



The Pakistan Credit Rating Agency Limited

Rating Report

Kingcrete Builders

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
02-Dec-2022	BBB	A2	Stable	Maintain	-
02-Dec-2021	BBB	A2	Stable	Maintain	-
03-Dec-2020	BBB	A2	Stable	Upgrade	-
27-Dec-2019	BB+	A3	Stable	Maintain	-
28-Jun-2019	BB+	A3	Stable	Upgrade	-
31-Dec-2018	BB	B	Stable	Upgrade	-
30-Jun-2018	BB-	B	Stable	Maintain	-
29-Dec-2017	BB-	B	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect Kingcrete Builders (“Kingcrete” or “the Company”) extensive experience in the civil construction business. The firm has no limit license and is registered with Pakistan Engineering Council Board. Kingcrete has delivered multiple, public and government projects of which the completion spanned a number of years. During FY22, the top line witnessed a decline of 49% (FY 22: 2.7bln, FY21: 5.4bln), and the gross profit and net profit margins also reduces, reported to 18% and 0.9% respectively (FY 21: 19% & 4.2%). The shrinkage in margins along with a slowdown in the progress of the projects and recoveries were witnessed due to the upsurge in basic raw material prices and increased policy rates. The firm has requested the cost escalation against the already-in-hand projects, the negotiations of which are underway. The firm in order to recoup the declining margins planned for the development of its land bank in Rawalpindi, as well projects spanning a short duration of time were also added to its basket. Management believes that this will help them to maintain its profitability. Kingcrete as a re-strategizing initiative also started to build its footprints in supervisory and designing work, few projects were also sourced under this direction. This will help the firm to explore its expertise in an altered way. The entire income of the firm is tender-based, revenue depends on the firm’s ability to bid successfully. Therefore the working capital requirement also depends on the project in execution; wherein performance guarantees are essential. This leads to a high dependence on bank lines to fund working capital. The firm is adequately leveraged and the performance rests with projects in hand and timely completion. The equity base is strong and is mostly represented by a portfolio of investment property indicating sound loss absorption capacity; the same along with available cash balances and ongoing projects which span a number of years ensuring revenue generation in the coming years, support the financial risk profile of Kingcrete.

The ratings will remain dependent on upholding financial metrics involving the timely completion of key commercial projects without any significant cost and time overruns. In addition, the maintenance of a healthy project pipeline and collection efficiency, as projected, will remain crucial to ratings. Governance and corporate structure require up-gradation and improvement and so does financial discipline. The management has an express mandate to corporatize its structure while improving the reporting of its financial performance on a quarterly and annual basis.

Disclosure

Name of Rated Entity	Kingcrete Builders
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Construction(Mar-22)
Rating Analysts	Muhammad Mubashir Nazir mubashir.nazir@pacra.com +92-42-35869504

Profile

Legal Structure Kingcrete Builders (Kingcrete) is a partnership firm, formally incorporated in January 1999. Conversion to a Private Limited Company from the partnership firm has been on the cards of partners, the process is still in process and is expected to complete by FY 2023.

Background Kingcrete has undertaken projects in all major fields of civil engineering and allied electrical works. The firm has constructed many state-of-the-art projects, significant projects to its credit are DHA Business Hub Lahore, FFC Regional Office, and the Bank of Khyber Head Office. The significant existing projects are Federal Foundation Building, Penta Square, Bahawalpur CMH Building and AJK Assembly.

Operations Kingcrete is capable of handling projects related to buildings, commercial & industrial pavements, roads, and bridges. The main expertise of Kingcrete is in designing commercial buildings. The firm is registered with the Pakistan Engineering Council (PEC) and holds the CA category (no limit) license. The registered office is situated at 2-C South Park Avenue, Phase-2, Defense Housing Authority, Karachi.

Ownership

Ownership Structure Kingcrete is 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. The firm is planning to convert Kingcrete into a Private Limited Company. The process is underway and expected to get converted in FY 2023.

Stability All partners have extensive experience in relevant fields and the power to direct relevant activities of the firm. The Ownership structure of Kingcrete is seen as stable as no ownership changes are expected in near future. However, conversion into a private company adds more stability to its structure.

