



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
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 the Kingcrete's history of four decades and the extensive experience of partners in the civil construction and engineering business. The firm has exhibited renewed energy ever since the induction of the second generation. Kingcrete Builders was originally focused on construction and building works but recently the firm has expanded its wings and is working on multiple projects of varying sizes and nature. Adequate pipeline of projects to be executed next 12-24 months, provides sizable revenue visibility for the medium term. As the entire income is tender-based, revenue depends on the firm's ability to bid successfully. Therefore the working capital requirement also depend on the project in execution; wherein performance guarantees are essential. This leads to a high dependence on bank lines to fund working capital. The expansion in business 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

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

Profile

Legal Structure Kingcrete Builders is a partnership firm, formally incorporated in January 1999. It is targeting FY 2020 as first year of operations as a private limited company.

Background Kingcrete was established in 1976 and since its inception has undertaken projects in all major fields of civil engineering and allied electrical works. Significant projects to its credit are the 18 storeys Navy Heights, DHA O/A Levels School, ICI Office Buildings in Karachi, Mall of Lahore, Naval HQ Islamabad, Safari Villas in Bahria Town, CMH Rawalpindi, Hyperstar and rehabilitation of PC Hotels in Karachi, Rawalpindi and Lahore.

Operations Kingcrete 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. 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 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 and engineering 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. 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, 2019.

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 and comprise the core management team which has a long association with the firm

Effectiveness Kingcrete 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 modules of the software and plan to integrate payroll, procurement, inventories, and other areas of the business in the near future. 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 Construction as a sub sector contributes 13.5% in industrial sector and 2.82% in GDP against the share of 2.74% last year; it absorbs 7.31% of labor force. The sector witnessed a growth of 9.13% against the growth of 9.84% last year. Growth in Construction Industry is slowing on account of a number of factors, including GoP pulling back PSDP funding, increasing inflation and interest rates, tax surge, price hike of raw material, and economic instability, limited screening of contractors based on qualification, and increasing bank regulations. Construction sector incorporates a healthy competition, and trends are mainly driven by policy changes.

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 During FY19, the firm's revenues witnessed a significant dip of 36% in comparison to the prior year growth of 219% (FY19: PKR 2,155mln; FY18: PKR 3,379mln). This decrease in revenue was due to muted growth in completion of different construction projects. Kingcrete has completed its real estate development project - AWT Plaza Lahore during the period.

Margins Kingcrete's topline dropped substantially, However, the firm managed to maintain its gross margins (FY19: 19.2%, FY18: 17.2%). Due to high lending rates, finance cost of the firm has significantly increased by 149% to PKR 85mln (FY18: PKR 34mln), which has negatively impacted the bottom line. Hence, the net profit margin was reported as -0.6 for FY19 (FY18: -3.4%).

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 Kingcrete had long term borrowing amounting to PKR 587mln to cater to increased business volume. For working capital needs, which is a function of inventory and receivables, the facility of running finance (FY19: 357mln; FY18: Nil) has availed during the FY19. Net cash cycle increased to 116 days (FY18: 83 days) on the back of decrease in trade debts.

Coverages In FY19, Kingcrete's operating cashflows (FCFO) decreased to PKR 143mln (FY18: PKR 203mln) due to the depressed revenues, increase in short term and long term borrowings on high lending rates. The Debt Coverage ratio decreased to 1.7 (FY18: 6.0). 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. Debt to Equity ratio has further deteriorated to 55.1% (FY18: 28.7%). Kingcrete being a partnership concern does not pay dividend.



