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
31-Jan-2022	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Techno Time Construction (Pvt.) Limited (TTC) holds experience in 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. Construction industry's prospects seems to be promising in terms of increasing PSDP funding. TTC reported a top line of PKR 5.7 billion with adequate profit margins in FY21. 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 nonfunded exposure is relatively less as significant support comes from leading JV partner in bearing non-funded exposure. 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 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-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	Uswa Sikandar | uswa.sikandar@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 25 years and Mr. Samee Ullah has 15 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 QCR rated Nadeem Safdar & Co., who conducted external audit services for the company and expressed unqualified opinion on the financial statements FTY ended 30th June, 2021.

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 major demand driver for the construction sector is the Public Sector Development Programme (PSDP) expenditure followed by Private Investments. Majority of the construction revenue is from government contracts ranging from 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 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 2 years due to ongoing projects and JVs with local players and government contracts. The company currently has PKR 10.5 billion of projects in hand which are mostly due to be completed within FY22. 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 24.8% (FY20: 27.3%; FY19: 25.7%; FY18: 23.8%) whereas its net profit clocked at PKR393mln during FY21 (FY20: PKR 345mln; FY19: PKR 239mln; FY18: PKR 209mln). 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 2.96 billion in 2021. 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 73 days in FY21 from 39 days in FY18, therefore net working capital days increased to 55 days compared to FY20: 37 days; FY19: 38 days and gross working capital days stretched to 78 days compared to FY20: 59 days; FY19: 61 days. Receivable days of TTC average around 7 days signifying speedy recoveries and no disputed receivables.

Coverages In FY21, TTC's operating cash flows (FCFO) stood at PKR 7 57mln (FY20: PKR 752`mln; FY19: PKR 349 mln; FY18: 354mln) on account of gross profit incurred PKR 1,418mln. 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 7.9% in FY21, (FY20: 0%; FY19: 1.20%). 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 1.2 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.	Jun-21	Jun-20	Jun-19	Jun-18	Jun-17
Construction	12M	12M	12M	12M	12M
A BALANCE SHEET					
1 Non-Current Assets	275	186	181	168	176
2 Investments	98	80	99	66	-
3 Related Party Exposure	-	-	-	-	-
4 Current Assets	2,591	2,180	1,004	921	611
a Inventories	*1,220*	*1,065*	*477*	*299*	*191*
b Trade Receivables	*118*	*53*	*27*	*36*	*131*
5 Total Assets	2,964	2,446	1,284	1,155	787
6 Current Liabilities	1,124	1,121	296	386	205
a Trade Payables	*194*	*526*	*74*	*241*	*173*
7 Borrowings	121	-	8	28	43
8 Related Party Exposure	315	315	315	315	-
9 Non-Current Liabilities	-	-	-	-	-
10 Net Assets	1,403	1,010	665	426	540
11 Shareholders' Equity	1,403	1,010	665	426	540
B INCOME STATEMENT					
1 Sales	5,721	5,002	2,488	2,316	2,379
a Cost of Good Sold	*(4,302)*	*(3,635)*	*(1,848)*	*(1,764)*	*(2,060)*
2 Gross Profit	1,418	1,366	640	551	319
a Operating Expenses	(726)	(648)	(324)	(227)	(41)
3 Operating Profit	692	719	317	325	278
a Non Operating Income or (Expense)	-	-	-	-	-
4 Profit or (Loss) before Interest and Tax	692	719	317	325	278
a Total Finance Cost	*(3)*	-	-	-	-
b Taxation	*(296)*	*(374)*	*(77)*	*(115)*	*(86)*
6 Net Income Or (Loss)	393	345	239	209	192
C CASH FLOW STATEMENT					
a Free Cash Flows from Operations (FCFO)	*757*	*752*	*349*	*354*	*218*
b Net Cash from Operating Activities before Working Capital Changes	*757*	*752*	*349*	*354*	*218*
c Changes in Working Capital	*(615)*	*(719)*	*(251)*	*(222)*	*(277)*
1 Net Cash provided by Operating Activities	141	33	98	132	(59)
2 Net Cash (Used in) or Available From Investing Activities	(155)	(19)	(77)	(88)	(85)
3 Net Cash (Used in) or Available From Financing Activities	55	-	(8)	(22)	8
4 Net Cash generated or (Used) during the period	41	13	13	22	(136)
D RATIO ANALYSIS					
1 Performance					
a Sales Growth (for the period)	14.4%	101.0%	7.5%	-2.7%	--
b Gross Profit Margin	24.8%	27.3%	25.7%	23.8%	13.4%
c Net Profit Margin	6.9%	6.9%	9.6%	9.0%	8.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	2.5%	0.7%	3.9%	5.7%	-2.5%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	32.6%	41.2%	43.9%	43.4%	35.5%
2 Working Capital Management					
a Gross Working Capital (Average Days)	78	59	61	52	22
b Net Working Capital (Average Days)	55	37	38	19	-5
c Current Ratio (Current Assets / Current Liabilities)	2.3	1.9	3.4	2.4	3.0
3 Coverages					
a EBITDA / Finance Cost	245.2	N/A	N/A	N/A	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	19.1	N/A	44.9	17.4	10.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.6	0.4	0.9	1.0	0.2
4 Capital Structure					
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	23.7%	23.8%	32.7%	44.6%	7.3%
b Interest or Markup Payable (Days)	0.0	N/A	N/A	N/A	N/A
c Entity Average Borrowing Rate	0.8%	0.0%	0.0%	0.0%	0.0%

Credit Rating

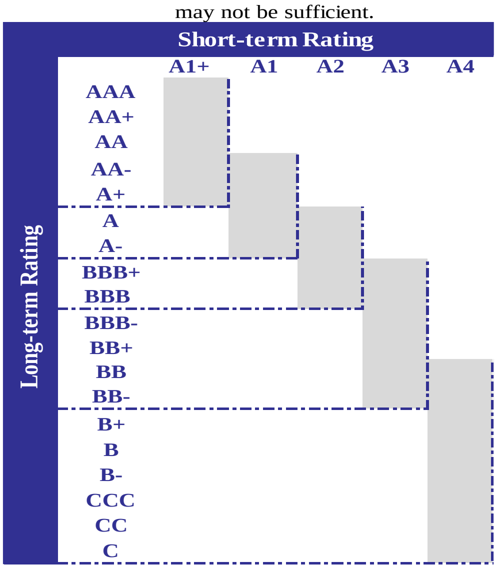
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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(Credit Rating Companies Regulations,2016)

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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)

2) **Conflict of Interest**
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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.
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(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)
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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 | 18-(d)
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(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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