



The Pakistan Credit Rating Agency Limited

## Rating Report

### Etimaad Engineering (Pvt.) Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Jun-2018	BBB-	A3	Stable	Upgrade	-
10-Jan-2018	BB+	A3	Stable	Maintain	-
13-Jun-2017	BB+	A3	Stable	Maintain	-
13-Jun-2016	BB+	A3	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The ratings demonstrate Etimaad's strength which stimulates from its sustained operational history. The business has optimal mix of contracts in its domain and has managed to complete reasonable number of contracts in Pakistan. The pipeline is healthy; therein for the sake of sustainable long term growth, management follows a balanced approach aiming to gain more share in maintenance business. Management efforts to recover previous years losses is yet to materialize, which is a drag. Company is adequately leveraged and determined to reduce its conventional borrowing over a short term horizon. The performance of the company rests with projects in hand and timely completion. The sponsors have demonstrated their commitment by operationally supporting the business by providing security and personal guarantees to obtain financial facilities. Meanwhile, strengthening of business development structure by inducting expert and experienced professionals is considered a key catalyst for upcoming projects.

Rating is dependent upon several contracts successfully completed and upcoming projects undertaken by management to streamline its business for improved profitability, which is pivotal for considerable growth.

#### Disclosure

<b>Name of Rated Entity</b>	Etimaad Engineering (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating Methodology(Jul-17),Methodology   Correlation between long-term and short-term rating scale(Jun-17)
<b>Related Research</b>	Sector Study   Construction(Apr-18)
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## ETIMAAD ENGINEERING PROFILE

<b>Incorporated</b>	2007
<b>Major Business</b>	Engaged in engineering, construction and consultancy services
<b>Legal Status</b>	Private
<b>Head Office</b>	Lahore

## INDUSTRY SNAPSHOT

Construction sector's share in GDP was 2.74% in FY17 against a share of 2.65% last year. This sector has witnessed a growth of 9.05% against a growth of 14.6% last year, as many CPEC related projects were initiated in 2015-16. Of these projects, only a few handful of companies have benefitted most as they enjoy economy of scales, good relationship with government bodies and can bid the lowest price. Most of the companies secure contracts based on their branding within the industry, word of mouth, and their ability to execute.

## OWNERSHIP & GROUP PROFILE

- Mr. Mazharuddin Ansari, key founder and Chairman of ETIMAAD, has more than four decades of experience in renowned local and foreign organizations.
- Mr. Mazharuddin Ansari and Mr. Laeequddin Ansari, experienced professionals in local engineering industry, own 81% stake in Etimaad directly and indirectly through other family members. Remaining stake lies with fellow alliances of key sponsors some of whom left the company in past years.
- Etimaad has one subsidiary in Pakistan i.e. "One Tree Hill (Private) Limited.

## GOVERNANCE

- The Vice Chairman, Mr. Mohammad Sohail Shafique, is a chemical engineer by profession possessing more than 25 years of experience in renowned local and foreign organizations.
- All members of the board carry executive roles in the company; lacking independent oversight at board level
- BoD comprises three members including the President and CEO.

## MANAGEMENT

- Mr. Farooq Hussain Mughal has been functioning as President & CEO since FY15. He has worked with Etimaad as CFO and then COO previously. He has been ably leading the company.
- Etimaad's management strengthened its team by inducting experienced professionals, majority of the senior management has long ties with Descon Engineering Limited in the past.

## SYSTEMS & CONTROLS

- The company has an integrated financial, cost control and project management system to smooth sail the business processes from initiation to close out and feedback phases.
- ERP based solution with multiple modules marking in timely MIS reporting framework

## PERFORMANCE

- Etimaad has been increasing its topline over the last couple of years. On account of increased proportion of contracts.
- Etimaad's topline witnessed a small growth of ~3% on YoY basis (FY16: 40%). while it improved by 28% for the period of 9MFY18 (9MFY17: -19%). The probable topline is well above PKR 1bln.
- There is sizeable contribution of maintenance business in the overall turnover. The company is expected to book decent profit by the end of this fiscal year.
- Etimaad's remained under strain because of accumulated losses in major projects; Shahbaz Air Base, NPT-Aiwan-e-Quaid-e-Azam and Aisha Steel Mills while the recovery is yet to be realized.
- Company's current mix of in-hand projects comprises recurring business (53%) and new project based business (47%). However, newly acquired projects during the period 9MFY18 are worth of PKR 504mln, whereas total in-hand projects of value PKR 5.8bln are in pipeline.
- Going forward, Etimaad is eyeing for long term stability through optimal growth both in terms of turnover and profitability with a better mix of construction and maintenance projects.

