The Pakistan Credit Rating Agency Limited

Rating Report

Ismail Construction Company (Pvt.) Limited

Report Contents

Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
03-Mar-2022	BBB-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Ismail Construction (Pvt.) Limited ("Ismail Construction" or "The Company") holds extensive experience in the construction industry of Pakistan for several decades. The Company has delivered multiple projects of national level in different engineering disciplines including Roads, Bridges, Canals, buildings, Water Supply Schemes, Drainage, Sewerage, and Land Development, which completion spanned a number of years. The Company has no limit license from Pakistan Engineering Council. The Company has started to undertake large infrastructure projects in collaboration with JV partners mainly Chinese to capture the available opportunities which seem promising in terms of increasing PSDP funding in the construction industry. The Company has reported a top line of PKR 6.8 billion with adequate profit margins in FY21. However, volatility associated with the award of projects and hence, sustainability of revenues, cannot be overlooked as the business pipeline is not swelled up. The business funding needs are mostly met by non-funded lines of banks and JV partners' guarantees given on awarded projects on behalf of the Company. Resultantly, its unfunded exposure is relatively less as significant support comes from leading JV partners in bearing non-funded exposure. The equity base of the Company 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 financial risk profile. Financial metrics need to be upheld as well. Strengthening of projects pipeline is also essential for the ratings. Improvement in governance is also important for future ratings.

Disclosure	
Name of Rated Entity	Ismail Construction Company (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Construction(Mar-21)
Rating Analysts	Muhammad Mubashir Nazir | mubashir.nazir@pacra.com | +92-42-35869504

Profile

Legal Structure Ismail Construction Pvt Ltd is a Private Limited Company incorporated under the Companies Act 2017 in 2006. The company is formed with the objects to carry out all types of construction work and construction-related consultancy services, electrical & mechanical engineering work, supply of goods of all descriptions to Government and Government related institutions and other businesses. The company is an approved Govt. contractor.

Background Mr. Sultan Sikandar has started the business under the name of “Syed Sultan Sikandar Pvt Ltd” in 1967 after that in 2006 his two sons Mr. Sanaullah and Mr. Ismail carried forward the business and established a new company “Ismail Construction Pvt Ltd”.

Operations Main lines of business include bridge structures, roads, interchanges and flyovers construction. The Company is registered with the Pakistan Engineering Council (PEC) and holds the ‘CA’ class with NO LIMIT, license. The company has 2 offices. Its registered office is located in Swat whereas its Head Office is located in Islamabad.

Ownership

Ownership Structure The current shareholding of the Company is equally divided among two brothers, Mr. Syed Muhammad Ismail and Mr. Sana Ullah, 50% each.

Stability The company needs to have formal succession planning in place so that future prospects are taken care of in the hour of need with respect to the management of the Company.

Business Acumen Both partners have rich extensive experience of over two decades in the construction industry.

Financial Strength Sponsors have an adequate financial profile. They have personally owned properties in Mingora - swat. Further, the Company has a history of relying on equity and cash flow, hence it is evident that sponsors are willing to support the company.

Governance

Board Structure The overall control of the company vests in the two-member board of directors (BoD) including the Chief Executive – Mr. Syed Muhammad Ismail. Both members of the board are also shareholders and hold executive positions. There are no independent and no non-executive directors in the board.

Members’ Profile The members are experienced professionals having diverse expertise. Mr. Syed Muhammad Ismail did MBA, he carries over two decades of rich experience in construction services including a 17-year service in Ismail Construction. Mr. Sana Ullah, BS Civil Engineer has 16-years’ experience in construction and with the Company.

Board Effectiveness The oversight function – which is normally the function of the Board – is being exercised by the two partners, namely Mr. Syed Muhammad Ismail and Mr. Sana Ullah. Addition to that, they have two Deputy Directors Mr. Syed Muhammad Idrees and Mr. Syed Naeem Ullah. Both of them are managing the “Strategy & Risk Committee”. The partners manage the “Audit Committee” and their employee Mr. Muhammad Zaheer is Finance Manager and Internal Audit Manager. Mr. Hameed Ullah is the Legal Advisor.

Financial Transparency The entity is in the process of converting its business model and has already initiated the required processes. Hafiz Asim & Co. Chartered Accountants is the external auditor of the company and has expressed an unqualified audit opinion for the year ended June 30, 2021. This audit firm is not in A QCR rated by ICAP.

Management

Organizational Structure Ismail Construction Pvt Ltd is working with four key functions namely (i) Finance + Internal Audit (ii) Operations, (iii) Administration & HR, and (iv) Corporate & Legal Affairs reporting to the directors.

Management Team Ismail Construction has a balanced mix of professionals from various professional backgrounds and expertise and comprise the core management team.

Effectiveness The company has established strong controls to supervise timely completion of contracts and materials management. Site Reports of profit and loss are prepared and shared and discussed with senior management on monthly basis. The system of internal control is in place and has been effectively implemented.

MIS Ismail Construction is currently using a customized construction related software from QuickBooks Accounting Software and AutoCAD. They have not yet prepared any ERP System. They are only using the financial and project management module of the software and plan to integrate payroll, procurement, inventories, and other areas of the business in the near future. Both the Mingora, Peshawar and Islamabad offices are linked together and provide real time information.

Control Environment Ismail Construction adheres to balanced quality control standards as it is the need of the construction industry.