Business Acumen The business acumen of the sponsor is considered adequate.

Financial Strength Sponsors have shareholdings in multiple companies, namely; Kingcrete Project Management (Pvt) Limited – a project management consultancy, KD Plaza (Pvt) Limited - a commercial plaza in Gulf Heights - a budget apartments project in Rawalpindi and Kingcrete Developers - a JV of commercial property with AWT in Rawalpindi. Sound land bank available to partners adds more strength to their ability to support the firm in time of need.

Governance

Board Structure As a partnership, Kingcrete does not have a formal BOD structure and is being run by the partners; they have their respective roles in the management of the company.

Members' Profile The partners are experienced professionals having diverse expertise. The senior partner, Mr Nawaz, BSc in civil engineering, he carries over five decades of rich experience in construction services including a ten-year service in the Corps of Army Engineers. Col (R) Ijaz A. Minhas, an electrical engineer, has also worked in Corps of Army Engineers. The two younger partners who have joined in 2010-2012 and they are highly educated and have international exposure.

Board Effectiveness 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.

Financial Transparency M/S. Rafi & Co. Chartered Accountants, is the external auditor of the company and has expressed an unqualified audit opinion for the year ended June 30, 2021. The audit for June 2022, is still in progress.

Management

Organizational Structure Kingcrete is working with four key functions namely (i) Finance, (ii) Operations, (iii) Administration & HR, and (iv) Corporate & Legal Affairs.

Management Team A balanced mix of professionals from various professional backgrounds and expertise which comprise the core management team which has a long association with the firm.

Effectiveness Kingcrete has three management committees – Strategy & Risk, Audit, and Finance. The management meets on regular basis to discuss the important matters

MIS Kingcrete is currently using customized construction-related software from GCA Solutions as its main ERP software. They have integrated the accounting module. Both Rawalpindi and Lahore offices are linked together and provide real-time information.

Control Environment Kingcrete adheres to strict quality control standards as it is the need of the construction industry. The company maintains a comprehensive MIS reporting system for the management to keep track of its different project sites and activities.

Business Risk

Industry Dynamics The construction industry grow by 7% in real terms in 2022, following a 2.9% growth in 2021. The upward revision is mostly due to increased investment in the construction industry, as well as increased exports and manufacturing activities. As part of Public Sector Development Program (PSDP), the current government allotted PKR800 billion (\$4.1 billion) for the development projects in May 2022 for the fiscal year (FY) 2022-23. Pakistan's infrastructure sector is expected to post relatively healthy growth in 2022, with the execution of major development and renovation projects, post flood. Although it is expected that there are a number of downside risks to the industry's outlook in the short term. The ongoing geopolitical crisis, the depreciation of the PKR against the US dollar and the impact of rising energy costs on construction material prices will weigh on the growth of the construction industry.

Relative Position Kingcrete holds no limit license, out of the 10,000+ firms registered with PEC as Constructors / Operators, only 100 (1%) hold the prestigious CA category (no limit) license which enables it to be on the pre-qualifying list of approved constructors.

Revenues During FY 22, the firm's revenues witnessed a significant decrease and reported PKR 2,765mln in comparison to the prior year (FY21: PKR 5,425mln). The reason for the decrease is the completion of some in-hand projects where the revenue has been recognized in the previous years. Further, the slowdown in the progress of in-hand projects is witnessed due to an upsurge in raw material prices. The firm negotiations for the price escalation with parties are underway.

Margins The gross profit and net profit margins during FY 22 also reduces, reported to 18% and 0.9% respectively (FY 21: 19% & 4.2%). The shrinkage in margins was witnessed due to the upsurge in basic raw material prices and increased policy rates.

Sustainability Earnings prospects are improving as Kingcrete owing to re-strategizing sourced a few new projects on designing and supervisory terms, this will reduce the impact of price escalations, and the firm will be focused on its core expertise.

