



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
03-Mar-2021	BBB	A2	Stable	Maintain	-
03-Mar-2020	BBB	A2	Stable	Upgrade	-
15-Nov-2019	BBB-	A3	Stable	Maintain	-
16-May-2019	BBB-	A3	Stable	Maintain	-
28-Dec-2018	BBB-	A3	Stable	Maintain	-
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, emanating mainly from its sustained operational history coupled with growth in revenue and margin, aided by healthy relationships with existing customers, and extensive experience of the management. The countrywide lockdown to combat Covid-19 pandemic put a halt in constructional activities. However, the pipeline is healthy; therein for the sake of sustainable long-term growth, management follows a balanced approach aiming to gain more share in different lines of businesses. The entity is following a pyramid strategy; the top being mega projects (EPC), followed by construction and lastly maintenance related projects. The customer list portrays some of the best names in the domestic market. The Company has a track record of over a decade with strong capabilities in executing turnkey projects, as reflected in repeat orders from customers. The Company is adequately leveraged and 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. Financial risk metrics need to be upheld. 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 Ratings(Jun-20),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria   Rating Modifier(Jun-20)
<b>Related Research</b>	Sector Study   Construction(Mar-20)
<b>Rating Analysts</b>	Sana Shameen   sana.shameen@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Etimaad Engineering Private Limited (Etimaad), was incorporated in Pakistan under the repealed Companies Ordinance, 1984 as a private limited company on May 11, 2007.

**Background** Etimaad was established by a team of professionals from Descon Engineering Limited who are also the shareholders of the company. Over the years, the sponsors have established similar businesses mainly in Saudi Arabia (subsidiary) and Qatar (associate). In 2014, Etimaad had to divest its share in Arabian Etimaad Industrial Company, for an amount of SAR 5mln (PKR 133mln), due to geopolitical tensions at Yemen border and turmoil in oil prices. The company has completed various projects in Pakistan and overseas.

**Operations** The company is principally engaged in engineering, procurement, manufacturing, construction and project management activities.

## Ownership

**Ownership Structure** Mr Mazharuddin Ansari's family directly own 37.4%, Mr Farooq Hussain Mughal 26.9%, Mr Mohammad Sohail Shafique 25.6% and others 10.1% stake in Etimaad.

**Stability** The experienced professionals of the company providing expertise and exposure to operate efficiently as one of the leading company in Pakistan.

**Business Acumen** The sponsors have rich industry experience and have worthy knowledge of various aspects of engineering industry.

**Financial Strength** The sponsors have an adequate financial profile. Although there is no explicit commitment, but key sponsor's support to Etimaad is demonstrated as they have provided personal guarantees to secure loans and guarantees from FIs.

## Governance

**Board Structure** The company's board comprises only two members including the Chairman – Mr Mohammad Sohail Shafique, and President & CEO – Mr Farooq Hussain Mughal.

**Members' Profile** Mr. Mohammad Sohail Shafique, the Chairman, has more than two decades of experience in renowned organizations. He is an Engineer by profession and alumni of UET Lahore.

**Board Effectiveness** The Company being a private company does not comply with code of corporate governance. Both of the board members carry executive roles in the management of the company. To provide desired challenge to the management's decisions and strengthen overall governance framework, representation of independent director is important.

**Financial Transparency** Grant Thorton Anjum Rehman, Chartered Accountants, is the external auditor of the company. The auditor gave an unqualified opinion on the company's financial statements for the year ended June 30, 2020.

## Management

**Organizational Structure** There are a large number of reporting lines reporting in to CEO. Although this may limit strategic focus, support from senior executive members and Chairman, provides comfort.

**Management Team** Mr Farooq Hussain Mughal, the President & CEO, is finance professional and associated with Etimaad since its inception. Previously he worked as CFOO in Etimaad before he elevated to the position of President & CEO in FY15. He is supported by an able and competent team of professionals.

**Effectiveness** Majority of senior management has long ties with Descon Engineering Limited in the past. Project related hiring occurs as per the project's need; therefore Etimaad tries to recruit suitable technicians and proletariat. Syed Abrar Ali Khan, the Vice President of Etimaad, is appointed to strengthen the business development. Previously, Mr Khan served as GM Descon-UAE Business Area.

**MIS** The company has an integrated financial, cost control and project management system to smooth sail the business processes from initiation to close and feedback phases. The ERP system includes modules on (i) ETest – Bid preparation, (ii) Primavera P6- Scheduling, monitoring the project and generation of reports, (iii) Tanseeb – Matrix software linked to ETest to execute project activities and monitors the actual progress, (iv) EFin- Financial management system integrated with ETest and Primavera. (v) EOffice - facilitates company-wide information sharing.

**Control Environment** The EPC industry is always prone to Quality, Health, Safety and Environmental (QHSE) issues. Therefore, Etimaad complies with applicable laws and relevant industry standards.

## Business Risk

**Industry Dynamics** Construction sector's share in GDP in FY18 was 2.82% against a share of 2.74% last year. This sector has witnessed a growth of ~9% against a growth of ~10% last year, as many CPEC related projects were ongoing during 2016-17. For FY19 the Federal Government has allocated PKR ~800 bln under PSDP spending, and considering 70% utilization history. As PMs' ambitious plan to build 5 million houses goes through, it would provide a major impetus to the debilitating construction industry.

**Relative Position** Etimaad is eyeing for optimal growth both in terms of turnover and profitability through a better mix of construction and maintenance projects. Company now takes appropriate measures to avoid any discrepancy in the projects while ensuring timely completion of the project. However, the market share of the company remains minimal.