Business Risk

Industry Dynamics The major demand driver for the construction sector is the Public Sector Development Programme (PSDP) expenditure followed by Private Investments. The majority of the construction revenue is from government contracts ranging from the building of Infrastructure to Highways, Offices, and Airports. With the increased PSDP allocation coupled with other initiatives, the outcome looks encouraging. PSDP expenditure is highly correlated to construction sector activity. Another positive factor to uplifting the construction sector demand is the Government’s announced special package for the construction sector

Relative Position Out of the 10,000+ firms registered with Pakistan Engineering Council as Constructors / Operators, only ~100 (1%) holds the prestigious CA category (2023) license which enables them to be on the pre-qualifying list of approved constructors. Ismail Construction Pvt Ltd holds the CA category license which enables them to be on the pre-qualifying list of approved constructors.

Revenues The Company has started to undertake large infrastructure projects in collaboration with JV partners mainly Chinese to capture the available opportunities. During FY21, the Company revenues witnessed a decent increase of 5.1% in comparison to the prior year's growth (FY21: PKR 6,895 mln, FY20: PKR 6,560 mln; FY19: PKR 4,373 mln).

Margins Ismail Construction topline increased decently, However, the Company managed to maintain its gross margins (FY21: 11.6%, FY20: 10.2%, FY19: 17.7%, FY18: 13.6%).

Sustainability Earnings prospects are improving as Ismail Construction is moving towards a JV partnership. The current projects in hand are worth over PKR 10mln and, are in different stages of completion. The Company had bid on many big projects as well and is hopeful to get them awarded.

Financial Risk

Working Capital Ismail Construction inventory days remain the same to 101 days in FY21 (FY20:101 days, FY18: 143 days), net-working capital days increased to 61 days compared to FY20: 57 days; FY19: 72. Receivable days of the Company average around 60 days signifying delay in recoveries from the parties.

Coverages In FY21, Ismail Construction operating cash flows (FCFO) increased to PKR 508mln (FY20: PKR 92mln) due to the increased revenues. The company doesn’t rely on financing in ordinary course of business and has been funding the business through its equity, so going forward if circumstances demand the Company has enough room to procure debt to further fuel its already robust growth.

Capitalization The Company has no funded lines on its balance sheet, therefore, is not leveraged. The only exposure company took is from unfunded lines as project-related guarantees

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

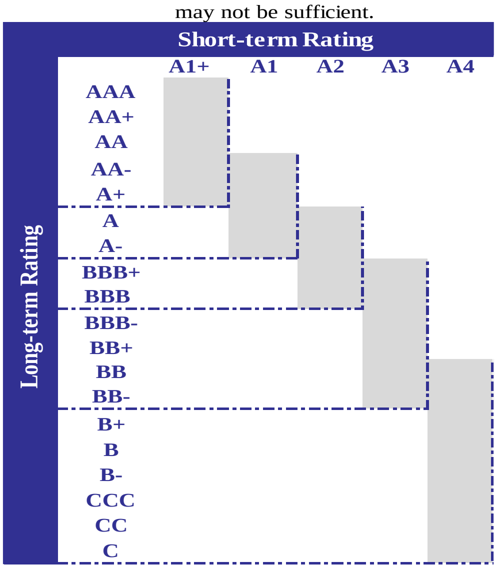
Ismail Construction Pvt. Ltd Construction	Sep-21 3M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	258	265	296	255
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	5,607	4,388	3,858	3,857
a Inventories	*3,137*	*2,092*	*1,743*	*1,873*
b Trade Receivables	*2,445*	*1,268*	*1,048*	*983*
5 Total Assets	5,864	4,653	4,153	4,111
6 Current Liabilities	1,690	573	222	264
a Trade Payables	*39*	*22*	*18*	*19*
7 Borrowings	19	-	-	-
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	4,156	4,080	3,932	3,847
11 Shareholders' Equity	4,156	4,080	3,932	3,847
B INCOME STATEMENT				
1 Sales	1,344	6,895	6,560	4,373
a Cost of Good Sold	*(1,115)*	*(6,094)*	*(5,894)*	*(3,599)*
2 Gross Profit	229	800	666	775
a Operating Expenses	(44)	(210)	(188)	(168)
3 Operating Profit	186	590	478	607
a Non Operating Income or (Expense)	-	-	-	-
4 Profit or (Loss) before Interest and Tax	186	590	478	607
a Total Finance Cost	-	-	-	-
b Taxation	*(110)*	*(442)*	*(394)*	*(350)*
6 Net Income Or (Loss)	75	149	85	257
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*(249)*	*508*	*92*	*607*
b Net Cash from Operating Activities before Working Capital Changes	*(249)*	*508*	*92*	*607*
c Changes in Working Capital	*(206)*	*(555)*	*171*	*-*
1 Net Cash provided by Operating Activities	(455)	(47)	263	607
2 Net Cash (Used in) or Available From Investing Activities	-	-	(85)	-
3 Net Cash (Used in) or Available From Financing Activities	-	-	-	-
4 Net Cash generated or (Used) during the period	(455)	(47)	178	607
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-22.0%	5.1%	50.0%	20.0%
b Gross Profit Margin	17.1%	11.6%	10.2%	17.7%
c Net Profit Margin	5.6%	2.2%	1.3%	5.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-33.8%	-0.7%	4.0%	13.9%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	7.3%	3.7%	2.2%	6.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	N/A	N/A	N/A	N/A
b Net Working Capital (Average Days)	124	60	55	71
c Current Ratio (Current Assets / Current Liabilities)	3.3	7.7	17.4	14.6
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)	0.0	0.0	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	0.5%	0.0%	0.0%	0.0%
b Interest or Markup Payable (Days)	N/A	N/A	N/A	N/A

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
(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent