The Pakistan Credit Rating Agency Limited

# Rating Report

## Ghulam Rasool & Company (Pvt.) Limited

**Report Contents**



**Rating History**

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|---|---|---|---|---|---|
| 15-Dec-2022 | A- | A2 | Stable | Upgrade | - |
| 17-Dec-2021 | BBB+ | A2 | Stable | Maintain | - |
| 18-Dec-2020 | BBB+ | A2 | Stable | Upgrade | - |
| 18-Dec-2019 | BBB | A2 | Stable | Initial | - |

### Rating Rationale and Key Rating Drivers

Ghulam Rasool & Co' holds a prominent position in the construction industry since several decades. It was established by Mr Ghulam Rasool in 1970 and later inherited by his three sons and their respective families who are the joint owners of the business. The shareholders have stakes in multiple companies simultaneously, thus strengthening the group's financial strength. The company has delivered multiple, public and government projects, and usually embarks upon large infrastructure projects in collaboration with different foreign JV partners, which in their own right are established institutions. The Company has a no-limit contract license and is focused mainly on specialized nature projects on civil construction, irrigation works, and hydel-power development projects. The functional and reporting responsibilities of the management team are demarcated. The control environment needs to be strengthened. The company has a defined strategy of building assets, required for its operations as well as investment purposes, through surplus cash. The company's profitability has improved. Debt is procured for project financing in nature of short-term working capital. Leveraging also includes non-funded exposure which is an integral part of the business model. Equity base of company is strong; the same along with ongoing projects with foreign partners spanning over a number of years and ensuring revenue generation in the coming years, support the financial risk profile of the Company. It is further boosted by proficient WC cycle, which reflects on improving operational efficiency of the company. The company's revenue in FY22 surged multiple times and was recorded at PKR 15.36 billion, owing to stout projects pipeline, hence the upgrade.

The ratings are dependent on the sustainability of the business and its financial structure; sustaining a steady revenue stream and financial risk profile. Financial metrics need to be upheld as well. Any prolonged downturn in business volume can have a detrimental effect on the rating. The company is working on a number of initiatives to strengthen itself internally and externally, which will improve its longevity and sustainability. Improving governance and internal controls framework would have further positive connotation for the ratings.

**Disclosure**

| | |
|---|---|
| **Name of Rated Entity** | Ghulam Rasool & Company (Pvt.) Limited |
| **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** | Uswa Sikandar \| uswa.sikandar@pacra.com \| +92-42-35869504 |

## Profile

**Legal Structure** Ghulam Rasool & Co (GRC) is a private limited company and is engaged in the construction business. Its head office is located in Multan while registered office is located in Lahore. Regional offices are located in Islamabad and Peshawar.

**Background** GRC was founded over several decades ago in 1970 and the company was incorporated as Private Limited in 1984. GRC is a leading provider of high-end Engineering, Procurement & Construction services.

**Operations** Their main lines of business include civil, developmental, power and irrigation projects. GRC operates in mega infrastructure, hydro-power projects, tunnels, industrial sectors, motorways, highways, real-estate developments, canals, barrages and irrigation system up-gradation spanning across the entire construction industry value-chain. The company mostly works with the government departments and executes projects as JVs in partnership with different Chinese, European, UAE & Korean companies.

## Ownership

**Ownership Structure** The family business has been operating since the 70s, and was inherited from Mr.Ghulam Rasool by his 3 sons Mr. Amanatulla, Mr. Majeedullah & Mr. Obaidullah. Mr. Majeed Ullah (the CEO) & his wife, Ms. Zakia Majeed, holding 18.59% & 16.88% respectively are the major shareholders of the company. Remaining shareholding is held by web of close relatives.

**Stability** The shareholders have stakes in multiple companies simultaneously, which is a re-assurance that there is less likelihood of concentration of shareholder equity, which signifies diversification of income streams. . GRC has a history of applying little for funding facility from bank, and relying more on equity and cash flow, hence it is evident that sponsors are willing to support the company.