Financial Risk

Working Capital The working capital requirement also depends on the project in execution; wherein performance guarantees are essential. This leads to a high dependence on bank lines to fund working capital. The net cash cycle increased to 190 days (FY21: 109 days, FY20: 196 days, FY19: 141 days.) due to slow recoveries from the clients.

Coverages During FY22, Kingcrete's FCFO decreased to PKR 259mln (FY21: PKR 536mln, FY20: PKR 315mln) due to the decrease in net profit. The Debt Coverage Ratio decreased to 1.5 (FY21: 2.2, FY20: 1.8). Going forward, more business revenue and prudent management of business operations shall provide additional room to meet its financial obligations.

Capitalization The firm has a moderately leveraged capital structure. The debt to Equity ratio has clocked to 56.2% (FY21:45.8%; FY20:53.9%). The leveraging is more tilted towards the short-term borrowings i.e the needed to fund its operations due to slow recoveries.



The Pakistan Credit Rating Agency Limited

30-Jun-22	Jun-22	Jun-21	Jun-20
Construction	12M	12M	12M

A BALANCE SHEET

1 Non-Current Assets	468	508	428
2 Investments	-	833	-
3 Related Party Exposure	853	810	-
4 Current Assets	3,226	2,098	3,752
<i>a Inventories</i>	-	-	-
<i>b Trade Receivables</i>	1,706	666	2,040
5 Total Assets	4,547	4,249	4,180
6 Current Liabilities	2,210	2,390	2,171
<i>a Trade Payables</i>	381	562	144
7 Borrowings	1,261	767	966
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	109	184	217
10 Net Assets	966	908	826
11 Shareholders' Equity	966	908	826

B INCOME STATEMENT

1 Sales	2,765	5,425	2,981
<i>a Cost of Good Sold</i>	(2,269)	(4,386)	(2,376)
2 Gross Profit	496	1,039	605
<i>a Operating Expenses</i>	(107)	(156)	(130)
3 Operating Profit	388	883	475
<i>a Non Operating Income or (Expense)</i>	-	3	-
4 Profit or (Loss) before Interest and Tax	388	886	475
<i>a Total Finance Cost</i>	(169)	(248)	(172)
<i>b Taxation</i>	(196)	(409)	(221)
6 Net Income Or (Loss)	24	228	82

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCF)</i>	259	536	315
<i>b Net Cash from Operating Activities before</i>	90	288	143
<i>c Changes in Working Capital</i>	(732)	(331)	547
1 Net Cash provided by Operating Activities	(641)	(43)	690
2 Net Cash (Used in) or Available From In	8	(286)	(148)
3 Net Cash (Used in) or Available From Fi	470	(308)	135
4 Net Cash generated or (Used) during the	(164)	(636)	678

D RATIO ANALYSIS

1 Performance			
<i>a Sales Growth (for the period)</i>	-49.0%	82.0%	38.3%
<i>b Gross Profit Margin</i>	17.9%	19.2%	20.3%
<i>c Net Profit Margin</i>	0.9%	4.2%	2.7%
<i>d Cash Conversion Efficiency (FCFO adju</i>	-17.1%	3.8%	28.9%
<i>e Return on Equity [Net Profit Margin * 1</i>	2.5%	26.3%	9.9%
2 Working Capital Management			
<i>a Gross Working Capital (Average Days)</i>	157	91	189
<i>b Net Working Capital (Average Days)</i>	94	67	173
<i>c Current Ratio (Current Assets / Current</i>	1.5	0.9	1.7
3 Coverages			
<i>a EBITDA / Finance Cost</i>	2.7	3.8	3.1
<i>b FCFO / Finance Cost+CMLTB+Excess</i>	0.9	1.3	1.1
<i>c Debt Payback (Total Borrowings+Exces</i>	7.6	1.5	4.1
4 Capital Structure			
<i>a Total Borrowings / (Total Borrowings+Σ</i>	56.6%	45.8%	53.9%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	0.0
<i>c Entity Average Borrowing Rate</i>	15.4%	29.2%	17.8%

Credit Rating

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) 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.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
--	---

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

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 | Clause 11-(A)(p).
- (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)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent