



The Pakistan Credit Rating Agency Limited

## Rating Report

### Matracon Pakistan (Pvt.) Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
20-Apr-2022	BBB	A2	Stable	Maintain	-
29-Apr-2021	BBB	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Matracon or (the Company) has delivered multiple, public and government projects of which the completion spanned a number of years. Matracon embarks upon large infrastructure projects in collaboration with different international JV partners including Chinese and Japanese, which in their own right are established institutions. Matracon was originally focused on roads construction and drainage systems, but recently the Company is focusing on designing buildings. Construction industry's prospects seems to be promising in terms of local housing societies being build up, civil works related to CPEC and otherwise all around the country. Matracon topline moderately impacted in 1HFY22 and reported to PKR 5.6bln as compared to FY21 PKR 9.9bln and IHFY21 4.8bln, owing to increase in raw material prices and substantial completion of projects in hand. The trends towards the full year is yet to be seen. Volatility associated with award of projects and hence, sustainability of revenues, cannot be overlooked as the business pipeline is not swelled up. The pressure on margins still remains critical, this is owing to tougher competition and rise in prices of raw materials especially cement and steel. The business funding needs are met by non-funded lines of banks. Equity base of Matracon is adequate especially when compared with the non-funded obligations assumed by the Company.

The ratings are dependent on the sustainability of the business and its financial structure; sustaining a steady revenue stream and timely completion of projects without any significant cost and time overruns. In addition strengthening of projects pipeline and collection efficiency, as projected, will remain crucial to ratings. Any prolonged downturn in subdued business volume can have a detrimental effect on the rating. Improvement in governance and control environment is also important and needs to be strengthened.

#### Disclosure

<b>Name of Rated Entity</b>	Matracon Pakistan (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Construction(Mar-22)
<b>Rating Analysts</b>	Anam Waqas Ghayour   anam.waqas@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Matracon Pakistan Pvt. Ltd. (hereinafter referred to as "the Company" or "Matracon Pak") is a Private Limited Company (unquoted) incorporated in 2006.

**Background** Mr. Abdul Qadir established Matracon Pak with an ambitious plan after having entrepreneurial experience of years, established the Company as sole proprietorship in 1995, in Quetta but later the initial business was closed and new office was developed in Lahore under the name of 'Matracon Pakistan'.

**Operations** Matracon Pak mainly confined their business activities with several commercial / residential building complexes in Pakistan, water supply work comprising large diameter pipelines, bridges, roads, siphons, canal regulators, airport facilities, factories, office buildings, pre-fabricated structure and other civil engineering works. In view of the expanding business and aspirations of international exposure, Matracon Pak was transformed into 'Private Limited Company'.

## Ownership

**Ownership Structure** Matracon Pakistan Pvt. Ltd is mainly owned and managed by the Chief Executive, Mr. Muhammad Abdul Qadir, with 75% ownership stake while the remaining 25% shares are owned by his father, Mr. Muhammad Ayub.

**Stability** Matracon Pak is majority owned by M.Qadir but it needs to have a formal succession planning in order to ensure that future prospects are taken care of in the hour of need.

**Business Acumen** The business acumen of the partner is considered adequate.

**Financial Strength** The Company is entirely equity financed and if in the future need arises, the JV collaborations are all with Chinese companies, namely JICS (Japan International Cooperation System), ACEG (Anhui Construction Engineering Group) CCEC (China Civil Engineering Construction Corp) etc. These international collaboration shows company's interest in creating associations with reputable foreign companies.

## Governance

**Board Structure** The Company has a two-member board. The overall governance matters are overseen by Mr. Muhammad Abdul Qadir along with his father Mr. Muhammad Ayub. Matracon Pak needs to include more people from diversified backgrounds on the board so that the strategic matters and governance matters of the company are looked after properly.

**Members' Profile** The CEO - Mr. Muhammad Abdul Qadir, one of the founding member, has over four decades of evolving expertise, while only one board member has little industry experience and both members have been associated with the Board since the company's incorporation.

**Board Effectiveness** The Company has a board meeting quarterly and the minutes are not available. Board committees are not properly formed and there is technically single ownership and one person board means weak effectiveness.

**Financial Transparency** Crowe Hussain Chaudhury & Co Chartered Accountants – categorized in 'A category' on panel of auditors maintained by state bank of Pakistan, is the external auditor of the company. The auditor has expressed an unqualified opinion on Matracon Pakistan Pvt. Ltd.'s financial statements for the year ended June, 30th 2021. Management also prepare accounts on half yearly basis.

## Management

**Organizational Structure** Matracon Pak. is working with six key functions namely (i) Finance, (ii) Marketing, (iii) Admin & HR, (iv) IT (v) Engineering, (vi) Procurement, reporting to the MD. Each division is working with whole team including technical staff & senior managers reporting to their respective GMs.

**Management Team** Mr. Muhammad Abdul Qadir - CEO and director of M/s Gammon Pakistan Limited represent M/s Gammon Pakistan Ltd is the execution lead who oversees the business and business and all the matters pertaining to local clients. Mr. Fawwad Raza – CFO, has joined the company during the year from Kingcrete Builders and looks after the matters pertaining to administration and finance including credit, liaison with banks, and Letters of Credits (LCs).

**Effectiveness** Since the company has a lean and structured organizational structure with the sponsors looking after the day-to-day operations, Matracon needs to have formal management committees in place which can monitor performance and assure adherence to the policies and procedures.

**MIS** Matracon is currently using customized accounting software from 'Intuit' Quickbooks Enterprise Solutions for its bookkeeping and accounting needs.

**Control Environment** The Company adheres to strict quality control standards as it is certified under ISO 9001:2005 which is also the need of the construction industry.

## Business Risk

**Industry Dynamics** The construction sector share in GDP for FY20-21 recorded an uptick of 2.53% from the previous year (FY19-20: 2.85%). This status quo contribution is on account of the economic slowdown which was experienced due to the globally declared pandemic-Covid19. There are a number of other factors that have been slowing growth, including GoP insignificant increase in the PSDP funding, growing inflation, and interest rates. However, now the Govt. has taken major infrastructure projects under the Naya Lahore scheme and Naya Pakistan Housing Scheme which will kick the economic activity along with CPEC near completion and there will be a lot more clarity on the economy's direction in the upcoming fiscal years.

**Relative Position** Out of the 10,000+ firms registered with Pakistan Engineering Council as Constructors / Operators, only ~100 (1%) hold the prestigious CA category (no limit) license. Matracon Pakistan Pvt. Ltd., holding the CA category license caters to the needs of the niche market.

**Revenues** Matracon, in recent years, has witnessed a consistent increase in its revenues, primarily due to the nature and size of the contracts initiated in a given year. During 1HFY22, the revenues clocked at PKR 5,564mln. During FY21, the entity's revenues witnessed a ~65% increase on a period basis. (FY21: 9.98bln, FY20: 6.5bln; FY19: PKR 4.3bln; FY18: PKR 3.6bln).The Company has reported a significant growth in revenues which is contrary to the industry trend as there was a halt in infrastructural activities experienced due to the COVID-19 pandemic in FY20.

**Margins** During 1HFY22, along with the topline saw a massive increase, perforation in the cost of sales and segregation of labor cost contributed to increased gross margins (1HFY22: 10%; FY21: 25%; FY20: 16%; FY19: 15%). Operating margin stayed in line with the gross margin trend on the back of segregation of the administrative expenses (1HFY22: 9.7%; FY21: 25%; FY20: 9%; FY19: 8.6%). In FY21, finance charges were approximately PKR 2.2mln. The company managed to report profits for the period (FY21: PKR 9,984mln; FY20: PKR 6,545mln).

**Sustainability** The Company's management furnished reliable budgets and forecasts which reflects the strategy of the management and viability of the design path to reach the goal. After the pandemic, the revival of the industry is expected on the back of Govt. planned massive infrastructural projects which will further strengthen the Matracon Pak's revenues in upcoming periods.

## Financial Risk

**Working Capital** For working capital needs, which is a function of inventory and receivables, a company relies on both internal robust and sustained cash flow stream. Over the periods, the company has reported increasing tendency in reported operational cashflows (EBITDA- 1HFY22: PKR 530mln; FY21: PKR 2,644mln; FY20: PKR 742mln, FY19: PKR 466mln). On account of better cashflow management and increased revenue from ongoing projects, company's net cash cycle is portraying strong position (FY21 41 days; FY20: 34days; FY19: 45days).

