



The Pakistan Credit Rating Agency Limited

Rating Report

Kingcrete Builders

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Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|--------------------|------------------|-------------------|---------|----------|--------------|
| 31-Dec-2018 | BB | B | Stable | Upgrade | - |
| 30-Jun-2018 | BB- | B | Stable | Maintain | - |
| 29-Dec-2017 | BB- | B | Stable | Initial | - |

Rating Rationale and Key Rating Drivers

Kingcrete Builders is a partnership – led primarily by the Minhas family. The firm has exhibited renewed energy ever since the induction of the second generation. The roles of the partners are clearly defined. Kingcrete Builders was originally focused on construction and building works but recently the firm is increasing its focus on real estate development. Projects are in pipeline though revenue is volatile and so are the profits. The financial profile is constrained by stuck-up receivables and sizeable debt. Timely recovery of receivables and repayment of debt is essential.

The latest financial results reflect improvement in the business position of the company, with adequate profitability. The pipeline of the projects in process and at hand is adequate and is expected to reflect positively on the future risk profile of the entity.

The ratings are dependent upon the corporate governance principles, internal control systems and financial strength of Kingcrete Builders. Adherence of sound financial discipline while improving working capital management and strengthening debt servicing capacity through improving cash position is pivotal for the ratings. Improving the topline and sustaining it is also vital.

Disclosure

| | |
|------------------------------|--|
| Name of Rated Entity | Kingcrete Builders |
| 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 Kingcrete Builders (Pvt) Limited (Kingcrete) is a partnership concern which was formally incorporated in January 1999.

Background Kingcrete Builders was established in 1976 by the founder of the firm, Major (R) Nawaz A Minhas, a civil engineer by profession. Significant projects to its credit are the 18 storey Navy Heights Karachi, Mall of Lahore, DHA O/A Levels School in Khi, ICI Office Buildings in Khi, Naval HQ in Isb, Safari Villas in Bahria Town Rwp, Hyperstar in Isb and Lahore, CMH Rwp and rehabilitation of PC Hotels in Khi, Rwp & Lhr.

Operations The Company is capable of handling projects related to buildings, building commercial & industrial flexible/rigid pavements, runways, roads and bridges, marine works and pipeline works besides delivering projects on turnkey basis. Kingcrete is registered with the Pakistan Engineering Council (PEC) and holds the CA category (no limit) license.

Ownership

Ownership Structure Kingcrete is registered as a partnership concern with five partners. The founder Mr. Nawaz A Minhas and his brother, Mr. Ijaz A Minhas are senior partners, with his two sons, Mr. M Nadir Minhas and Mr. M Sikander Minhas, and his relative Mr. Saeed A Malik, as partners of the firm.

Stability Kingcrete is majority owned by the Minhas family and the shareholding of the two sons would increase in the future but it needs to have a formal succession planning in order to ensure that future prospects are taken care of in the hour of need.

Business Acumen The senior partners have rich extensive experience spanning over 4 decades in the construction sector, including the younger partners who have about 7 to 8 years of hands on industry experience.

Financial Strength The sponsors have an adequate financial profile with shareholding in multiple companies, namely; Kingcrete Project Management (Pvt) Limited - a project management consultancy, KD Plaza (Pvt) Limited - a commercial plaza in Lahore, Gulf Heights - a budget apartments project in Rawalpindi and Kingcrete Developers - a JV of commercial property with AWT in Rawalpindi.

Governance

Board Structure Kingcrete, as a partnership, does not have a formal Board of Directors (BoD) structure. The company is being run by the partners; they have their respective roles in the management of the company.

Members' Profile The partners are experienced professionals from diverse backgrounds having different expertise. The senior partner, Mr. Nawaz, BSc in civil engineering, he carries over four decades of rich experience in construction services including a ten year service in the Corps of Army Engineers. Col (R) Ijaz A. Minhas, an electrical engineer, has also worked in Corps of Army Engineers. The two younger partners who have joined relatively recently are highly educated and have international exposure.

Board Effectiveness The oversight function – which is normally the function of the Board – is being exercised by the two senior partners, namely Mr. Nawaz Ahmed Minhas and Mr. Ijaz Ahmed Minhas.

