



The Pakistan Credit Rating Agency Limited

Rating Report

Usmani International Associates (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
31-Dec-2018	BBB-	A2	Stable	Maintain	-
30-Jun-2018	BBB-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Usmani International Associates (UIA) has been operating in the construction industry for the last many decades. The second generation has also joined the business – with clarity of roles. The governance framework is expected to evolve, going forward. The reported profitability in terms of gross margin is good, though operational efficiency needs to be harnessed. The topline and profitability both are supplemented by JV business, lending support to the ratings. Construction business is dependent on award of public works (Federal & Provincial PSDP + CPEC). The control environment may be strengthened by harnessing the audit quality and adopting quarterly accounts. The latest management accounts of the company for FY 18 reflect sustained business and financial risk profile of the entity. The management has given representation that the audit will be completed in a short span of time.

The ratings are dependent upon the sustained positioning of the company in the industry. Adherence to sound financial discipline while strengthening debt servicing capacity is pivotal for the ratings. Improving governance and control environment is also important.

Disclosure

Name of Rated Entity	Usmani International Associates (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study Construction(Apr-18)
Rating Analysts	Muhammad Obaid muhammad.obaid@pacra.com +92-42-35869504

Profile

Legal Structure Usmani International Associates (UIA) is a private limited company which was incorporated in 1988.

Background Engr. Ahmed Ghazal Usmani established UIA with an ambitious plan after having worked in his family's construction business, Indus Engineers, which was established in 1960s. Indus Engineers mainly confined their business activities with oil & gas fields but Usmani Associates adopted a diversified scope and further ventured into new avenues. In view of the expanding business and aspirations of international exposure, Usmani Associates was transformed to Usmani International Associates (Private) Limited.

Operations The company is capable of handling projects related to all sorts of civil engineering works, such as Roads & Highways, Bridges, Industrial Complexes, Oil & Gas Installations, Electrical Grids and Power Stations, Residential & Commercial Buildings, Public Health Works, and Infrastructure, etc.

Ownership

Ownership Structure Usmani International Associates is wholly owned and managed by the Chief Executive, Mr. Ahmed Ghazal Usmani, with 99.33% ownership stake while the remaining 0.67% shares are owned by his wife, Mrs. Razda Rana Ghazal Usmani.

Stability The entire shareholding of UIA rests with Mr. and Mrs Ahmed G Usmani. Mr. Ahmed G Usmani, the founder and Chief Executive, is identified as the man at the last mile and oversees the entire business. UIA needs to have a formal succession planning in place so that future prospects are taken care of in the hour of need.

Business Acumen Mr Ahmed G Usmani, has rich industry experience spanning over 3 decades in the construction sector.

Financial Strength The sponsors have an adequate financial profile with shareholding in multiple companies, including Usmani Associates and Usmani-Reliable JV.

Governance

Board Structure The Company has a two member board. The overall governance matters are overseen by the MD / Chief Executive Mr. Ahmed G Usmani. UIA needs to include more people on the board so that the strategic matters and governance matters of the company are looked after properly. The family on the basis of their solid experience in the construction industry governs the company.

Members' Profile The founder, Mr. Ahmed G Usmani, has extensive experience spanning 34 years in the construction industry, while his wife has 12 years association with the Board.

Board Effectiveness The Company has a board meeting once a year and the minutes are not available. The Board has only two members and in comparison to established corporates, the governance model is weak and needs improvement. Although the company has an internal audit function which reports to the CFO.

Financial Transparency M. Akhtar & Co Chartered Accountants is the external auditor of the company. The auditor has expressed an unqualified opinion on Usmani International Associates financial statements for the year ended June 30th 2017. Financial Statements for FY18 are still under review.

Management

Organizational Structure UIA is working with four key functions namely (i) Finance, (ii) Legal Operations, (iii) Project Management, (iv) Technical and (v) Construction & Coordination, reporting to the MD.

Management Team Mr Ahmed G Usmani – Chief Executive, is the technical and executional lead who oversees the business and all the matters pertaining to local clients. Mr Farrukh W Usmani – CFO / Head of Procurement, has been associated with UIA for 25 years and looks after the matters pertaining to administration and finance including credit, liaison with banks, and Letters of Credits (LCs). The internal audit function also reports to him. Chief Executive's two daughters have been associated with the company for the past 5 years and they look after business matters related to foreign clients. The elder daughter, Ms. Saadiya G Usmani, is the Head of Strategy and Development, who provides pivotal support to the CEO. The younger daughter, Ms. Amna G Usmani, is Director Legal.

Effectiveness Since the company has a flat organizational structure with the sponsors looking after the day to day operations, UIA needs to have formal management committees in place which can monitor performance and assure the adherence to the policies and procedures.

