



The Pakistan Credit Rating Agency Limited

Rating Report

Kingcrete Builders

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Jun-2018	BB-	B	Stable	Maintain	-
29-Dec-2017	BB-	B	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Kingcrete Builders is a partnership – led primarily by the Minhas family. The firm has exhibited renewed energy ever since the induction of the second generation. The roles of the partners are clearly defined. Kingcrete Builders was originally focused on construction and building works but recently the firm is increasing its focus on real estate development. Projects are in pipeline though revenue is volatile and so are the profits. The financial profile is constrained by stuck-up receivables and sizeable debt. Timely recovery of receivables and repayment of debt is essential.

The ratings are dependent upon the corporate governance principles, internal control systems and financial strength of Kingcrete Builders. Adherence of sound financial discipline while improving working capital management and strengthening debt servicing capacity through improving cash position is pivotal for the ratings. Improving the topline and sustaining it is also vital.

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Disclosure

Name of Rated Entity	Kingcrete Builders
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating Methodology(Jul-17)
Related Research	Sector Study Construction(Apr-18)
Rating Analysts	Muhammad Obaid muhammad.obaid@pacra.com +92-42-35869504 Jhangeer Hanif jhangeer@pacra.com +92-42-35869504

KINGCRETE BUILDERS PROFILE

Incorporated	Partnership Concern
Major Business	Construction
Legal Status	Un-Listed
Head Office	Rawalpindi

OWNERSHIP

- Kingcrete is registered as a partnership concern with five partners. The founder Mr. Nawaz A Minhas and his brother, Mr. Ijaz A Minhas are senior partners, with his two sons, Mr. M Nadir Minhas and Mr. M Sikander Minhas, and his relative Mr. Saeed A Malik, as partners of the firm.
- Mr. Nawaz A Minhas and his family also have ownership of a few other companies involved in the construction sector, namely Kingcrete Project Management (Pvt) Limited which is a project management consultancy, KD Plaza (Pvt) Limited which is a commercial plaza cum office building in Lahore, Gulf Heights which is a budget apartments project in Rawalpindi and Kingcrete Developers which is a JV of commercial property with Army Welfare Trust in Rawalpindi.

GOVERNANCE

- Kingcrete, as a partnership, does not have a formal Board of Directors (BoD) structure. The company is being run by the partners; they have their respective roles in the management of the company.
- The oversight function – which is normally the function of the Board – is being exercised by the two senior partners, namely Mr. Nawaz Ahmed Minhas and Mr. Ijaz Ahmed Minhas.
- The auditors of the company M/s. Rafi & Co. Chartered Accountants, are the external auditor of the company and have expressed an unqualified audit opinion on Kingcrete Builders financial statements for the year ended June 30, 2017.

MANAGEMENT

- Mr. Nawaz A Minhas – Managing Director leads the management team of the entity and has almost 40 years of rich experience. He is the technical and executional lead who oversees the business.
- Mr. Sikander Minhas, his younger son who is the CFO, has been associated with Kingcrete since 2010 and oversees all business matters including business development, execution of the projects and matters related to machinery and heavy equipment.
- His elder son, Mr. Nadir Minhas, besides looking after executional matters in Rawalpindi office, also looks after the HR function and CSR program. Legal matters are headed by Mr. Saeed A Malik.
- Kingcrete Builders is working with four key functions namely (i) Finance, (ii) Operations, (iii) Administration & HR, and (iv) Corporate & Legal Affairs reporting to the Partners.

SYSTEMS & CONTROLS

- Kingcrete is currently using a customized construction related software from GCA Solutions as its main ERP software. They are only using the financial and project management module of the software and plan to integrate payroll, procurement, inventories, and other areas of the business in the near future.
- The firm prepares quarterly accounts for its management and partners and keeps track of its performance through reports generated on project MIS, with the help of ERP software.

PERFORMANCE

- Kingcrete, in recent years, has witnessed considerable variation in its revenues, primarily due to the nature and size of the contracts initiated in a given year. During 9MFY18, the entity's revenues witnessed a 54% increase in comparison to prior year drop of 57% (9MFY18: PKR 1.63bln; FY17: PKR 1.06bln).
- During 9MFY18, an increasing topline and a less than proportionate increase in the cost of sales helped significantly increase gross margins (9MFY18: 30.4%, FY17: 22.9%).
- With increasing gross margins, lower tax rate and lower finance costs however, resulted in a considerable growth of profitability for the period (9MFY18: PKR 184mln, FY17: PKR 5mln).
- In some years a tax mismatch increases tax rate YoY because revenue is booked on receipt basis whereas tax is deducted on percentage of work completed on the basis of IPC's.
- Kingcrete has some major construction projects in the pipeline starting in a couple of months' time. The entity is looking at business, from local contracts, in excess of PKR 8 bln from building works in the next two years besides the company's own real estate development projects.

