



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
02-Dec-2021	BBB	A2	Stable	Maintain	-
03-Dec-2020	BBB	A2	Stable	Upgrade	-
27-Dec-2019	BB+	A3	Stable	Maintain	-
28-Jun-2019	BB+	A3	Stable	Upgrade	-
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

The ratings reflect Kingcrete’s extensive experience in the civil construction business. The firm has exhibited renewed energy ever since the induction of the second generation. The ratings reflect Kingcrete’s improved business fundamentals as anticipated, with growth in revenue and margin. During FY21, the top line witnessed a growth of 82% (FY 21: 5.4bln, FY20: 2.98bln). The gross profit and net profit margins remained at 19% and 4.2% respectively (FY 20: 20% & 2.7%), aided by good repute in the market and extensive experience of the management. As the entire income is tender-based, revenue depends on the firm’s ability to bid successfully. Therefore the working capital requirement also depends on the project in execution; wherein performance guarantees are essential. This leads to a high dependence on bank lines to fund working capital. The firm is adequately leveraged and the performance rests with projects in hand and timely completion. The equity base is strong and is mostly represented by a portfolio of investment property indicating sound loss absorption capacity; the same along with available cash balances and ongoing projects which span a number of years ensuring revenue generation in the coming years, support the financial risk profile of Kingcrete.

However, an upsurge in basic raw material prices and increased policy rates are posing a challenge. The ratings will remain dependent on upholding financial metrics involving the timely completion of key commercial projects without any significant cost and time overruns. In addition, maintenance of a healthy project pipeline and collection efficiency, as projected, will remain crucial to ratings. Governance and corporate structure require up-gradation and improvement and so does financial discipline. The management has an express mandate to corporatize its structure while improving the reporting of its financial performance on a quarterly and annual basis.

#### Disclosure

<b>Name of Rated Entity</b>	Kingcrete Builders
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Construction(Mar-21)
<b>Rating Analysts</b>	Muhammad Mubashir Nazir   mubashir.nazir@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Kingcrete Builders (Kingcrete) is a partnership firm, formally incorporated in January 1999. It is targeting FY 2021 as first year of operations as a Private Limited Company. It was not yet done and expected to establish the Pvt Ltd Co in the second quarter in 2022.

**Background** Kingcrete was established in 1976 and since its inception has undertaken projects in all major fields of civil engineering and allied electrical works. They have constructed DHA Business Hub Lahore, FFC Regional Office and Bank of Khyber Head Office. Their significant existing projects are Federal Foundation Building, Penta Square, Bahawalpur CMH Building and AJK Assembly.

**Operations** Kingcrete is capable of handling projects related to buildings, commercial & industrial pavements, runways, roads and bridges, marine works and pipeline works besides delivering projects on turnkey basis. The firm is registered with the Pakistan Engineering Council (PEC) and holds the CA category (no limit) license. The registered office is situated at 2-C South Park Avenue, Phase-2, Defense Housing Authority, Karachi.

## 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. The firm is planning to convert Kingcrete into private Limited Company which is expected in March 2022.

**Stability** As a partnership, Kingcrete does not have a formal BoD structure and is being run by the partners; they have their respective roles in the management of the company. Conversion of partnership firm into a Private Company will add to its stability.

**Business Acumen** The business acumen of the sponsor is considered adequate.

**Financial Strength** 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. They are planning to sellout their land of Rawalpindi.

## Governance

**Board Structure** As a partnership, Kingcrete does not have a formal BoD structure and is being run by the partners; they have their respective roles in the management of the company.

**Members' Profile** The partners are experienced professionals having diverse expertise. The senior partner, Mr Nawaz, BSc in civil engineering, he carries over five 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 in 2010-2012 and they 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. M/s. Rafi & Co. Chartered Accountants, is the external auditor of the company and has expressed an unqualified audit opinion for the year ended June 30, 2021.

## Management

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

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

**Effectiveness** Kingcrete has three management committees – Strategy & Risk, Audit and Finance. They should meet more frequently on a formal basis to discuss the important matters. The minutes of such meetings and reports are not available because they informed that it is informal structure of these committees.

**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 modules of the software. They have integrated the accounting module. Both 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** Construction as a sub sector contributes 19.3% to Pakistan GDP. During FY20, the country's overall GDP contracted by 0.4% on account of the COVID-19 pandemic spread (FY19: Growth 1.2%). COVID-19 lockdown and overall economic slowdown had severe implication for industrial sector as well, as its registered negative growth of -2.64% during FY20 (FY19: -2.27%). It absorbs 7.31% of labor force. Including Covid-19, GOP pulling back PSDP funding, increasing inflation and interest rates, tax surge, price hike of raw material, and economic instability, limited screening of contractors based on qualification, and increasing bank regulations. Construction sector incorporates a healthy competition, and trends are mainly driven by policy changes.

**Relative Position** Out of the 10,000+ firms registered with PEC 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.

**Revenues** During June 2021, the firm's revenues witnessed a significant increase of PKR 5,454m in comparison to the prior year growth (June 2020: PKR 3,001m; June FY19: PKR2,170m). Kingcrete has completed its real estate development project – DHA BWP Club House Civil Works, DHA Penta Square, Phase V, DHA Bahawalpur Head Office, Tower of Radar, FWO Interchange Karachi, Tower of Radar and Static Tank during the period.

