



The Pakistan Credit Rating Agency Limited

Rating Report

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| DEL Engineering Domestic (Pvt.) Limited | Report Contents |
| | <ol style="list-style-type: none"> 1. Rating Analysis 2. Financial Information 3. Rating Scale 4. Regulatory and Supplementary Disclosure |

| Rating History | | | | | |
|-----------------------|------------------|-------------------|---------|---------|--------------|
| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
| 29-Dec-2023 | AA- | A1 | Stable | Initial | - |

Rating Rationale and Key Rating Drivers

DEL Engineering Domestic (Private) Limited (“DEDL” or “the Company”) is one of the Holding Company of DESCON Group. The DESCON Group is a Pakistani multinational group having expertise in sectors such as Oil & Gas, Power, Hydro Power, Dams/Barrages/ Canals, Fertilizer, Renewable Energy, Sugar, Industrial, Chemical and Petrochemicals. The Group’s presence outside Pakistan primarily concentrated to the Middle Eastern region. DEDL manages the foreign portfolio of the group and offers a comprehensive bouquet of services, encompassing Design Engineering, Procurement, Manufacturing, Construction, Commissioning, Industrial Services, and Operations & Management (O&M). DEDL has imprints in countries such as the UAE, Qatar, Saudi Arabia, Pakistan, Kuwait, Oman, Iraq, and South Africa. The Company is also at initial stages of expanding its investment book in the European region. Major portion of total revenue of the Company came from executing plant maintenance in the oil and gas sector with the remaining revenue derived from construction and fabrication-related works. The Company has been successful in acquisition and execution of many projects for blue chip clients globally. Given the nature of the business, DEDL is in no need of a huge capital funding base, when compared to the size of projects it undertakes. However, the non-funded obligations are integral to the business operations. The Company has two types of investment on its balance sheet: core Investment which only include unlisted subsidiaries and non-strategic investments which include short term investments in TDR’s and mutual funds as a strategic liquid reserve to provide cushion against unforeseen risks. The Company primarily drives income from foreign remittance and dividend stream of equity investment in foreign subsidiaries and associates. During FY23, total investment income experienced a significant increase and stood at ~PKR 657mln (FY22: ~PKR 39mln, FY21: PKR 519mln). Short-term investment income comprises of interest received from TDR’s.

The ratings are dependent on the performance of existing investments and the execution of their envisaged business strategies resulting in a regular dividend stream. At the same time, maintaining a healthy project pipeline with strong financial profile and liquidity remains important. Any significant increase in debt and/or prolonged downturn in invested companies will impact the ratings.

| Disclosure | |
|------------------------------|---|
| Name of Rated Entity | DEL Engineering Domestic (Pvt.) Limited |
| Type of Relationship | Solicited |
| Purpose of the Rating | Entity Rating |
| Applicable Criteria | Methodology Corporate Rating(Jul-23),Methodology Holding Company Rating(Jul-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-23) |
| Related Research | Sector Study Holding Company(Aug-23) |
| Rating Analysts | Ali Arslan Malik Ali.Arslan@pacra.com +92-42-35869504 |



Profile

Background DEL Engineering Domestic (Private) Company (“DEDL” or “the Company”) was incorporated on July 11, 2013 as private limited company in Pakistan under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017). The Holding Company is domiciled in Pakistan and its registered office located at 18-KM, Ferozpur Road, Lahore.

Structural Analysis DEDL is one of the Holding Company of DESCON Group. The principal activity of the Company is to manage its geographical investment in foreign subsidiaries and associates engaged in fabrication and manufacturing of steel products, mechanical/electrical construction and maintenance for the oil and gas industry, onshore and offshore oil and gas field services and facilities services.

Ownership

Ownership Structure DEDL is wholly owned by the Dawood family, with Abdul Razak Dawood holds ~ 94.27% stake in DEDL, both Taimur Dawood and Faisal Dawood holds ~ 1.15%, Bilquis Dawood holds ~ 2.86% and remaining ~ 0.57% holds by Mehreen Dawood.

Stability Ownership of the business is seen as stable as its shareholding vests with the sponsors (Dawood Family) and its hold Co. structure.

Business Acumen Originating from Pakistan, the DESCON Group has, over the years, expanded its horizons to Abu Dhabi, Saudi Arabia, Qatar, Oman and Egypt. DESCON is Pakistan’s leading Engineering enterprise with a wealth of expertise in sectors such as Oil & Gas, Cement, Power, Hydro Power, Dams/Barrages/ Canals, Fertilizer, Renewable Energy, Sugar, Industrial, Chemical and Petrochemicals.

Financial Strength DESCON Group has expanded its footing in diversified business avenues with a sizable portfolio of strategic investments, enhancing the Group’s financial strength. The Group has shown willingness and ability to support the Group companies in times of need. DEDL has a adequate consolidated asset base of ~PKR 73bln supported by an equity base of ~PKR 42bln as at FY23 (FY22: PKR 45bln & PKR 26bln).