FINANCIAL RISK

- During 9MFY18, long term loan decreased to PKR 270mln (FY17: PKR 330mln) while running finance facility to cater to increased business volume went up by a meagre PKR 8mln. During this period, working capital requirements of the company have decreased due to decrease in trade receivables. Net cash cycle decreased significantly (9MFY18: 185days, FY17: 338days) on the back of decreased trade debts.
- During this period, Kingcrete's operating cashflows (FCFO) jumped up to PKR 395mln (FY17:147mln) due to a significant increase in the revenue stream from last year. Also, the partial payment of long term loan procured in FY16 has resulted in its interest coverage ratio to strengthen (9MFY18: 7.9x, FY17: 1.1x).
- In FY16 the entity acquired long term debt and short term running finance in FY16 & FY17 for increased business requirements. Long Term Debt constitutes 65% of total debt.



Kingcrete Builders

BALANCE SHEET	31-Mar-18	31-Dec-17	30-Jun-17	30-Jun-16	30-Jun-15
	9MFY18	1HFY18	Annual	Annual	Annual
Non-Current Assets	324	304	142	121	87
Investments (Incl. Associates)	-	-	-	-	-
Equity	-	-	-	-	-
Debt Securities	-	-	-	-	-
Investment Property	5	5	5	-	-
Current Assets	1,828	1,838	1,831	2,175	1,883
Inventory	-	-	-	-	-
Trade Receivables	1,224	1,130	1,189	1,092	1,232
Others	604	709	642	1,083	652
Total Assets	2,157	2,147	1,978	2,297	1,970
Debt	579	552	536	801	832
Short-Term	204	170	196	194	-
Long-term (Incl. Current Maturity of Long-Term Debt)	375	383	339	606	832
Other Short-Term Liabilities	109	129	97	224	124
Other Long-Term Liabilities	78	78	78	-	-
Shareholder's Equity	1,386	1,384	1,262	1,272	1,014
Total Liabilities & Equity	2,152	2,142	1,973	2,297	1,970

INCOME STATEMENT

Turnover	1,629	1,126	1,059	2,456	1,650
Gross Profit	495	383	243	622	447
Other Income	26	-	0	-	2
Financial Charges	(35)	(21)	(62)	(77)	(65)
Net Income	184	150	5	275	185

Cashflow Statement

EBITDA	395	235	169	563	374
Free Cashflow from Operations (FCFO)	395	235	147	546	374
Net Cash changes in Working Capital	(8)	-	(496)	(281)	-
Net Cash from Operating Activities	353	235	(411)	188	309
Net Cash from Investing Activities	(132)	-	(31)	(61)	-
Net Cash from Financing Activities	(121)	-	(77)	480	-

Ratio Analysis

Performance

Turnover Growth (same period last year)	44.7%	6.3%	-56.9%	48.9%	-94.3%
Gross Margin	30.4%	34.1%	22.9%	25.3%	27.1%
Net Margin	11.3%	13.4%	0.5%	11.2%	11.2%
ROE	13.8%	11.3%	0.4%	24.0%	18.2%

Coverages

Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncover)	7.9	7.3	1.1	1.8	0.4
Interest Coverage (x) (FCFO/Gross Interest)	7.9	7.3	1.1	4.7	5.7
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Ter)	1.2	1.5	62.2	2.1	2.7

Liquidity

Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	185	160	338	147	245
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Capital Structure (Total Debt/Total Debt+Equity)	29%	29%	30%	39%	45%
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Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA’s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA’s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

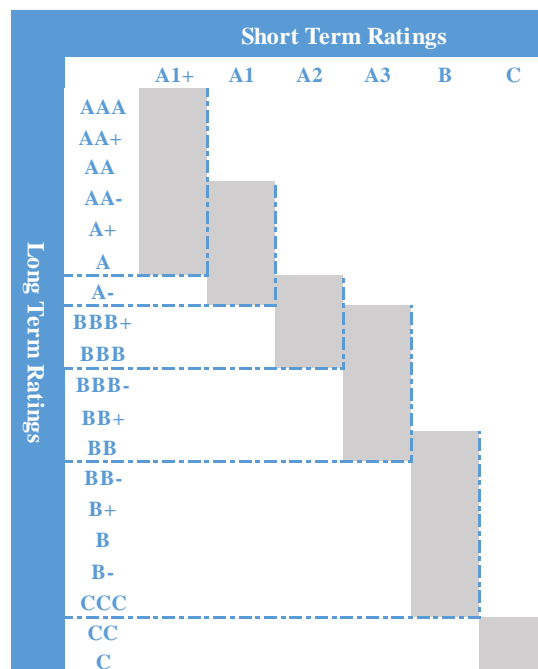
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Credit Rating Scale & Definitions

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+ AA AA-	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	A1	A strong capacity for timely repayment.
A+ A A-	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ BBB BBB-	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB BB-	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ B B-	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.		
D	Obligations are currently in default.		



Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.