



The Pakistan Credit Rating Agency Limited

Rating Report

Techno Time Construction (Pvt.) Limited

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
31-Jan-2023	BBB	A2	Stable	Maintain	-
31-Jan-2022	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Techno Time Construction (Pvt.) Limited (TTC or the Company) holds experience in the construction industry of Pakistan for nearly a decade. TTC has delivered multiple, public and government projects of which the completion spanned a number of years. TTC also works on different infrastructure projects in collaboration with different JV partners. TTC was originally focused on roads and bridges construction, but recently the Company has also started focusing on housing societies development. During FY22, TTC is able to just sustain its topline in line with previous years and reported a revenue of PKR 5.1bln (FY21: PKR 5.7bln, FY 20: PKR 5.0bln). The company’s gross margins also remain range bound FY 22: 25.4% (FY21: 24.8%, FY 20: 27.3%), despite the increase in the overall cost of project completion due to inflationary pressure, and highly competitive bidding in large contracts. Liquidity in terms of cash flows remained suppressed due to limited funds from operations, though the working capital management remained strong. However, volatility associated with award of projects and hence, sustainability of revenues, cannot be overlooked as the business pipeline is not swelled up. The business funding needs are met by non-funded lines of banks and JV partner’s guarantees given on its behalf. Resultantly, it’s non-funded 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 remain exposed to TTC’s presence in the cyclic sector owing to political instability, and a volatile economic environment. The ratings will remain dependent on upholding financial metrics involving the timely completion of key commercial projects without any significant cost and time overruns. In addition, sustaining the topline with collection efficiency will remain imperative. Improvement in governance is also important and needs to be strengthened.

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

Profile

Legal Structure Techno Time Construction (Pvt.) Limited (TTC) is a private limited company incorporated under the Companies Ordinance, 1984 on February 27, 2017. The company is formed with the objects to carry out all type 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.

Background On May 31, 2017, the Company acquired and took over as going concern the business being carried under the name of "Techno Time Construction" (An AOP) together with all its assets. Shares were issued to the partners in consideration of their net assets partly while the remaining amount was treated as interest free loan from directors to be repaid at the discretion of the company.

Operations Main lines of business include bridge structures, roads, interchanges and flyovers construction. TTC 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 Lahore whereas its Head Office is located at Blue Area Jinnah Avenue Islamabad, Islamabad, Pakistan. TTC has other site offices as well.

Ownership

Ownership Structure The current shareholding of Techno Time Construction is divided among three brothers, Mr. Atta Ullah Khan (the eldest one) holds 40%, while Mr. Zaka Ullah Khan and Mr. Samee Ullah hold 30% 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 The sponsors have extensive experience in construction industry as they have been operating this business since decades. Mr. Atta Ullah and Mr. Zaka Ullah have around 27 years and Mr. Samee Ullah has 16 years of experience.

Financial Strength The sponsors have adequate financial profile. TTC has a history of relying on equity and cash flow, hence it is evident that sponsors are willing to support the company. The non-funded facilities of banks have also been mortgaged against their personal lands.

Governance

Board Structure The overall control of the company vests in three-member board of directors (BoD) including the Chief Executive – Mr. Samee Ullah. All 3 members of board are also shareholders and hold executive positions. There are no independent and no non-executive directors in the board.

Members' Profile Mr. Atta Ullah Khan, a Civil Engineer by profession started this business in 1995. His younger brother, Mr. Zaka Ullah Khan has been associated with the business since its inception whereas their youngest brother, Mr. Samee Ullah, an MBA from PakAims joined in 2006. Domains and regions have been divided among brothers for which they are responsible for decision making solely.

Board Effectiveness The Board has only three members and in comparison, to established corporates, the governance model is weak and needs improvement.

Financial Transparency The company has recently switched to Clarkson Hyde Saud Ansari Chartered Accountants., who conducted external audit services for the company and expressed unqualified opinion on the financial statements FTY ended 30th June, 2022.

Management

Organizational Structure Company has an adequate organizational structure. Currently, the organizational structure is divided into five main functions namely; 1) Operations 2) Project Management 3) Finance 4) Business Development and 5) HR & Admin.

Management Team Mr. Atta Ullah Khan was the CEO of TTC since 1995. However, he was replaced by his youngest brother, Mr. Samee Ullah last year due to participation in other activities. Finance Function is headed by Mr. Tariq Zulqarnain.

Effectiveness The company has established strong controls to supervise timely completions 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 The company is currently using EduBusinessSolutions_AI_Enterprise prepared by EduSoft System Solutions for financial reporting.

Control Environment The company currently has no certification on health, safety and quality control but it follows a balanced and environment-friendly strategy in all its operations with its plant and equipment complaint to environment control standards.

Business Risk

Industry Dynamics The construction sector contributed almost PKR~1,409bln to the Gross Domestic Product (GDP) of Pakistan in FY21 (FY20: PKR~1,231bln), registering a growth of ~14.4% YoY basis. Major challenges faced by the industry are increase in prices of all items related to construction, including cement, sand, crush, tiles, brick, concrete, paint as well as steel bars or rebars. Limited screening of contractors based on qualification, increasing bank regulations and limited financial leeway make it difficult to secure large amounts of bank guarantees for contractors. Bank guarantees put an undue burden on good quality contractors who may have large running projects. Construction industry has also suffered due to end of tax amnesty scheme announced by previous government. However, there is a hope on demand side which is expected to improve on account of demand generated from rehabilitation of damaged areas in recent flash floods.