**Coverages** Matracon Pakistan Pvt. Ltd acquired interest bearing bank guarantees on short term basis. The company has demonstrated remarkable growth in its operating cashflows over the period. During 1HFY22, Company's operating cashflows (FCFO) decreased to PKR 530mln (FY21: PKR 2,145mln; FY20: PKR 251mln; FY19: 143mln), on back of declining profitability and margins. While current ratio stood at 4x on account of higher proportion of holding cash during the period of 1HFY22 (FY21: 3.2x; FY20: 1.7x; FY19: 1.9x).

**Capitalization** At end of Dec'21, the company had a declining leveraged capital structure as compared to previous year with a debt to debt plus equity ratio of 7.3% (FY21: 7.8%; FY20: 16%; FY19: 18%; FY18: 23%). Major portion of debt comprises of loan from directors which is non-interest-bearing arrangement.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

00-Jan-00	Dec-21	Jun-21	Jun-20	Jun-19
##	6M	12M	12M	12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	1,662	1,722	1,834	1,401
2 Investments	526	526	526	1,060
3 Related Party Exposure	-	-	-	-
4 Current Assets	3,442	3,298	3,230	2,084
a Inventories	1,279	498	802	801
b Trade Receivables	264	194	510	427
5 Total Assets	5,631	5,546	5,590	4,545
6 Current Liabilities	852	1,019	1,852	1,091
a Trade Payables	110	70	830	492
7 Borrowings	-	-	-	-
8 Related Party Exposure	340	340	340	370
9 Non-Current Liabilities	547	547	1,767	1,549
10 Net Assets	3,892	3,640	1,632	1,535
11 Shareholders' Equity	3,892	3,640	1,632	1,535
<b>B INCOME STATEMENT</b>				
1 Sales	5,564	9,984	6,546	4,300
a Cost of Good Sold	(4,995)	(7,422)	(5,502)	(3,654)
2 Gross Profit	569	2,562	1,044	646
a Operating Expenses	(31)	(44)	(467)	(276)
3 Operating Profit	538	2,518	577	370
a Non Operating Income or (Expense)	(6)	(8)	12	3
4 Profit or (Loss) before Interest and Tax	532	2,510	588	373
a Total Finance Cost	(2)	(3)	-	-
b Taxation	(278)	(499)	(491)	(323)
6 Net Income Or (Loss)	252	2,008	97	51
<b>C CASH FLOW STATEMENT</b>				
a Free Cash Flows from Operations (FCFO)	530	2,145	251	143
b Net Cash from Operating Activities before Working Capital Changes	530	2,145	251	143
c Changes in Working Capital	-	492	215	(435)
1 Net Cash provided by Operating Activities	530	2,636	466	(292)
2 Net Cash (Used in) or Available From Investing Activities	-	(25)	(53)	(561)
3 Net Cash (Used in) or Available From Financing Activities	-	(1,220)	187	970
4 Net Cash generated or (Used) during the period	530	1,392	600	117
<b>D RATIO ANALYSIS</b>				
1 Performance				
a Sales Growth (for the period)	11.4%	52.5%	52.2%	19.3%
b Gross Profit Margin	10.2%	25.7%	15.9%	15.0%
c Net Profit Margin	4.5%	20.1%	1.5%	1.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	9.5%	26.4%	7.1%	-6.8%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh	13.4%	76.2%	6.2%	3.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	37	37	71	82
b Net Working Capital (Average Days)	34	20	34	45
c Current Ratio (Current Assets / Current Liabilities)	4.0	3.2	1.7	1.9
3 Coverages				
a EBITDA / Finance Cost	N/A	N/A	N/A	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	N/A	N/A	N/A	N/A
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.3	0.1	1.2	2.3
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	7.3%	7.8%	15.8%	18.0%
b Interest or Markup Payable (Days)	N/A	N/A	N/A	N/A
c Entity Average Borrowing Rate	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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	<b>Very high credit risk.</b> Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
CC	
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):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

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- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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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
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- (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)

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- (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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