**Business Acumen** The shareholders have good industry experience and knowledge in their field of expertise. Mr.Majeed, has ~20 years of active experience in GRC, while Mr. Faisal has been with the company for ~10 years now.

**Financial Strength** The shareholders have diverse and unconcentrated sources of income, due to shareholdings in multiple companies, which ensures financial stability.

## Governance

**Board Structure** Board has 4 members currently who are all family members and shareholders of the company. Mr.Faisal, Mr.Majeed, , Mrs. Ashraf Bibi and Mr. .Sheheryar Khan.

**Members' Profile** The members of board are personnel of vast experience in executive positions, and have vested interest in the company as shareholders .

**Board Effectiveness** There is as such no board committee. All partners also have management positions in the company which inhabits the room for impartial oversight and strong governance. There are no independent directors on the board.

**Financial Transparency** Being a private company, the financials and annual reports of the company are not public, however the auditor of GRC "Naveed Zafar Ashfaq Jaffer & Co" is a Category A auditor and is an associate of PrimeGlobal.

## Management

**Organizational Structure** The organizational hierarchy of GRC, is well organized and segregated, with defined roles and efficient reporting structure. The department heads report directly to CEO and Directors.

**Management Team** The company incorporates a good mix of expertise, knowledge and experience. The members of management team are mature individuals with extensive hands-on experience in the field.

**Effectiveness** With the support of a qualified and experienced team of professionals, GRC is building up the business strengths and increasing its foot print across Pakistan. Functions of the management are clear and well-defined to effectively achieve its underlying goals and objectives.

**MIS** GRC incorporates Primaravera P6 Ver 8.2, an enterprise project portfolio management software. It includes project management, product management, collaboration and control capabilities, and integrates with other enterprise. AutoCAD Civil 3D, and Cash flow Systems equipment.

**Control Environment** GRC maintains an extensive and detailed SOP document. Instructions for machinery operation, dispatching, cash transfers/payments, are laid-out to ensure compliance. However, the company lacks an internal audit that can effectively ensure and report upon on-going discrepancies, a lack of formal internal control department can have a negative implication when it comes to prevent recurrence of any malpractice.

## Business Risk

**Industry Dynamics** The construction sector contributed almost PKR~1,409bln to the Gross Domestic Product (GDP) of Pakistan in FY21 (FY20: PKR~1,231bln), registering a growth of ~14.4% YoY basis. The major demand driver for the construction sector is the Public Sector Development Programme (PSDP) expenditure followed by Private Investments. Majority of the construction revenue is from government contracts ranging from building of Infrastructure to Highways, Offices and Airports. PSDP expenditure is highly correlated to construction sector activity. Major challenges faced by the industry are increase in prices of all items related to construction, including cement, sand, crush, tiles, brick, concrete, paint as well as steel bars or rebars. However, there is a hope on demand side which is expected to improve on account of demand generated from rehabilitation of damaged areas in recent flashfloods

**Relative Position** GRC has good potential and lies at par with the well performing companies. When it comes to competitive advantage GRC has an edge due to operational and geographical diversification. Comparing up to last two fiscal years, GRC lies among top tier construction companies, it can be fairly titled to be a large entity, with an equity of 13 bln, and it is in competition with other industry giants.

**Revenues** Revenues of GRC have improved to PKR 15.3 billion in FY22 (FY21: 6.891 bln, FY20: 6.173 bln) on the back of ongoing JVs with Chinese companies and government contracts mainly. Company has also started giving shutdown maintenance services to refinery, oil and gas plants. GRC has also recognized revenue from installation of solar energy power system.

**Margins** Gross margins of the entity have bounced back and recorded at 14.8% (FY21: 11%; FY20: 15%). Further support from operating margins of 11.8% (FY21: 5.7%; FY20: 10.4%) positively supported the bottom line. Hence, the company's net profit clocked in at PKR777mln during FY22 (FY21: PKR 128mln; FY20: PKR 299mln ).