Governance

Board Structure The overall control of board vests in seven-member board of directors, wherein four are from sponsoring family including Chairman – Mr. Taimur Dawood, & vice Chairman – Mr. Faisal Dawood, while four are non-executive members. The non-involvement of board members in executive roles ensures the effectiveness of board structure of the Company.

Members’ Profile The Board is chaired by Mr. Taimur Dawood, the patriarch of Dawood Family. He has over 25 years of diversified experience in engineering, product marketing, project finance, strategy development and implementation and mergers and acquisitions.

Board Effectiveness The Company being a private still comply with the code of corporate governance. All of the board members do not participate in the management of the Company. The presence of board committees ensures effective oversight of the company’s affairs and strengthening the board’s governance role.

Transparency Crowe – Horwath Hussain Chaudhury & Co., Chartered Accountants, is the external auditor of the company. The auditor gave an unqualified opinion on the company’s financial statements for the year ended June 30, 2022. Audit of FY-23 is in process.

Management

Organizational Structure DEDL has a well-designed organizational structure which is divided across various functional divisions/departments of Finance, Strategy, Information Systems, Internal Audit, Human Resources, Corporate Communication, Legal, and Public Affairs. Heads of these functions report directly report to the CEO, who then reports to the Board.

Management Team Mr. Taimur Dawood - the CEO, he has over 25 years of diversified experience in engineering, product marketing, project finance, strategy development and implementation and mergers and acquisitions. In DEDL; he is supported by an experienced and competent team of professionals.

Management Effectiveness DEDL has been successful in acquisition and execution of hundreds of projects for blue chip clients globally and overseas establishing the effective role as management team. All the faculties required to deliver turnkey projects, reside within the company. This unique strength enables the company to provide solutions as EPCC services provider to a host of international clients.

Control Environment The EPC and construction projects require implementation of high standard of Quality, Health, Safety and Environmental (QHSE). DEDL complies with applicable laws and relevant industry standards. The Company is certified with applicable quality and safety standards from ISO 9001, ISO 14001 and OSHAS18001- 2007.

Investment Strategy

Investment Decision-Making For investment decision making, the Company has two separate teams at group level i.e., Strategy and Treasury team. Strategy team is involved in devising new ventures for the group companies and the Head of Strategy is reportable to CEO. Treasury team is responsible for handling short-term investment book. Head of this team reportable to CFO.

Investment Policy The Company has conservative short term investment portfolio which consists of TDR’s and optimizer funds. Moreover, the equity portfolio spans in engineering sector across various geographical location including Kingdom of Saudi Arabia, UAE, Kuwait, Qatar, Oman.

Investment Committee Effectiveness The Group investment team liaisons with the rest of the Group companies, and receives updates on their performance regularly. The team then presents them to the BOD on a quarterly basis.

Business Risk

Diversification The equity investment portfolio of the Company is diversified portfolio spans in engineering sector across multiple geographical location including Kingdom of Saudi Arabia, UAE, Kuwait, Qatar and Oman.

Portfolio Assessment The Company has two types of investment on its balance sheet: core Investment which only include Unlisted subsidiaries and non-Strategic investments include short term investments in TDR’s.

Income Assessment DEDL aims to achieve sustainable income flows, in form of dividends, from its business ventures. The Company’s standalone revenue comprises of consistent dividend and royalty income from its subsidiaries and associates. During FY23, total investment income experienced a significant increase and stood at ~PKR 658mln (FY22: ~PKR 55.6mln). ~81% of investment income comprises foreign remittance, ~11% of income from equity investments in form of dividends and exchange gain and the rest of ~8% from short term investments. Short-term investment income comprises 100% (PKR 55.9mln) of interest received from TDR’s. The Company’s net profit followed a similar increase and stood at ~PKR 631.5mln as compared to ~PKR 45mln during FY22 on account of foreign remittance of PKR 532mln received in FY23.

Financial Risk

Coverages FCFO and interest coverages of the Company, during FY23, FCFO improve significantly by 103% on account of foreign remittance of PKR 532mln received in FY23 and stood at PKR 14.23bln (FY22: PKR 7bln), resulting improve coverages to 59.1x (FY22: 24.7x).

Capital Structure On standalone basis DEDL does not have any outstanding loans, bonds, or other forms of financial obligations, representing financial stability, as there are no debt-related interest payments or principal repayments to worry about. Consolidated Leverage of the Company remains minimal and stood at 7% in FY23 (FY22:7.7%). Total debt represents short-term borrowings of 81%.

