The Pakistan Credit Rating Agency Limited

Rating Report

Techno Time Construction (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Jan-2024	BBB	A2	Positive	Maintain	-
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 completion spanned over years. TTC also works on different infrastructure projects in collaboration with different JV partners. TTC was originally focused on the road and bridges construction, but recently the Company has also started focusing on housing societies development. The Company is committed to adhering the highest standards of quality assurance, environmental management and health and safety as per the ISO certifications. During FY23, TTC sustains its topline in line with previous years and reported revenue of PKR 5.3bln (FY22: PKR 5.2bln, FY 21: PKR 5.7bln). The Company's gross margins also remain range bound FY23: 25.5% (FY22: 25.4%, FY21: 24.8%), despite the increase in the overall cost of project completion due to inflationary pressures. The liquidity position of the Company is underpinned by adequate cash flow coverage and working capital management. The leverage indicators have remained at quite a comfortable level on a timeline basis, reflecting strong risk absorption capacity. 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. A positive outlook reflects sustained topline and margins despite inflationary pressures. The current and upcoming project basket is healthy, though the materialization of those remains important for the upgrade.

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(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Construction(Mar-23)
Rating Analysts	Ali Arslan Malik | Ali.Arslan@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 28 years and Mr. Samee Ullah has 17 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 Imran Mehmood & Co., who conducted external audit services for the Company and expressed unqualified opinion on the financial statements FTY ended 30th June, 2023.

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 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~1,848bln to the GDP of Pakistan in FY22 (FY21: PKR~1,409bln), registering a growth of ~31.1% YoY basis (~3% on real basis). The Sector’s Contribution to GDP stands around 3% on average. Federal PSDP budget for FY22 was slashed to PKR~550bln from PKR~900bln originally budgeted, as Local and International Political and Economic Conditions worsened. In FY23 PKR~2,263bln was allocated for PSDP (PKR~800bln on Federal and PKR~1,463bln on Provincial Level). As of 8MFY23, ~50% of the federal allocated ~800bln got authorized/disbursed (8MFY22: ~43%). Industry margins are expected to shrink further, as End-Mar’23 prices of construction materials have jumped by ~38% YoY and labor wages have risen by ~19% YoY.

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 5bln topline for 4 years due to ongoing projects and JVs with local players and government contracts. During FY23, the entity’s revenue was recorded at PKR 5.3bln (FY22: PKR 5.2bln; FY21: PKR 5.7bln; FY20: PKR 5bln). The Company currently has PKR ~17bln of projects in hand which are mostly due to be completed within FY24. 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 during FY23 stood at 25.5% (FY22: 25.4%; FY21: 24.8%; FY20: 27.3%) whereas its net profit clocked at PKR 379mln during FY23 (FY22: PKR 341mln; FY21: PKR 393mln; FY20: PKR 345mln). 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 3.8bln in 2023. Upcoming projects list include nine projects with accumulated value of PKR 5bln. The Company has also diversified into real estate projects. However the volatility associated with award of projects and hence, sustainability concerns of revenues, cannot be overlooked.

Financial Risk

Working Capital TTC's inventory days stretched to 102 days in FY23 from 56 days in FY20, therefore net working capital days increased to 107 days compared to FY22: 90 days; FY21: 55 days and gross working capital days stretched to 117 days compared to FY22: 103 days; FY21: 78 days. Receivable days of TTC average around 15 days signifying speedy recoveries and no disputed receivables but they are also increasing as compare to FY22: 11 days; FY21: 5 days.