**Sustainability** The company has a healthy pipeline of existing as well as upcoming projects . As mentioned before, it has also recently diversified operationally and will continue to work for a sustainable future with more efficient and successful projects with technical competency, experience, quality, speed, high technology, creativity, and corporate responsibility.

## Financial Risk

**Working Capital** For working capital needs, which are a function of inventory, receivables, and payables. GRC's trade receivable days shrunk to 85 (FY21: 133), inventory days reduced to 66 (FY21: 126), while payable days also showed a slight diminishing trend and recorded at 43 (FY21: 47) thus improving net working capital days to 107 from 212 days in FY21. GRC relies both on internal as well as external sources to finance its working capital needs. Funding of GRC consists of short-term running finances mainly amounting to PKR 272 million .

**Coverages** FCFO's of the company have improved to PKR 1.107 billion in FY22 as opposed to PKR 395 million in the corresponding period on account of improved profitability. This has resulted in increase in its coverage ratio from 21x in FY21 to 44x in FY22 despite exorbitant increase in finance cost from PKR 43 million to PKR 135 million in the current period primarily due to increase in bank guarantee margins.

**Capitalization** The firm has an almost unleveraged capital structure, with Debt/ Debt + equity ratio of FY22 2.2% (FY21: 3.2%). Historically GRC has had little reliance on long term debt for its business requirements. The company has only one long term financing facility from Al-Barka Bank for salary financing amounting to PKR ~ 30 million. This shall be repaid completely in current period. The company mainly relies on non-funded credit facilities, in the form of bank guarantees or advances that are mainly secured. Off balance-sheet exposure of company in FY22 was recorded at 52% (FY21: 56%).