Consolidated Position DEDL itself does not engage in significant operational activities that generate revenue. Instead, its primary purpose is to own and control its subsidiaries. These subsidiaries are the entities responsible for generating revenue, conducting business operations, and contributing to the overall financial performance of the DEDL. Consolidated revenue as at end FY23 stood at PKR 65.9bln a growth of 17% as compared to FY22 (PKR 56.3bln), operating margins of the Company increased to 5.3% from 1.4% in FY22 and net consolidated profit representing a significant growth of 250% and stood at PKR 5.6bln as compared to PKR 1.6bln in FY22.



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| DEL Engineering Domestic (Pvt.) Limited Holding Co. | Jun-23 12M Management | Jun-22 12M Audited | Jun-21 12M Audited | Jun-20 12M Audited |
|---|-----------------------------|--------------------------|--------------------------|--------------------------|
| A BALANCE SHEET | | | | |
| 1 Investments | 1,141 | 562 | 310 | - |
| 2 Related Party Investments | 33,101 | 20,342 | 14,814 | 16,311 |
| 3 Non-Current Assets | - | - | - | - |
| 4 Current Assets | 62 | 6 | 209 | 0 |
| 5 Total Assets | 34,304 | 20,911 | 15,333 | 16,311 |
| 6 Current Liabilities | 11 | 8 | 4 | 2 |
| 7 Borrowings | - | - | - | - |
| 8 Related Party Exposure | - | - | - | - |
| 9 Non-Current Liabilities | - | - | - | - |
| 10 Net Assets | 34,292 | 20,902 | 15,329 | 16,308 |
| 11 Shareholders' Equity | 34,292 | 20,902 | 15,329 | 16,308 |
| B INCOME STATEMENT | | | | |
| 1 Total Investment Income | 657 | 39 | 519 | - |
| a Cost of Investments | - | - | - | - |
| 2 Net Investment Income | 657 | 39 | 519 | - |
| a Other Income | - | 17 | - | - |
| b Operating Expenses | (2) | (2) | (3) | (1) |
| 4 Profit or (Loss) before Interest and Tax | 656 | 54 | 517 | (1) |
| a Taxation | (24) | (9) | - | - |
| 6 Net Income Or (Loss) | 632 | 45 | 517 | (1) |
| C CASH FLOW STATEMENT | | | | |
| a Total Cash Flow | 509 | (7) | 517 | (1) |
| b Net Cash from Operating Activities before Working Capital Changes | 509 | (7) | 517 | (1) |
| c Changes in Working Capital | 0 | 224 | (204) | 0 |
| 1 Net Cash provided by Operating Activities | 509 | 217 | 313 | (1) |
| 2 Net Cash (Used in) or Available From Investing Activities | (453) | (214) | (310) | - |
| 3 Net increase (decrease) in long term borrowings | - | - | - | - |
| 4 Net Cash (Used in) or Available From Financing Activities | - | - | - | - |
| 5 Net Cash generated or (Used) during the period | 56 | 3 | 3 | (1) |
| D RATIO ANALYSIS | | | | |
| 1 Performance | | | | |
| a Asset Concentration (Market Value of Largest Investment / Market Value of | 38.6% | 37.4% | 34.9% | 31.9% |
| b Core Investments / Market Value of Equity Investments | 100.0% | 100.0% | 100.0% | 100.0% |
| c Marketable Investments / Total Investments at Market Value | 3.3% | 1.2% | 0.0% | 0.0% |
| 2 Coverages | | | | |
| a TCF / Finance Cost | 508.6 | -7.3 | 516.8 | -1.0 |
| b TCF / Finance Cost + CMLTB | 508.6 | -7.3 | 516.8 | -1.0 |
| c Loan to Value (Funding / Market Value of Equity Investments) | 0.0 | 0.0 | 0.0 | 0.0 |
| 3 Capital Structure (Total Debt/Total Debt+Equity) | | | | |
| a Leveraging [Funding / (Funding + Shareholders' Equity)] | 0.0% | 0.0% | 0.0% | 0.0% |
| b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity | 0.0% | 0.0% | 0.0% | 0.0% |

Credit Rating

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

| Scale | Long-term Rating Definition |
|-------|---|
| AAA | Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments |
| AA+ | |
| AA | Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. |
| AA- | |
| A+ | |
| A | High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions. |
| A- | |
| BBB+ | |
| BBB | Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. |
| BBB- | |
| BB+ | |
| BB | Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met. |
| BB- | |
| B+ | |
| B | High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment. |
| B- | |
| CCC | |
| CC | Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default. |
| C | |
| D | Obligations are currently in default. |

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



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

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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

Note. This scale is applicable to the following methodology(s):
 a) Broker Entity Rating
 b) Corporate Rating
 c) Debt Instrument Rating
 d) Financial Institution Rating
 e) Holding Company Rating
 f) Independent Power Producer Rating
 g) Microfinance Institution Rating
 h) Non-Banking Finance Companies Rating

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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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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