



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
	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

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 partners with different skills set have clearly defined roles in the company. Kingcrete Builders was originally focused on construction and building works but recently the firm is increasing its focus on real estate development besides a road infrastructure project recently initiated to test the waters. Projects are in pipeline and reported profitability is seeing a rising trend. Financial profile has improved as multiple ongoing and recently completed projects have provided ample profits. The pipeline of the projects in process and at hand is good and is expected to reflect positively on the future risk profile of the entity.

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.

#### Disclosure

<b>Name of Rated Entity</b>	Kingcrete Builders
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Ratings(Jun-18),Methodology   Criteria   Rating Modifier(Jun-18),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
<b>Related Research</b>	Sector Study   Construction(Mar-19)
<b>Rating Analysts</b>	Muhammad Noor ul Haq   muhammad.noorulhaq@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Kingcrete Builders (Pvt) Limited (Kingcrete) is a partnership concern, formally incorporated in January 1999.

**Background** It was established in 1976 by Major (R) Nawaz A Minhas, a civil engineer by profession. Significant projects to its credit are the 18 storey Navy Heights Karachi, Mall of Lahore, DHA O/A Levels School in Khi, ICI Office Buildings in Khi, Naval HQ in Isb, Safari Villas in Bahria Town Rwp, Hyperstar in Isb and Lahore, CMH Rwp and rehabilitation of PC Hotels in Khi, Rwp & Lhr.

**Operations** The Company is capable of handling projects related to buildings, commercial & industrial pavements, runways, roads and bridges, marine works and pipeline works besides delivering projects on turnkey basis. Company is registered with the Pakistan Engineering Council (PEC) and holds the CA category (no limit) license.

## Ownership

**Ownership Structure** 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.

**Stability** Kingcrete is majority owned by the Minhas family and the shareholding of the two sons would increase in the future but it needs to have a formal succession planning, to improve future prospects.

**Business Acumen** The senior partners have rich extensive experience of over 4 decades in the construction sector, including the younger partners who have 7 to 8 years of industry experience.

**Financial Strength** Sponsors have an adequate financial profile with shareholding in multiple companies, namely; Kingcrete Project Management (Pvt) Limited – a project management consultancy, KD Plaza (Pvt) Limited - a commercial plaza in Lahore, Gulf Heights - a budget apartments project in Rawalpindi and Kingcrete Developers - a JV of commercial property with AWT in Rawalpindi.

## 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 four 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 relatively recently 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** The entity is in the process of converting its business model and has already initiated the required processes. It is targeting FY 2020 as first year of operations as a private limited company. 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, 2018.

## Management

**Organizational Structure** Company 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 and comprise the core management team which has a long association with Kingcrete Builders.

**Effectiveness** The company has three management committees – Strategy & Risk, Audit and Finance. They should meet more frequently on a formal basis to discuss the important matters.

**MIS** 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. Both the 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** Growth in Construction Industry is slowing on account of a number of factors, including GoP pulling back PSDP funding, increasing inflation and interest rates.

**Relative Position** 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 them to be on the pre-qualifying list of approved constructors.

**Revenues** Kingcrete is shifting its resources towards developing its own real estate projects in the future. The current revenue mix is approximately 20% from real estate and 80% building works but management envisages 80% from real estate and 20% from building works in 5 years' time, to smooth out the effect of cyclicality in the construction industry on its report card. Kingcrete has also set up a rental unit of its huge fleet of spare construction equipment, as a second source of revenue, which lies idle when construction projects are not utilizing it. In recent years, there was considerable variation in its revenues, primarily due to the nature and size of the contracts initiated in a given year. For 1H-FY19 revenue was PKR 1.09 bln, while in FY18 witnessed a 2.2x increase (FY18: PKR 3.39 bln; FY17: PKR).

**Margins** During FY18, although the topline saw a massive two fold growth, while cost of sales for 1H-FY19 was -713 mln with improved gross margin of 34%, a more than proportionate increase in the cost of sales in FY18 showed decreased gross margins earlier (FY18: 17.1%, FY17: 22.9%) primarily due to higher raw material cost amid depreciating PKR and increasing inflation. Higher operating and administrative expenses were supplemented by lower interest cost 1H-FY19: 48 mln (FY18: 34 mln; FY17: 62 mln), considerably increased profitability for the period 1H-FY19: 136 mln (FY18: 114mln, FY17: PKR 5mln).

**Sustainability** Earnings prospects are improving as Kingcrete is moving towards real estate development besides already working on a few big projects for AWT and DHA.