MIS UIA is currently using a customized accounting software from Bizcore Solutions for its book keeping and accounting needs. They also use Primavera, MS Project, Heavy Bid, and AutoCad which are industry specific software. UIA's IT team does a complete backup of data once every week and stores it on the cloud server.

Control Environment UIA adheres to strict quality control standards as it is the need of the construction industry. The company's MIS generates reports for the Board and the Management, whereas the project management module is used on a regular basis which keeps track of all the elements related to specific projects.

Business Risk

Industry Dynamics Growth in Construction Industry is slowing on account of a number of factors, including GoP pulling back PSDP funding, increasing inflation and interest rates, major infrastructure projects under CPEC near completion and the need for clarity on economy's direction.

Relative Position Out of the 10,000+ firms registered with Pakistan Engineering Council as Constructors / Operators, only ~100 (1%) hold the prestigious CA category (no limit) license which enables them to be on the pre-qualifying list of approved constructors. Usmani International Associates, holding the CA category license caters to a niche in the market.

Revenues UIA is primarily engaged in building works and infrastructure projects under public sector development programs (PSDP). UIA's revenue stream is primarily concentrated in PSDP projects, and should diversify its revenue mix with some real estate development projects. UIA, in recent years, has witnessed consistent increase in its revenues, primarily due to the nature and size of the contracts initiated in a given year. For FY18, the entity's revenues witnessed an almost 2x increase in comparison to prior years' 49% increase.

Margins During FY18, although the topline saw a massive two fold growth, a proportionate increase in the cost of sales kept the gross margins intact (FY18: 17.2%, FY17: 17.7%). Operating margin improved on account of prudent cost containment and overhead expenses (FY18: 12.9%, FY17: 9.8%). With static finance charges the company was able to considerably increase its profitability for the period.

Sustainability UIA's management furnishes reliable budgets and forecasts which reflect the strategy of the management and viability of the design path to reach the goal.

Financial Risk

Working Capital For working capital needs, which is a function of inventory and receivables, a company relies on both internal cash flows as well as short term borrowing (STB). During FY18 UIA shed away some of its STBs, on account of better cashflow management and increased revenue from ongoing projects.

Coverages In FY17, UIA's operating cashflows (FCFO) increased to PKR 97mln (FY16: 82mln). During 9MFY18, UIA's free cash flows (FCFO) amounted to PKR 84mln (FY17: 97mln). Higher cash flows with somewhat static finance costs resulted in improvement of core debt coverage (9MFY18: 8.2x, FY17: 5.8x).

Capitalization At end-FY18, the company had a slightly lesser leveraged capital structure with a debt to debt plus equity ratio of 44% (FY17: 54%). Major portion of debt comprises STB from various commercial banks. The company has long term finance lease obligations which could put some pressure on coverages if the cashflows were to somewhat drop in the future.



Usmani International Associates (UIA)

BALANCE SHEET	30-Jun-17	30-Jun-16	30-Jun-15
	Annual	Annual	Annual
Non-Current Assets	828	255	228
Investments (Incl. Associates)	-	-	-
Equity	-	-	-
Debt Securities	-	-	-
Current Assets	520	273	156
Inventory	235	108	75
Trade Receivables	122	57	-
Others	163	109	81
Total Assets	1,348	528	384
Debt	364	155	144
Short-Term	103	91	83
Long-term (Incl. Current Maturity of Long-Term Debt)	260	63	61
Other Short-Term Liabilities	206	136	73
Other Long-Term Liabilities	-	46	-
Shareholder's Equity	778	191	167
Total Liabilities & Equity	1,348	528	384

INCOME STATEMENT

Turnover	610	410	249
Gross Profit	108	107	50
Other Income	41	-	-
Financial Charges	(17)	(15)	(11)
Net Income	37	24	18

Cashflow Statement

EBITDA	144	111	79
Free Cashflow from Operations (FCFO)	97	82	67
Net Cash changes in Working Capital	(73)	(144)	(206)
Net Cash from Operating Activities	8	(77)	(151)
Net Cash from Investing Activities	(68)	(70)	(116)
Net Cash from Financing Activities	63	157	281
Net Cash Generated during the period	3	10	15

Ratio Analysis

Performance			
Turnover Growth (same period last year)	48.7%	65.1%	-99.1%
Gross Margin	17.7%	26.2%	20.0%
Net Margin	6.0%	6.0%	7.4%
ROE	7.6%	13.6%	21.1%
Coverages			
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncov)	2.3	1.9	6.0
Interest Coverage (x) (FCFO/Gross Interest)	5.8	5.5	6.0
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Te	3.2	0.9	1.1
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	107	80	30
Capital Structure (Total Debt/Total Debt+Equity)	32%	45%	46%

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	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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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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.
- (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)
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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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