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
18-Dec-2020	BBB+	A2	Stable	Upgrade	-
18-Dec-2019	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Ghulam Rasool & Co' has held commendable position in the construction industry for several decades. The subsequent three generations of the sponsoring family are the joint owners of the business. The functional and reporting responsibilities of management team are demarcated. The company has delivered multiple, public and government projects. GRC has a no-limit contract license. The company’s profitability & leveraging is adequate, and has non-funded banking lines as well as supplier credit to facilitate its business. Equity base of company is strong. GRC has historically contracted only government sponsored projects thus it relies on awarding of public works (Federal & Provincial PSDP + CPEC). The control environment needs to be strengthened. The company has a defined strategy of building assets, required for its operations as well as investment purpose, through surplus cash. Debt is procured for the project financing, with reliance only on short term working capital excluding long term debt. GRC was originally focused on civil construction and irrigation works, but recently the firm is increasing its focus on hydel-power development. The company reported good profitability in FY20. The trend is expected to continue, indeed, improve. This is owing to the number and type of projects in hand. This has added to the equity book, which stands at a very comfortable level. GRC usually embarks upon large infrastructure projects in collaboration with different Chinese JV partners, which in their own right are established institutions.

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 subdued 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. The achievement and demonstration thereof 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 Ratings(Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Construction(Mar-20)
Rating Analysts	Saadat Mirza | saadat.mirza@pacra.com | +92-42-35869504

Profile

Legal Structure Ghulam Rasool & Company is a private limited company, established in 1960 and incorporated in 1984.

Background GRC is a provider of high-end Civil Engineering, Procurement & Construction services and has collaborated with different Chinese, European, UAE & Korean companies in the past. GRC is behind the first cable hanging bridge of Pakistan, being 'Earthquake-Memorial-Bridge' in Muzafarabad. Some other notable projects include 'Hazara motorway E-35', 'Shorkot M-4', 'Kacchi canal' and 'Muzafargarh canal'.

Operations It operates in mega infrastructure, hydro-power projects, tunnels, industrial sectors, motorways, highways, real-estate developments, canals, barrages and irrigation system. Its main clients are government agencies related to infrastructural development. Contracts pertaining to river bridges are the main expertise of the company, however, they have also worked on Hydro-power projects such as 'Karrora & Jabbori' (12MW each), 'Daral Khawar' (36MW). After successfully executing these projects, the company is targeting hydro-power plants projects to be the main focus for the coming years.

Ownership

Ownership Structure Being a family owned business GRC was inherited from Mr.Ghulam Rasool (late) by his three sons. Shares are distributed among 7 individuals, including their wives and third generation. Overall shares of each family are as: Mr. Amanatulla(36%), Mr. Majeedullah(35%) & Mr. Obaidullah(28%).

Stability The sponsors of the company have inherited the family business down to three generation. The ownership of company is to be inherited from by the third generation (grandsons of Mr Ghulam Rasool), however, a formal succession plan has not been designed yet.

Business Acumen Directors have good industry experience and knowledge in their field of expertise. Mr. Majeed has 17 years of active experience in GRC, while Mr. Faisal has been with the company for 7 years now.

Financial Strength The sponsors of company have diverse and un-concentrated sources of income, due to shareholdings in 3 other associated companies, which ensures financial stability. Equity base of GRC is also is commendable among peers.

Governance

Board Structure Relatively weak board structure with two members in board where Mr. Majeed is the CEO and Mr.Faisal is an executive director. There is no independent director.

Members' Profile Mr Majeed holds 17 years of experience in the relevant field along with a MBA qualification, and Mr.Faisal has studied business management; both exhibit strong business acumen.

Board Effectiveness As such there is no board committee which reflects negatively on the board effectiveness measure. However, it can be improved by incorporating board committees and an independent director.

Financial Transparency The external auditor of the company is "Naveed Zafar Ashfaq Jaffer & Co", it is a 'Category A' auditor and associated with PrimeGlobal, this represents good transparency.

Management

Organizational Structure Management of the company has a well organized and segregated hierarchy, with defined roles and an efficient reporting structure.