## FINANCIAL RISK

- During FY17, despite reduced collection days from customers ETIMAAD's net working capital cycle days rise to 224days (FY16: 194days; FY15: 240days) owing to higher inventory levels, however, for the period 9MFY18, working capital days locked at 237days (9MFY17: 260 days) lower by 9%.
- ETIMAAD adequately manages its leverage capital structure. Debt to debt plus equity ratio was at 46% at end-Mar18, (end-Jun17: 45%; end-Jun16: 43%). The company has been gradually retiring its long term debt.
- The financing appetite of working capital cycle is majorly backed by short term borrowings, availed from various financial institutions worth PKR 201mln (FY16: PKR 155mln; FY15: PKR 204mln).



**Etimaad Engineering (Private) Limited**

PKR (mln)

BALANCE SHEET	31-Mar-18	30-Jun-17	30-Jun-16	30-Jun-15
	9MFY18	FY17	FY16	FY15
<b>Non-Current Assets</b>	<b>345</b>	<b>309</b>	<b>178</b>	<b>177</b>
<b>Investments (Incl. associates)</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>
Equity	3	3	3	3
Debt	-	-	-	-
<b>Current Assets</b>	<b>1,219</b>	<b>1,029</b>	<b>1,029</b>	<b>962</b>
Inventory	499	524	402	398
Trade Receivables	414	318	377	308
Others	306	187	251	256
<b>Total Assets</b>	<b>1,567</b>	<b>1,340</b>	<b>1,210</b>	<b>1,142</b>
<b>Debt</b>	<b>392</b>	<b>355</b>	<b>255</b>	<b>232</b>
Short-term	273	201	155	204
Long-term (Incl. Current Maturity of long-term debt)	119	154	100	27
Other shortterm liabilities	624	454	511	485
Other Longterm Liabilities	7	7	6	4
<b>Shareholder's Equity</b>	<b>543</b>	<b>524</b>	<b>438</b>	<b>421</b>
<b>Total Liabilities &amp; Equity</b>	<b>1,567</b>	<b>1,340</b>	<b>1,210</b>	<b>1,142</b>

**INCOME STATEMENT**

<b>Turnover</b>	<b>703</b>	<b>926</b>	<b>897</b>	<b>643</b>
Gross Profit	142	169	165	33
Other Income	0	2	(2)	113
Financial Charges	(28)	(26)	(26)	(27)
<b>Net Income</b>	<b>20</b>	<b>34</b>	<b>20</b>	<b>24</b>

**Cashflow Statement**

Free Cashflow from Operations (FCFO)	64	83	70	(53)
Net Cash changes in Working Capital	(42)	(60)	(90)	38
Net Cash from Operating Activities	(3)	(1)	(47)	(44)
Net Cash from Investing Activities	(60)	(100)	(22)	128
Net Cash from Financing Activities	34	97	23	(32)

**Ratio Analysis**

**Performance**

Turnover Growth	27.6%	3.2%	39.5%	55.6%
Gross Margin	20.1%	18.3%	18.4%	5.2%
Net Margin	2.9%	3.7%	2.3%	3.8%
ROE	5.0%	6.5%	4.7%	5.8%

**Coverages**

Interest Coverage (FCFO/Gross Interest)	2.3	3.1	2.7	-2.0
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	1.1	1.2	1.3	-1.0
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	1.1	1.2	1.3	-1.0
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (F	3.4	2.8	2.4	-0.4

**Liquidity**

Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	236.7	224.0	193.7	240.2
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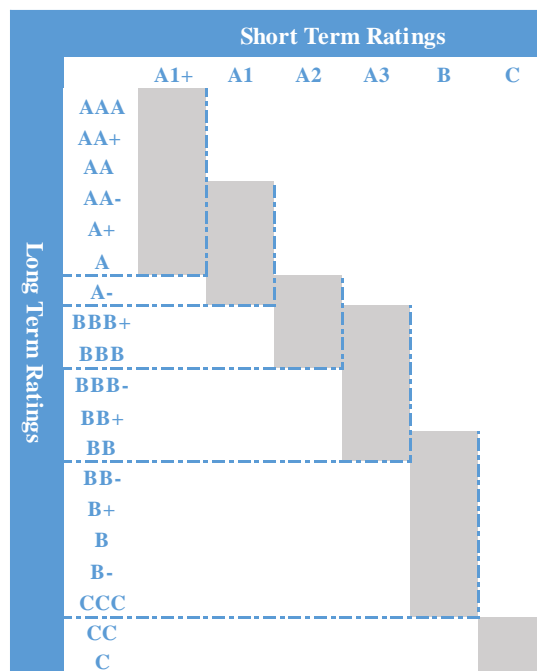
**Capital Structure (Total Debt/Total Debt+Equity)**

	46.4%	45.0%	42.5%	41.5%
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## Credit Rating Scale & Definitions

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 Ratings		Short Term Ratings	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	<b>B</b>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	<b>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.		
<b>D</b>	Obligations are currently in default.		



**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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) 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.

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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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- 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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- (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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- (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)
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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)
- (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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