The Pakistan Credit Rating Agency Limited

Financial Summary

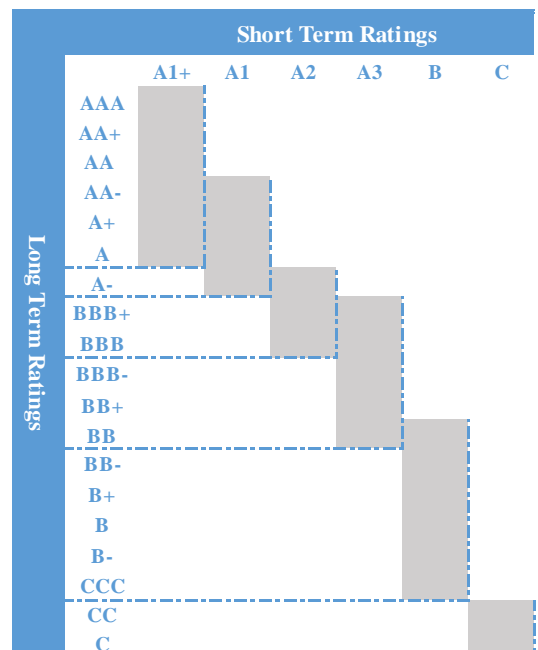
PKR mln

Kingcrete Builders Construction	Jun-19 12M	Jun-18 12M	Jun-17 12M
A BALANCE SHEET			
1 Non-Current Assets	424	333	142
2 Investments	-	5	-
3 Related Party Exposure	-	-	-
4 Current Assets	1,954	1,914	1,831
<i>a Inventories</i>	-	-	-
<i>b Trade Receivables</i>	1,052	1,070	1,189
5 Total Assets	2,378	2,252	1,973
6 Current Liabilities	409	754	97
<i>a Trade Payables</i>	131	625	97
7 Borrowings	1,016	406	536
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	126	86	78
10 Net Assets	827	1,006	1,262
11 Shareholders' Equity	827	1,006	1,262
B INCOME STATEMENT			
1 Sales	2,155	3,379	1,059
<i>a Cost of Good Sold</i>	(1,741)	(2,798)	(816)
2 Gross Profit	414	581	243
<i>a Operating Expenses</i>	(213)	(192)	(96)
3 Operating Profit	201	389	146
<i>a Non Operating Income or (Expense)</i>	38	39	0
4 Profit or (Loss) before Interest and Tax	239	428	146
<i>a Total Finance Cost</i>	(85)	(34)	(62)
<i>b Taxation</i>	(167)	(280)	(79)
6 Net Income Or (Loss)	(13)	114	5
C CASH FLOW STATEMENT			
<i>a Free Cash Flows from Operations (FCFO)</i>	143	203	90
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	58	169	28
<i>c Changes in Working Capital</i>	(225)	761	(387)
1 Net Cash provided by Operating Activities	(167)	930	(360)
2 Net Cash (Used in) or Available From Investing Activities	(323)	(621)	(58)
3 Net Cash (Used in) or Available From Financing Activities	605	(154)	(181)
4 Net Cash generated or (Used) during the period	115	155	(599)
D RATIO ANALYSIS			
1 Performance			
<i>a Sales Growth (for the period)</i>	-36.2%	219.1%	-56.9%
<i>b Gross Profit Margin</i>	19.2%	17.2%	22.9%
<i>c Net Profit Margin</i>	-0.6%	3.4%	0.5%
<i>d Cash Conversion Efficiency (EBITDA/Sales)</i>	14.4%	14.3%	16.0%
<i>e Return on Equity (ROE)</i>	-1.4%	10.1%	0.4%
2 Working Capital Management			
<i>a Gross Working Capital (Average Days)</i>	180	122	393
<i>b Net Working Capital (Average Days)</i>	116	83	338
<i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i>	4.8	2.5	18.8
3 Coverages			
<i>a EBITDA / Finance Cost</i>	3.6	14.2	2.7
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	0.5	1.1	1.4
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	11.3	2.4	12.2
4 Capital Structure (Total Debt/Total Debt+Equity)			
<i>a Total Borrowings / Total Borrowings+Equity</i>	55.1%	28.7%	29.8%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	0.0
<i>c Average Borrowing Rate</i>	12.0%	7.2%	9.3%

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.

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

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- (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)

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- (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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