Financial Transparency The entity is in the process of converting its business model and has already initiated the required processes. It is targeting FY 2020 as first year of operations as a private limited company. M/s. Rafi & Co. Chartered Accountants, is the external auditor of the company and has expressed an unqualified audit opinion on Kingcrete Builders financial statements for the year ended June 30, 2018.

Management

Organizational Structure Kingcrete Builders is working with four key functions namely (i) Finance, (ii) Operations, (iii) Administration & HR, and (iv) Corporate & Legal Affairs reporting to the Partners.

Management Team Kingcrete has a balanced mix of professionals from various professional backgrounds and expertise and comprise the core management team which has a long association with Kingcrete Builders.

Effectiveness The company has three management committees – Strategy & Risk, Audit and Finance. The committees should meet more frequently on a formal basis to discuss the the important matters.

MIS Kingcrete is currently using a customized construction related software from GCA Solutions as its main ERP software. They are only using the financial and project management module of the software and plan to integrate payroll, procurement, inventories, and other areas of the business in the near future. Both the Rawalpindi and Lahore offices are linked together and provide real time information.

Control Environment Kingcrete adheres to strict quality control standards as it is the need of the construction industry. The company maintains a comprehensive MIS reporting system for the management to keep track of its different project sites and activities.

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. Kingcrete Builders, holding the CA category caters to a small niche in the market.

Revenues Instead of bidding for big public sector projects Kingcrete is shifting its resources towards developing its own real estate projects in the future. The entity's current revenue mix is approximately 20% from real estate and 80% building works but the management envisages 80% from real estate and 20% from building works in 5 years' time, to smooth out the effect of cyclicity in the construction industry on its report card. Kingcrete has also set up a rental unit of its huge fleet of spare construction equipment, as a second source of revenue, which lies idle when construction projects are not utilizing it. Kingcrete, in recent years, has witnessed considerable variation 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 a 2.2x increase in comparison to prior year dip of 57% (FY18: PKR 3.39 bln; FY17: PKR 1.06 bln; FY16: 2.46 bln).

Margins During FY18, although the topline saw a massive two fold growth, a more than proportionate increase in the cost of sales decreased the gross margins (FY18: 17.1%, FY17: 22.9%) primarily due to higher raw material cost amid depreciating PKR and increasing inflation. Higher operating and administrative expenses were supplemented by lower interest cost (FY18: 34 mln; FY17: 62 mln) and other income from rental machinery (FY18: 39mln ; FY17: Nil) , considerably increased profitability for the period (FY18: 114mln, FY17: PKR 5mln).

Sustainability Earnings prospects are improving as Kingcrete is moving towards real estate development besides already working on a few big projects for AWT and DHA.

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). For 2018, Kingcrete had to long term borrowing amounting to PKR 406mln to cater to increased business volume. As at end FY18, working capital requirements of the company improved as receivables started flowing and regular payments were received. Net cash cycle decreased significantly (FY18: 82 days, FY17: 338days, FY16: 147days) on the back of significant decrease in trade debts.

Coverages In FY18, Kingcrete's operating cashflows (FCFO) increased to PKR 203mln (FY17:147mln) due to more than two folds revenue growth from last year. Long term loan procured in FY16 has come down in FY18 to PKR 190.7mln (FY17: PKR 209.8mln) which has taken the pressure off the coverages. Additionally the short term borrowing has ended resulting in much lower interest cost this year. The Debt Coverage ratio shot up to 6.0x (FY17: 2.4x). Going forward, more business revenue and prudent management of business operations shall provide additional room to meet its financial obligations in case if Kingcrete wants to borrow in the near future.

Capitalization Historically, Kingcrete has had reliance on debt and had high leveraged capital structure. Kingcrete retired the STB this year amounting to PKR 196mln. Debt to Equity ratio has improved slightly in the past year (FY18: 28.7%, FY17: 29.8%). Kingcrete being a partnership does not pay dividend.



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| BALANCE SHEET | 30-Jun-18 | 30-Jun-17 | 30-Jun-16 | 30-Jun-15 |
|--|--------------|--------------|--------------|--------------|
| | Annual | Annual | Annual | Annual |
| Non-Current Assets | 333 | 142 | 121 | 87 |
| Investments (Incl. Associates) | - | - | - | - |
| Equity | - | - | - | - |
| Debt Securities | - | - | - | - |
| Investment Property | 2 | 5 | - | - |
| Current Assets | 1,914 | 1,831 | 2,175 | 1,883 |
| Inventory | - | - | - | - |
| Trade Receivables | 1,070 | 1,189 | 1,092 | 1,232 |
| Others | 844 | 642 | 1,083 | 652 |
| Total Assets | 2,249 | 1,978 | 2,297 | 1,970 |
| Debt | 406 | 536 | 801 | 832 |
| Short-Term | - | 196 | 194 | - |
| Long-term (Incl. Current Maturity of Long-Term Debt) | 406 | 339 | 606 | 832 |
| Other Short-Term Liabilities | 754 | 97 | 224 | 124 |
| Other Long-Term Liabilities | 86 | 78 | - | - |
| Shareholder's Equity | 1,006 | 1,262 | 1,272 | 1,014 |
| Total Liabilities & Equity | 2,252 | 1,973 | 2,297 | 1,970 |

INCOME STATEMENT

| | | | | |
|-------------------|--------------|--------------|--------------|--------------|
| Turnover | 3,395 | 1,059 | 2,456 | 1,650 |
| Gross Profit | 581 | 243 | 622 | 447 |
| Other Income | 39 | 0 | - | 2 |
| Financial Charges | (34) | (62) | (77) | (65) |
| Net Income | 114 | 5 | 275 | 185 |

Cashflow Statement

| | | | | |
|--------------------------------------|-------|-------|-------|-----|
| EBITDA | 483 | 169 | 563 | 374 |
| Free Cashflow from Operations (FCFO) | 203 | 147 | 546 | 374 |
| Net Cash changes in Working Capital | 761 | (496) | (281) | - |
| Net Cash from Operating Activities | 930 | (411) | 188 | 309 |
| Net Cash from Investing Activities | (621) | (31) | (61) | - |
| Net Cash from Financing Activities | (154) | (77) | 480 | - |

Ratio Analysis

| | | | | |
|---|--------|--------|-------|--------|
| Performance | | | | |
| Turnover Growth (same period last year) | 220.6% | -56.9% | 48.9% | -94.3% |
| Gross Margin | 17.1% | 22.9% | 25.3% | 27.1% |
| Net Margin | 3.4% | 0.5% | 11.2% | 11.2% |
| ROE | 12.1% | 0.4% | 24.0% | 18.2% |
| Coverages | | | | |
| Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered) | 1.1 | 2.4 | 2.7 | 0.4 |
| Interest Coverage (x) (FCFO/Gross Interest) | 6.0 | 2.4 | 7.1 | 5.7 |
| Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Term E | 2.4 | 4.0 | 1.3 | 2.7 |
| Liquidity | | | | |
| Net Cash Cycle (Inventory Days + Receivable Days - Payable Days) | 82 | 338 | 147 | 245 |
| Capital Structure (Total Debt/Total Debt+Equity) | 29% | 30% | 39% | 45% |

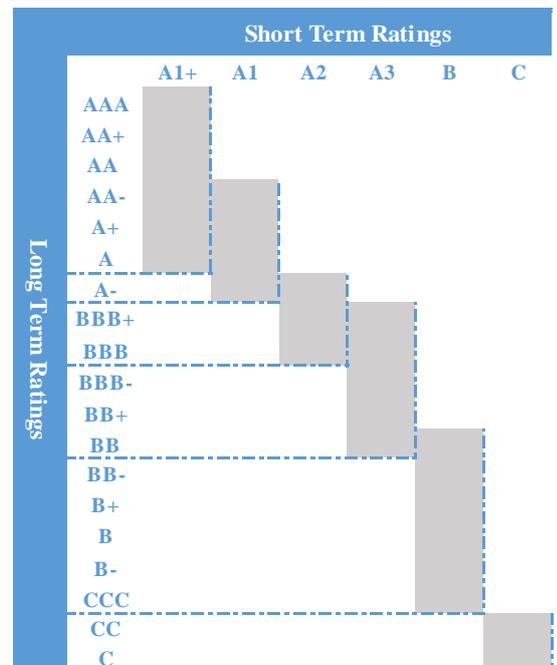
KINGCRETE BUILDERS

December 2018

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.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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.
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- (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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