PKR mln

| Ghulam Rasool Construction Company<br>Construction | Jun-22<br>12M | Jun-21<br>12M | Jun-20<br>12M | Jun-19<br>12M |
|---|---|---|---|---|
| **A BALANCE SHEET** | | | | |
| 1 Non-Current Assets | 6,994 | 4,998 | 4,989 | 4,712 |
| 2 Investments | - | - | - | - |
| 3 Related Party Exposure | 2,138 | 1,443 | 1,635 | 1,165 |
| 4 Current Assets | 11,704 | 8,627 | 7,621 | 9,036 |
| *a Inventories* | *3,135* | *2,416* | *2,331* | *2,222* |
| *b Trade Receivables* | *4,280* | *2,862* | *2,178* | *2,920* |
| **5 Total Assets** | 20,836 | 15,069 | 14,245 | 14,913 |
| 6 Current Liabilities | 3,108 | 1,248 | 860 | 2,058 |
| *a Trade Payables* | *2,611* | *1,047* | *731* | *1,980* |
| 7 Borrowings | 302 | 364 | 189 | 182 |
| 8 Related Party Exposure | - | - | - | - |
| 9 Non-Current Liabilities | 4,107 | 2,269 | 2,128 | 1,988 |
| **10 Net Assets** | 13,319 | 11,188 | 11,068 | 10,685 |
| **11 Shareholders' Equity** | 13,319 | 11,188 | 11,069 | 10,685 |
| **B INCOME STATEMENT** | | | | |
| **1 Sales** | 15,360 | 6,891 | 6,173 | 5,520 |
| *a Cost of Good Sold* | *(13,080)* | *(6,132)* | *(5,249)* | *(4,619)* |
| **2 Gross Profit** | 2,280 | 760 | 924 | 901 |
| *a Operating Expenses* | (468) | (370) | (284) | (334) |
| **3 Operating Profit** | 1,812 | 390 | 640 | 567 |
| *a Non Operating Income or (Expense)* | *96* | *117* | *91* | *36* |
| **4 Profit or (Loss) before Interest and Tax** | 1,908 | 507 | 731 | 603 |
| *a Total Finance Cost* | *(135)* | *(43)* | *(89)* | *(50)* |
| *b Taxation* | *(995)* | *(335)* | *(343)* | *(333)* |
| **6 Net Income Or (Loss)** | 777 | 128 | 299 | 219 |
| **C CASH FLOW STATEMENT** | | | | |
| *a Free Cash Flows from Operations (FCFO)* | *1,107* | *395* | *572* | *420* |
| *b Net Cash from Operating Activities before Working Capital Chan* | *972* | *352* | *484* | *370* |
| *c Changes in Working Capital* | *(1,620)* | *(1,092)* | *378* | *(630)* |
| **1 Net Cash provided by Operating Activities** | (648) | (740) | 862 | (260) |
| **2 Net Cash (Used in) or Available From Investing Activities** | (837) | (231) | (509) | (159) |
| **3 Net Cash (Used in) or Available From Financing Activities** | 1,787 | 166 | 115 | 563 |
| **4 Net Cash generated or (Used) during the period** | 302 | (804) | 468 | 144 |
| **D RATIO ANALYSIS** | | | | |
| **1 Performance** | | | | |
| *a Sales Growth (for the period)* | 122.9% | 11.6% | 11.8% | -45.9% |
| *b Gross Profit Margin* | 14.8% | 11.0% | 15.0% | 16.3% |
| *c Net Profit Margin* | 5.1% | 1.9% | 4.9% | 4.0% |
| *d Cash Conversion Efficiency (FCFO adjusted for Working Capital* | -3.3% | -10.1% | 15.4% | -3.8% |
| *e Return on Equity [ Net Profit Margin * Asset Turnover * (Total A* | 6.3% | 1.2% | 2.8% | 2.2% |
| **2 Working Capital Management** | | | | |
| *a Gross Working Capital (Average Days)* | 151 | 259 | 285 | 335 |
| *b Net Working Capital (Average Days)* | 107 | 212 | 205 | 230 |
| *c Current Ratio (Current Assets / Current Liabilities)* | 3.8 | 6.9 | 8.9 | 4.4 |
| **3 Coverages** | | | | |
| *a EBITDA / Finance Cost* | 83.8 | 39.0 | 126.3 | 24.0 |
| *b FCFO / Finance Cost+CMLTB+Excess STB* | 20.1 | 5.1 | 78.9 | 13.4 |
| *c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance* | 0.0 | 0.2 | 0.0 | 0.0 |
| **4 Capital Structure** | | | | |
| *a Total Borrowings / (Total Borrowings+Shareholders' Equity)* | 2.2% | 3.2% | 1.7% | 1.7% |
| *b Interest or Markup Payable (Days)* | 88.6 | 114.2 | 101.5 | 0.0 |
| *c Entity Average Borrowing Rate* | 7.6% | 6.8% | 3.9% | 15.2% |

## Credit Rating

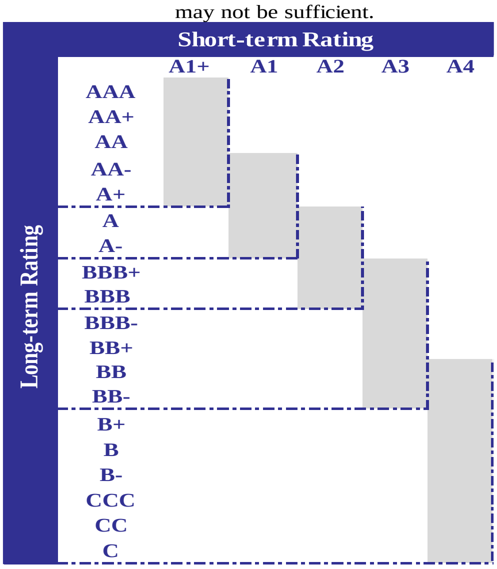
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

### Long-term Rating

| Scale | Definition |
|---|---|
| AAA | **Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments |
| AA+<br>AA<br>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. |
| A+<br>A<br>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. |
| BBB+<br>BBB<br>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. |
| BB+<br>BB<br>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+<br>B<br>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. |
| CCC<br>CC<br>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. |

### Short-term Rating

| Scale | 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 |
| 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 surveill 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):

**Entities**
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

**Instruments**
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

## Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

**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**