## Financial Risk

**Working Capital** For working capital needs, which is a function of inventory and receivables, a company relies on both internal cash flows as well as short term borrowing (STB). For 2018, Kingcrete had to long term borrowing amounting to PKR 406mln to cater to increased business volume. As at end FY18, working capital requirements of the company improved as receivables started flowing and regular payments were received. Net cash cycle decreased significantly 1H-FY19 (FY18: 82 days, FY17: 338days, FY16: 147days) on the back of significant decrease in trade debts.

**Coverages** In FY18, Kingcrete's operating cashflows (FCFO) increased to PKR 308 mln (FY18: PKR 203mln, FY17:147mln) due to more than two folds revenue growth from last year. Short term borrowings were reduced. The Debt Coverage ratio increased further 6.4 (FY18: 6.0, FY17: 2.4). Going forward, more business revenue and prudent management of business operations shall provide additional room to meet its financial obligations in case if Kingcrete wants to borrow in the near future.

**Capitalization** Historically, Kingcrete has had reliance on debt and had high leveraged capital structure. STB revived in this half-year amounting to PKR 303mln. Debt to Equity ratio has improved in the past year 1H-FY19 45% (FY18: 28.7%, FY17: 29.8%). Kingcrete being a partnership does not pay dividend.



# Construction

The Pakistan Credit Rating Agency Limited

Financials (Summary)

PKR mln

## Kingcrete Builders

BALANCE SHEET	30-Jun-18	30-Jun-17	30-Jun-16	30-Jun-15
	Annual	Annual	Annual	Annual
<b>Non-Current Assets</b>	<b>333</b>	<b>142</b>	<b>121</b>	<b>87</b>
<b>Investments (Incl. Associates)</b>	-	-	-	-
Equity	-	-	-	-
Debt Securities	-	-	-	-
Investment Property	2	5	-	-
<b>Current Assets</b>	<b>1,914</b>	<b>1,831</b>	<b>2,175</b>	<b>1,883</b>
Inventory	-	-	-	-
Trade Receivables	1,070	1,189	1,092	1,232
Others	844	642	1,083	652
<b>Total Assets</b>	<b>2,249</b>	<b>1,978</b>	<b>2,297</b>	<b>1,970</b>
<b>Debt</b>	<b>406</b>	<b>536</b>	<b>801</b>	<b>832</b>
Short-Term	-	196	194	-
Long-term (Incl. Current Maturity of Long-Term Debt)	406	339	606	832
Other Short-Term Liabilities	754	97	224	124
Other Long-Term Liabilities	86	78	-	-
<b>Shareholder's Equity</b>	<b>1,006</b>	<b>1,262</b>	<b>1,272</b>	<b>1,014</b>
<b>Total Liabilities &amp; Equity</b>	<b>2,252</b>	<b>1,973</b>	<b>2,297</b>	<b>1,970</b>

## INCOME STATEMENT

<b>Turnover</b>	<b>3,395</b>	<b>1,059</b>	<b>2,456</b>	<b>1,650</b>
Gross Profit	581	243	622	447
Other Income	39	0	-	2
Financial Charges	(34)	(62)	(77)	(65)
<b>Net Income</b>	<b>114</b>	<b>5</b>	<b>275</b>	<b>185</b>

## Cashflow Statement

EBITDA	483	169	563	374
Free Cashflow from Operations (FCFO)	203	147	546	374
Net Cash changes in Working Capital	761	(496)	(281)	-
Net Cash from Operating Activities	930	(411)	188	309
Net Cash from Investing Activities	(621)	(31)	(61)	-
Net Cash from Financing Activities	(154)	(77)	480	-

## Ratio Analysis

### Performance

Turnover Growth (same period last year)	220.6%	-56.9%	48.9%	-94.3%
Gross Margin	17.1%	22.9%	25.3%	27.1%
Net Margin	3.4%	0.5%	11.2%	11.2%
ROE	12.1%	0.4%	24.0%	18.2%

### Coverages

Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncc)	1.1	2.4	2.7	0.4
Interest Coverage (x) (FCFO/Gross Interest)	6.0	2.4	7.1	5.7
Debt Payback (Years) (Total Lt. Debt (excluding Covered Short T	2.4	4.0	1.3	2.7

### Liquidity

Net Cash Cycle (Inventory Days + Receivable Days - Payable Day)	82	338	147	245
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<b>Capital Structure</b> (Total Debt/Total Debt+Equity)	29%	30%	39%	45%
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## KINGCRETE BUILDERS

June 2019

## 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	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> 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.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> 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.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> 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.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> 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>B</b>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> 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>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> 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.		
<b>D</b>	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.

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(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)

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- 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

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- (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.
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- (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)
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(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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