**Margins** Kingcrete's topline increased substantially. However, the firm managed to maintain its gross margins June-21: 1,039m, June-20: 605m and June-19: 414m. Due to curtailed policy rated finance cost of the firm has increased by 4.6% to PKR 248m (FY20: PKR 172m). The bottom line increased as the net profit margin was reported at 228m in June-2021 (June 2020: 82m).

**Sustainability** Earnings prospects are improving as Kingcrete is moving towards real estate development besides already working on a few big projects for Federal Foundation Building and AJK Assembly. Their previous big project was DHA Business Hub was completed in time 2021.

## Financial Risk

**Working Capital** Kingcrete had long-term borrowing amounting to PKR 209m to cater to decreased business volume. For working capital needs, which is a function of inventory and receivables, the facility of running finance PKR 323m (FY20: 387m; FY19: 357m) has availed during the June-2021. Net cash cycle decreased to 93 days (FY20: 171 days, FY19: 116 days.)

**Coverages** During June-2021, Kingcrete's operating cashflows (FCFO) increased to PKR 536m (FY20: PKR 315m, FY19: PKR 143m) due to the increase revenues. The Debt Coverage Ratio increased to 2.2 (FY 20: 1.8, FY19: 1.7). 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. Debt to Equity ratio has further deteriorated to 43.9% (FY20:53.9% & FY19:55.1%).



The Pakistan Credit Rating Agency Limited

Kingcrete Builders Construction	Jun-21 12M	Jun-20 12M	Jun-19 12M
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**A BALANCE SHEET**

1 Non-Current Assets	508	428	424
2 Investments	833	-	-
3 Related Party Exposure	-	-	-
4 Current Assets	2,908	3,752	1,970
<i>a Inventories</i>	-	-	-
<i>b Trade Receivables</i>	1,476	2,040	1,052
<b>5 Total Assets</b>	<b>4,249</b>	<b>4,180</b>	<b>2,394</b>
6 Current Liabilities	2,390	2,171	409
<i>a Trade Payables</i>	585	171	131
7 Borrowings	711	966	1,016
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	240	217	126
<b>10 Net Assets</b>	<b>908</b>	<b>826</b>	<b>843</b>
<b>11 Shareholders' Equity</b>	<b>908</b>	<b>826</b>	<b>827</b>

**B INCOME STATEMENT**

1 Sales	5,425	2,981	2,155
<i>a Cost of Good Sold</i>	(4,386)	(2,376)	(1,741)
<b>2 Gross Profit</b>	<b>1,039</b>	<b>605</b>	<b>414</b>
<i>a Operating Expenses</i>	(156)	(130)	(213)
<b>3 Operating Profit</b>	<b>883</b>	<b>475</b>	<b>201</b>
<i>a Non Operating Income or (Expense)</i>	3	-	38
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>886</b>	<b>475</b>	<b>239</b>
<i>a Total Finance Cost</i>	(248)	(172)	(85)
<i>b Taxation</i>	(409)	(221)	(167)
<b>6 Net Income Or (Loss)</b>	<b>228</b>	<b>82</b>	<b>(13)</b>

**C CASH FLOW STATEMENT**

<i>a Free Cash Flows from Operations (FCFO)</i>	536	315	143
<i>b Net Cash from Operating Activities before Working</i>	288	143	58
<i>c Changes in Working Capital</i>	(331)	547	(225)
<b>1 Net Cash provided by Operating Activities</b>	<b>(43)</b>	<b>690</b>	<b>(167)</b>
<b>2 Net Cash (Used in) or Available From Investing Act</b>	<b>(286)</b>	<b>(148)</b>	<b>(323)</b>
<b>3 Net Cash (Used in) or Available From Financing Ac</b>	<b>(308)</b>	<b>135</b>	<b>605</b>
<b>4 Net Cash generated or (Used) during the period</b>	<b>(636)</b>	<b>678</b>	<b>115</b>

**D RATIO ANALYSIS**

<b>1 Performance</b>			
<i>a Sales Growth (for the period)</i>	82.0%	38.3%	-36.2%
<i>b Gross Profit Margin</i>	19.2%	20.3%	19.2%
<i>c Net Profit Margin</i>	4.2%	2.7%	-0.6%
<i>d Cash Conversion Efficiency (FCFO adjusted for Wc</i>	3.8%	28.9%	-3.8%
<i>e Return on Equity [ Net Profit Margin * Asset Turno</i>	26.3%	9.9%	-1.4%
<b>2 Working Capital Management</b>			
<i>a Gross Working Capital (Average Days)</i>	118	189	180
<i>b Net Working Capital (Average Days)</i>	93	171	116
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	1.2	1.7	4.8
<b>3 Coverages</b>			
<i>a EBITDA / Finance Cost</i>	3.8	3.1	3.6
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.3	1.1	0.5
<i>c Debt Payback (Total Borrowings+Excess STB) / (Fv</i>	1.3	4.1	11.3
<b>4 Capital Structure</b>			
<i>a Total Borrowings / (Total Borrowings+Shareholder</i>	43.9%	53.9%	55.1%

**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

### **Restrictions**

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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)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

### **Independence & Conflict of interest**

- (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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