Coverages In FY23, TTC’s operating cash flows (FCFO) stood at PKR 533mln (FY22: PKR 597mln; FY21: PKR 737mln; FY20: 752mln) on account of gross profit incurred PKR 1,342mln. 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 Excluding interest free loan payable to directors, the leverage structure of the firm is 0.03% in FY23, (FY22: 3.9%; FY21: 6.8%). Historically, TTC has had no reliance on long term debt for its business requirement, however, management has procured long-term debt of PKR 36mln from State Bank of Pakistan for payroll financing in FY20 and plant and equipment worth PKR 85mln on finance lease in FY21. All of debt has been repaid.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Techno Time Construction (Pvt.) Ltd.	Jun-23	Jun-22	Jun-21	Jun-20
Construction	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	273	280	275	186
2 Investments	-	-	-	-
3 Related Party Exposure	83	122	98	80
4 Current Assets	3,450	2,996	2,591	2,180
a Inventories	*1,566*	*1,357*	*1,220*	*1,065*
b Trade Receivables	*246*	*199*	*118*	*53*
5 Total Assets	3,806	3,399	2,964	2,446
6 Current Liabilities	1,365	1,268	1,142	1,121
a Trade Payables	*141*	*142*	*213*	*526*
7 Borrowings	2	71	103	-
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	2,439	2,060	1,718	1,325
11 Shareholders' Equity	2,439	2,060	1,718	1,325
B INCOME STATEMENT				
1 Sales	5,255	5,152	5,721	5,002
a Cost of Good Sold	*(3,913)*	*(3,841)*	*(4,302)*	*(3,635)*
2 Gross Profit	1,342	1,311	1,418	1,366
a Operating Expenses	(832)	(759)	(726)	(648)
3 Operating Profit	510	552	692	719
a Non Operating Income or (Expense)	-	-	-	-
4 Profit or (Loss) before Interest and Tax	510	552	692	719
a Total Finance Cost	*(25)*	*(4)*	*(3)*	-
b Taxation	*(106)*	*(207)*	*(296)*	*(374)*
6 Net Income Or (Loss)	379	341	393	345
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*533*	*597*	*737*	*752*
b Net Cash from Operating Activities before Working Capital Changes	*533*	*597*	*737*	*752*
c Changes in Working Capital	*(409)*	*(432)*	*(613)*	*(719)*
1 Net Cash provided by Operating Activities	124	165	124	33
2 Net Cash (Used in) or Available From Investing Activities	(2)	(79)	(155)	(19)
3 Net Cash (Used in) or Available From Financing Activities	(69)	(40)	72	-
4 Net Cash generated or (Used) during the period	53	47	41	13
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	2.0%	-9.9%	14.4%	101.0%
b Gross Profit Margin	25.5%	25.4%	24.8%	27.3%
c Net Profit Margin	7.2%	6.6%	6.9%	6.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	2.4%	3.2%	2.2%	0.7%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	16.9%	18.1%	25.8%	29.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	117	103	78	59
b Net Working Capital (Average Days)	107	90	55	37
c Current Ratio (Current Assets / Current Liabilities)	2.5	2.4	2.3	1.9
3 Coverages				
a EBITDA / Finance Cost	21.4	164.1	239.0	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	19.9	12.4	18.6	N/A
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.1	0.1	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	0.1%	3.3%	5.7%	0.0%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	N/A
c Entity Average Borrowing Rate	68.3%	4.2%	3.0%	0.0%

Credit Rating

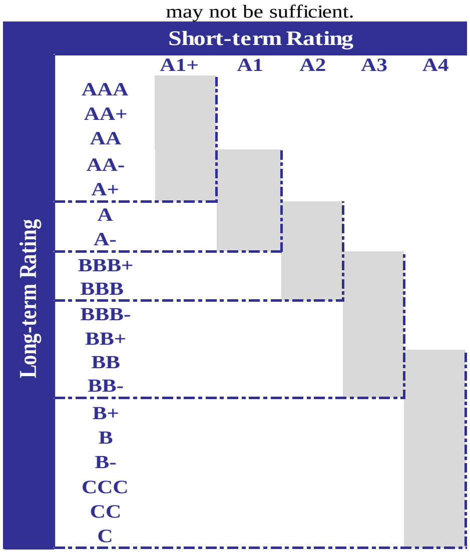
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

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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(Credit Rating Companies Regulations,2016)

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2) **Conflict of Interest**
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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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(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).
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(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)
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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 | 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)
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(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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