Management Team Management has good mix of expertise, knowledge and experience. Senior management team contains individuals with extensive hands-on experience of over 30 years in the respective fields. The core management is supported by teams of qualified and technical professionals. Execution is being carried out by project managers under the supervision of the Director (Technical Services).

Effectiveness With the support of a qualified team of professionals, GRC is building up the business strengths in all the relevant facets of the construction industry. Functions of the management are clear and well-defined to effectively achieve its underlying goals and objectives. The internal control system requires improvement.

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

Control Environment An extensive and detailed SOP document is distributed among employees, that defines the manner of action for each stage of operation and lays out clear lines of responsibilities for each position. Instructions for machinery operation, dispatching, cash transfers/payments, are laid-out to ensure compliance. However the company lacks an internal audit or compliance department.

Business Risk

Industry Dynamics Construction as a sub sector contributes 13.5% in industrial sector and 2.82% in GDP, and it absorbs 7.31% of labor force. The sector witnessed a growth of 9.13% in current period. The major challenges faced by the industry are import duties, tax surge, price hike of raw material, political and economic instability, limited screening of contractors based on qualification, and increasing bank regulations. The construction sector incorporates a healthy competition, and trends are mainly driven by policy changes.

Relative Position Company's Operational and geographical diversification gives an advantage regards to stability. With cross border branches, GRC lies among top tier construction companies, it can be fairly titled as a large entity among peers, with a substantial equity base. Its Top-line continues to be significantly higher than most peers.

Revenues In FY19 total revenue witnessed a dip of 46%, down to PKR 5.5 bln from PKR 10.19bln, because it procured fewer contracts, which is a direct result of decrease in PSDP funding for developmental projects. But in FY20 shows some improvement of 12% as whole economic activities were slow down due to pandemic however, the award of new projects will help the company only maintain sales growth as of FY18 and FY17. The main revenue generating projects for the year were projects related to Motorway and canals, as well as a hydro-power plant project.

Margins Gross margins was slightly narrow during FY20, being 15%, (FY19: 16%, FY18: 13%) due to increase in costs. The Net margin improved to 4.9% in FY20 (FY19: 4%, FY18: 2%). Earnings were overall lower than industry average as well, due to escalating costs and decrease in revenue.

Sustainability Despite a fall in profitability the asset base continues to grow, being 14.2 bln in FY20. The largest hydro-power project underway is a 84 MW power plant, GRC is involved in constructing & arranging all elements of a hydal-power plants (e.g. Transmission lines, tunnels, turbines, power house etc.). They have been contracted by KPK government for Pehure canal project worth PKR 6bln and by the Punjab government for Jalalpur canal worth 8 bln. Meanwhile the company has submitted bids for package 2 & 3 of 'Jalalpur' project (worth PKR 22bln) and 'Bahsa dam' in which they expect to win a 30% JV share. Negotiation is underway in order to contract a maintenance project, worth several million.

Financial Risk

Working Capital For working capital needs, which is a function of inventory and receivables, GRC relies on both internal cash flows as well as short term borrowings (STB). Net working capital days increased on starting of new projects but now it reduces to 196days at end June-20. (Jun-19: 226 days, Jun-18: 153 days), however, the days of receivables and inventory within the construction sector normally do span over longer periods due to nature of work. There is a healthy 'Room to borrow' as well.

Coverages The coverages are showing improvement trend as the finance costs are reducing, as compared to previous years, FCFO/Finance cost being 79 in FY20 (FY19: 13, FY18: 18.6). However, GRC has taken little long term funding, which is mainly of 'running finance' nature (e.g. mobilization advance, guarantees etc). Further, release of funds are expected from government on newly awarded & ongoing projects which shall strengthen the liquidity of the company.

Capitalization Company's capital structure is minimally leveraged, with Debt/ Debt + equity ratio of in FY20 being 1.7% (FY19 1.7%, FY18: 1.4%). Historically GRC has had little reliance on long term debt and also has non-funded credit facilities, in the form of bank guarantees or advances that are mostly secured. The current utilization of STB is 75% (FY19: 73%), which indicates a healthy room for further leveraging if required.

