds 100% shares of the company. Furthermore, experience of FWO in executing similar infrastructure projects in the past and presence of sponsor's irrevocable and standby unconditional guarantee for debt repayment in favor of SCORE is considered important from ratings perspective.</p> <p><b>Project Status:</b> Project construction began on October 10, 2015 and was expected to be completed by April 2018. However, delays were observed and the project was finally completed in June 2018. No liquidated damages or additional interest costs were incurred by SCORE due to delays as the same were observed as a result of encumbrances that National Highway Authority (NHA) was supposed to clear. The company received substantial completion certificate from the Quality Assurance Inspector (QAI) in June 2018.</p> <p>The concession agreement mandated that M-9 will be 136 kilometers long, 6-lane motorway from Karachi to Hyderabad. Project deliverables also included construction of 185 kms long service road (TST). Out of the total mandated length of M-9, only 2.2km is yet to be completed, while the remaining section has been constructed and the toll is being charged on the same. As per the agreement with a third party, a diversion has been established presently for the remaining 2.2km. On the other hand, the management has constructed only 145.0kms of the total 185.0kms of the service road; NHA is yet to reach agreements with certain occupants for the construction of remaining portion of service road.</p> <p><b>Project costs and funding:</b> The toll collected during the construction phase, which was part of the construction costs, was reported lower at Rs. 6.5b vis-à-vis the projected amount of Rs. 8.3b. The decrease in the collected toll was due to management's decision of charging toll tax only on 75km of the total length rather than entire completed sections. Resultantly, total project funding amounted to Rs. 42.5b (Projected cost: Rs. 44.3b).</p> <p>The decrease in the funding amount was more than compensated by the decrease in the project costs. Delay in drawdown facility and lower actual KIBOR vis-à-vis the projected KIBOR (10%) resulted in lower than projected interest costs during construction. Actual project cost was reported at Rs. 42.4b vis-à-vis the projected cost of Rs. 44.3b. Excess actual funding amount over actual construction cost has been designated for contingencies.</p> <p><b>Traffic Volumes:</b> Any shortfall in the projected revenues on account of decrease in projected volumetric traffic may have adverse impact SCORE's debt repayment capacity. However, cushion is available to the ratings in this regard as the actual traffic volumes in FY18 were higher than projected volumes in the corresponding period. Moreover, an increasing trend has been witnessed in volumes over time.</p>

**Debt servicing ability:** Toll collected prior to FY19 was contributed towards construction costs. From FY19 onwards, toll tax will be recorded as revenue and can be utilized for repayment of debt. Provided that revenues over the year are maintained at levels similar to those recorded during Q1'19, actual revenues will be lower than initially projected revenues in the financial model despite higher traffic volumes. This discrepancy persists primarily due to lower than projected distance travelled by the vehicles. Moreover, encumbrances created by occupants on some sections of the road also contribute to lower than projected revenues. As per the concession agreement, NHA was mandated to clear these encumbrances. Furthermore, toll is being collected on a semi-automatic basis and fully operational ETTM system is not present as yet. Hence, toll collection losses are higher than projected. As per management, ETTM will become operational in next two months, approximately. Hence, toll collection losses will decrease going forward.

Given the lower than projected revenues and increasing trend in interest rates which is expected to continue, cushion in debt servicing is considered limited.

## JCR-VIS Credit Rating Company Limited

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

<b>FINANCIAL SUMMARY</b> <i>(amounts in PKR millions)</i>			<i>Appendix I</i>
<b><u>BALANCE SHEET</u></b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>
Fixed Assets <i>(Property, plant and equipment)</i>	32,507	25,010	7,230
Long term advances	-	3,787	8,993
Cash & Bank Balances	1,439	128	169
Advance Tax	-	-	6
<b>Total Assets</b>	<b>37,314</b>	<b>29,081</b>	<b>16,449</b>
Trade and Other Payables	1,932	318	87
<b>Total Equity</b>	<b>10,800</b>	<b>8,280</b>	<b>4,752</b>
<b><u>INCOME STATEMENT</u></b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>
Revenue	-	-	-
Gross Profit	-	-	-
Operating Profit/ (Loss)	(66)	(64)	(55)
Finance Costs	(110)	(109)	(8)
Other income	159	55	105
Profit Before Tax	(17)	(119)	43
Profit After Tax	10	(94)	34
<b><u>RATIO ANALYSIS</u></b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>
Net Working Capital	1,632	(1,128)	68.4
Gearing (x)	2.2	2.3	2.3
Leverage (x)	2.5	2.5	2.5
ROAA (%)	0.03%	-0.41%	0.11%
ROAE (%)	0.10%	-1.21%	0.61%

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**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](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 III			
<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>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	30-Nov-2018	AA-	A-1	Stable	Reaffirmed
	21-Ocr-2016	AA-	A-1	Stable	Initial
<b>Statement by the Rating Team</b>	JCR-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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