**Revenues** During FY20, topline of Etimaad witnessed a growth of ~37%, while the revenue for FY20 stood at PKR 1,248mln (FY19: PKR 912mln) the said increase is witnessed owing to the prevailing positive industry dynamics and support from state for engineering and construction sector in current environment.

**Margins** During FY20, gross margins remained stagnant on YoY basis (FY19: 22.5%; FY19: 22.8%). Controlled finance cost (PKR 62mln) in addition with increased topline and slight support from other income PKR 3mln; hence, the company's net profit stood at PKR 55mln (FY18: 39mln; FY18: 74.5mln).

**Sustainability** Etimaad's management envisage sustainable footing in the market by planning to move to capital market instead of money market for financing needs in near future. The performance of the company rests with projects in hand and timely completion. The healthy pipeline; therein for the sake of sustainable long term growth, management follows a balanced approach aiming to gain more share in different lines of businesses.

## Financial Risk

**Working Capital** Etimaad's working capital is mainly supported by short term borrowings and internal cash. During FY20, Etimaad's net working capital cycle days showed a decreasing trend (FY20: 143days; FY19: 220; FY18: 171days) owing to lower trade receivables days. To fulfill the needs of working capital, company has availed short term borrowings from various financial institutions worth PKR 193mln in FY20 (FY19: PKR 238mln; FY18: PKR 310mln).

**Coverages** During FY20, Etimaad's free cash flows (FCFO) denotes performance stability, and improved to PKR 178bln (FY19: PKR 132mln; FY18: PKR 159mln). While core debt coverage stood at 2.1x in FY20 (FY19: 1.5x) on account of improved business performance and increased revenue generation.

**Capitalization** Etimaad has adequately managed its leveraged capital structure. Debt to debt plus equity ratio was at 33% at FY20, (FY19: 41.8%; FY18: 44.25). However, due to limited cash flows, the loans are jointly secured by sponsors' guarantees.



The Pakistan Credit Rating Agency Limited

Financial Summary  
PKR mln

Etimaad Engineering Ltd ##	Jun-20 12M	Jun-19 12M	Jun-18 12M	Jun-17 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	895	409	421	309
2 Investments	-	-	20	-
3 Related Party Exposure	3	3	3	3
4 Current Assets	1,449	1,123	1,242	1,029
<i>a Inventories</i>	566	496	493	524
<i>b Trade Receivables</i>	225	249	343	114
5 Total Assets	2,347	1,534	1,686	1,340
6 Current Liabilities	683	490	664	453
<i>a Trade Payables</i>	327	229	251	144
7 Borrowings	540	405	409	350
8 Related Party Exposure	-	1	3	6
9 Non-Current Liabilities	27	13	11	7
10 Net Assets	1,097	626	599	524
11 Shareholders' Equity	1,097	626	599	524
<b>B INCOME STATEMENT</b>				
1 Sales	1,248	912	1,150	926
<i>a Cost of Good Sold</i>	(968)	(705)	(899)	(757)
2 Gross Profit	281	208	251	169
<i>a Operating Expenses</i>	(87)	(58)	(57)	(47)
3 Operating Profit	193	150	194	122
<i>a Non Operating Income or (Expense)</i>	3	1	(2)	2
4 Profit or (Loss) before Interest and Tax	196	151	192	124
<i>a Total Finance Cost</i>	(65)	(43)	(33)	(26)
<i>b Taxation</i>	(76)	(69)	(84)	(64)
6 Net Income Or (Loss)	55	39	74	34
<b>C CASH FLOW STATEMENT</b>				
<i>a Free Cash Flows from Operations (FCFO)</i>	178	132	159	83
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	113	88	127	59
<i>c Changes in Working Capital</i>	(51)	(60)	3	(60)
1 Net Cash provided by Operating Activities	62	28	130	(1)
2 Net Cash (Used in) or Available From Investing Activities	(109)	6	(132)	(100)
3 Net Cash (Used in) or Available From Financing Activities	126	(42)	13	97
4 Net Cash generated or (Used) during the period	79	(9)	11	(4)
<b>D RATIO ANALYSIS</b>				
1 Performance				
<i>a Sales Growth (for the period)</i>	36.8%	-20.7%	24.2%	3.2%
<i>b Gross Profit Margin</i>	22.5%	22.8%	21.8%	18.3%
<i>c Net Profit Margin</i>	4.4%	4.2%	6.5%	3.7%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	10.2%	7.9%	14.0%	2.5%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	6.1%	5.9%	13.9%	6.8%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	225	316	234	419
<i>b Net Working Capital (Average Days)</i>	143	220	171	368
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.1	2.3	1.9	2.3
3 Coverages				
<i>a EBITDA / Finance Cost</i>	4.2	5.0	7.7	9.0
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.1	1.5	2.5	1.5
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	3.0	1.9	0.8	2.3
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	33.0%	39.4%	40.8%	40.4%
<i>b Interest or Markup Payable (Days)</i>	39.9	60.0	79.2	112.3
<i>c Entity Average Borrowing Rate</i>	13.6%	9.6%	7.7%	5.2%

**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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<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.
AA-	
A+	
A	<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.
A-	
BBB+	
BBB	<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.
BBB-	
BB+	<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.
BB	
BB-	
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-	
CCC	<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.
CC	
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):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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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**

- 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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- (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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- (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
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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 | 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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