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Financial Summary
PKR mln

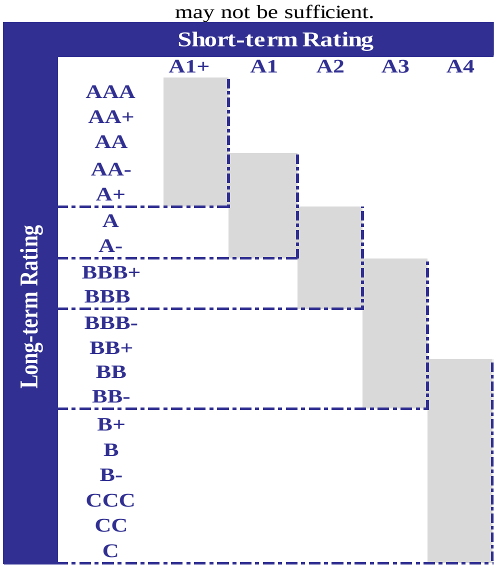
Ghulam Rasool & Co Construction	Jun-20 12M	Jun-19 12M	Jun-18 12M	Jun-17 12M
A BALANCE SHEET				
1 Non-Current Assets	4,989	4,712	3,294	3,091
2 Investments	70	95	83	83
3 Related Party Exposure	1,565	1,069	1,031	777
4 Current Assets	7,621	9,036	7,495	8,980
a Inventories	*2,073*	*2,175*	*1,695*	*1,906*
b Trade Receivables	*2,178*	*2,920*	*3,234*	*4,428*
5 Total Assets	14,245	14,913	11,903	12,931
6 Current Liabilities	885	2,058	1,303	1,870
a Trade Payables	*731*	*1,980*	*1,199*	*1,501*
7 Borrowings	189	182	132	449
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	2,103	1,988	1,425	1,818
10 Net Assets	11,068	10,685	9,043	8,794
11 Shareholders' Equity	11,069	10,685	9,043	8,794
B INCOME STATEMENT				
1 Sales	6,173	5,520	10,199	11,293
a Cost of Good Sold	*(5,249)*	*(4,619)*	*(8,833)*	*(8,399)*
2 Gross Profit	924	901	1,366	2,894
a Operating Expenses	(284)	(334)	(337)	(312)
3 Operating Profit	640	567	1,029	2,582
a Non Operating Income or (Expense)	*91*	*36*	*41*	*93*
4 Profit or (Loss) before Interest and Tax	731	603	1,071	2,675
a Total Finance Cost	*(89)*	*(50)*	*(136)*	*(148)*
b Taxation	*(343)*	*(333)*	*(685)*	*(609)*
6 Net Income Or (Loss)	300	219	249	1,919
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*572*	*420*	*496*	*2,112*
b Net Cash from Operating Activities before Working Capital Changes	*484*	*370*	*360*	*1,964*
c Changes in Working Capital	*378*	*(630)*	*25*	*(2,384)*
1 Net Cash provided by Operating Activities	862	(260)	385	(420)
2 Net Cash (Used in) or Available From Investing Activities	(509)	(159)	(314)	(416)
3 Net Cash (Used in) or Available From Financing Activities	115	563	(392)	904
4 Net Cash generated or (Used) during the period	468	144	(322)	68
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	11.8%	-45.9%	-9.7%	1.6%
b Gross Profit Margin	15.0%	16.3%	13.4%	25.6%
c Net Profit Margin	4.9%	4.0%	2.4%	17.0%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	15.4%	-3.8%	5.1%	-2.4%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	2.6%	2.3%	2.6%	23.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	276	331	202	180
b Net Working Capital (Average Days)	196	226	153	113
c Current Ratio (Current Assets / Current Liabilities)	8.6	4.4	5.8	4.8
3 Coverages				
a EBITDA / Finance Cost	126.3	24.0	44.2	90.8
b FCFO / Finance Cost+CMLTB+Excess STB	78.9	13.4	18.6	70.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	1.7%	1.7%	1.4%	4.9%
b Interest or Markup Payable (Days)	101.5	0.0	0.0	0.0
c Entity Average Borrowing Rate	3.9%	15.2%	9.2%	6.7%

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+ 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.
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.
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.
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+ 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.
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.

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.
(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