Relative Position The construction business in Pakistan is a sector of healthy competition, and trends are mainly driven by policy changes. TTC, holds the prestigious CA category (no limit) license which enables them to be on the pre-qualifying list of approved constructors.

Revenues TTC has been maintaining a PKR 5 billion topline for 3 years as per the latest projections years and JVs with local players and government contracts shared by the company and the trend is expected to continue in the coming. The company currently has PKR 12 billion of projects in hand which are mostly due to be completed within next couple of years. Apart from roads and related structures construction, list of current projects in hand also include a few projects related to development of sectors in different housing societies.

Margins The gross margins of the entity stood at 25.4% (FY21: 24.8%; FY20: 27.3%; FY19: 25.7%) whereas its net profit clocked at PKR 341mln during FY22 (FY21: PKR 393mln; FY20: PKR 345mln; FY19: PKR 239mln). Margins in construction sector are tight in general due to high competition in bidding for contracts. However, GP and NP margins of TTC are slightly better than the industry average. Compensation is secured against inflationary impact through building escalation clause in contracts of projects spanning over more than 1 year.

Sustainability Regarding stability it is observable that asset base of TTC has been growing steadily over the years from PKR 1.15 billion in 2018 to PKR 3.39 billion in 2022. The company has also diversified into real estate projects. Projections shared by management signify sustainable growth however the volatility associated with award of projects and hence, concerns related to sustainability of revenues, cannot be overlooked.

Financial Risk

Working Capital TTC's inventory days stretched to 91 days in FY22 from 39 days in FY18, therefore net working capital days increased to 90 days compared to FY21: 55 days; FY20: 37 days and gross working capital days stretched to 103 days compared to FY21: 78 days; FY20: 59 days. Receivable days of TTC average around 11 days signifying speedy recoveries and no disputed receivables but they are also increasing as compare to FY21: 5 days; FY20: 3 days.

Coverages In FY22, TTC's operating cash flows (FCFO) stood at PKR 597mln (FY21: PKR 737 mln; FY20: PKR 752 mln; FY19: 349mln) on account of gross profit incurred PKR 1,311mln. 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 TTC has enough room to procure debt to further fuel its already robust growth.

Capitalization Leveraging at end of June 22 is at 18.1% (FY21: 23% FY20: 23.8%) and after excluding interest free loan payable to directors, the leverage structure of the firm has become 3.9% (FY21: 6.8%; FY20: 0.0%). Historically, TTC has had no reliance on long term debt for its business requirement, however, management has procured long-term debt of PKR 36 million from SBP for payroll financing in FY20 and plant and equipment worth PKR 85 million on finance lease in FY21. Apart from unutilized funded limits of PKR 260 million, the firm has non funded credit facilities of around PKR 1.7 billion mainly in the form of bank guarantees given to project owners. These borrowings are secured against tangible collateral in the form of a mortgage over lands in the name of sponsors.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Techno Time Construction (Pvt.) Ltd. Construction	Jun-22 12M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	280	275	186	181
2 Investments	122	98	80	99
3 Related Party Exposure	-	-	-	-
4 Current Assets	2,996	2,591	2,180	1,004
<i>a Inventories</i>	1,357	1,220	1,065	477
<i>b Trade Receivables</i>	199	118	53	27
5 Total Assets	3,399	2,964	2,446	1,284
6 Current Liabilities	1,268	1,142	1,121	296
<i>a Trade Payables</i>	142	213	526	74
7 Borrowings	71	103	-	8
8 Related Party Exposure	315	315	315	315
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	1,745	1,403	1,010	665
11 Shareholders' Equity	1,745	1,403	1,010	665
B INCOME STATEMENT				
1 Sales	5,152	5,721	5,002	2,488
<i>a Cost of Good Sold</i>	(3,841)	(4,302)	(3,635)	(1,848)
2 Gross Profit	1,311	1,418	1,366	640
<i>a Operating Expenses</i>	(759)	(726)	(648)	(324)
3 Operating Profit	552	692	719	317
<i>a Non Operating Income or (Expense)</i>	-	-	-	-
4 Profit or (Loss) before Interest and Tax	552	692	719	317
<i>a Total Finance Cost</i>	(4)	(3)	-	-
<i>b Taxation</i>	(207)	(296)	(374)	(77)
6 Net Income Or (Loss)	341	393	345	239
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	597	737	752	349
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	597	737	752	349
<i>c Changes in Working Capital</i>	(432)	(613)	(719)	(251)
1 Net Cash provided by Operating Activities	165	124	33	98
2 Net Cash (Used in) or Available From Investing Activities	(79)	(155)	(19)	(77)
3 Net Cash (Used in) or Available From Financing Activities	(40)	72	-	(8)
4 Net Cash generated or (Used) during the period	47	41	13	13
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	-9.9%	14.4%	101.0%	7.5%
<i>b Gross Profit Margin</i>	25.4%	24.8%	27.3%	25.7%
<i>c Net Profit Margin</i>	6.6%	6.9%	6.9%	9.6%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	3.2%	2.2%	0.7%	3.9%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/SI)</i>	21.7%	32.6%	41.2%	43.9%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	103	78	59	87
<i>b Net Working Capital (Average Days)</i>	90	55	37	64
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.4	2.3	1.9	3.4
3 Coverages				
<i>a EBITDA / Finance Cost</i>	164.1	239.0	N/A	N/A
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	12.4	18.6	N/A	44.9
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.7	0.6	0.4	0.9
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	18.1%	23.0%	23.8%	32.7%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	N/A	N/A
<i>c Entity Average Borrowing Rate</i>	0.9%	0.8%	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

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(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)

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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

(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)

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