



The Pakistan Credit Rating Agency Limited

Rating Report

Maaksons Engineering Corporation Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-Aug-2022	BBB+	A2	Stable	Maintain	-
24-Aug-2021	BBB+	A2	Stable	Maintain	-
25-Aug-2020	BBB+	A2	Stable	Maintain	-
27-Aug-2019	BBB+	A2	Stable	Maintain	-
28-Feb-2019	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Maaksons Engineering Corporation Limited (Maaksons) has been in the construction industry for many decades and has also recently ventured into real estate development projects. The company has three generations of the sponsoring family in the business and has two main offices – Lahore and Islamabad. The sponsors have a very good understanding of the business. The reporting and functional responsibilities are clearly demarcated. Maaksons has a no limit contract license. The Company has a track record with strong capabilities in executing turnkey projects. Maaksons is re – strategizing its business model and has built a portfolio of properties at diverse locations and is working on different projects to translate them into revenue streams. Maaksons approach is to reduce reliance on contractual business by developing owned properties for commercial and residential purposes at company and group level, with a view to ensure revenue sustainability in the future. Maaksons has formed an SPV to carry out its real estate development projects. One of such projects is nearing half way its completion while the other one is in its initial stages. The company has also constructed a building in Islamabad and is following a hybrid business model whereby its partial area is being sold on plan basis, while the remaining is being retained and operated on rental basis. Adjacent to this building, it has launched 2 new buildings with a JV Partner for similar purposes. Maaksons has redefined strategy of building assets, required for its operations as well as investment purpose, through surplus cash. Occasionally, funded facilities are also utilized to finance acquisition. Currently, the company is mildly leveraged, with a mix of funded and non-funded banking lines to facilitate its business.

The ratings incorporate inherent synergies and diversification in the group structure providing implicit strength to the business model. Going forward successful completion of contracts on time and strategy of building sustainable revenue stream through development of real estate properties remains pivotal for considerable growth. Good corporate governance practice is considered essential

Disclosure

Name of Rated Entity	Maaksons Engineering Corporation Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Construction(Mar-22)
Rating Analysts	Uswa Sikandar uswa.sikandar@pacra.com +92-42-35869504

Profile

Legal Structure Maaksons Engineering Corporation Limited (MAAKSONS), previously known as M. A. Aleem Khan & Sons (Pvt) Limited, was officially registered as a Private Limited Company in 1984 but has been in business since 1951.

Background The Company commenced its business in 1951 with Public Works Development Authority and Irrigation Department thus successfully completing various projects for water management and irrigation systems. MAAKSONS scope of work comprises of construction of Roads and Highways, Bridges & Structures, Residential and Commercial Buildings, Canals and Tunnels, etc.

Operations Presently the Company holds “no limit” C-A license from Pakistan Engineering Council. Significant projects to its credit are Signal Free Corridor Islamabad Highway, Metro Lahore, 29 storey Telecom Tower Islamabad, Gulberg Green, 3x210 Thermal Power Station Muzaffargarh, Chashma Canal, etc. to name a few. It has currently become selective in PSDP projects and has instead diverted its focus on real estate developmental model and has acquired significant land bank for the said purpose.

Ownership

Ownership Structure MAAKSONS is entirely a family owned business where the third generation has also joined in the recent years. Mr. M. Aleem Khan, was the founder of the company and was identified as the man at the last mile. Shareholding has been divided among his sons, their wives and his grandsons.

Stability The hierarchy has clear lines of authority. The two sons and grandsons of Mr. Aleem Khan look after their respective areas. 5% shares held by Mr. Aleem Khan were transferred to his sons equally, resultantly shares held by them increased to 17.5% each. Their wives hold 2.5% each while 4 grandsons hold 15% shares each.

Business Acumen The sponsoring family has been in the construction industry for over 30 years. The sponsors have a thorough understanding of the business as they are all actively involved in the running of the day to day affairs.

Financial Strength MAAKSONS has an adequate financial profile. The entity has a few subsidiaries, namely, MAAKCRETE, MAAK Asphalt, and MAAK Gas which have the main purpose of serving the parent organization.

Governance

Board Structure The overall control of the company vests in 6 members board with two senior directors; Mr. Waseem Khan and Mr. Nadeem Khan. All six male members of the family are executive directors. There is no independent director on the board, hence the governance structure needs improvement.

Members' Profile Two of the board members carry extensive experience of the construction industry, while the other board members are relatively new in the industry.

Board Effectiveness The Board members are actively involved in the planning and execution of the business projects and overseeing the operations on a regular basis.

Financial Transparency The governance model is weak and needs improvement in order to comply with the corporate governance model. M/s. Kamran & Co. Chartered Accountants is the external auditor of the company and has expressed qualified audit opinion along with emphasis of matter paragraph on the financial statements for the year ended June 30th, 2022. The qualification was on the grounds of not booking the liability for Super tax amounting to PKR 77.11mln which is disclosed as contingent liability in the financial statements while Emphasis of Matter is on the basis of non-payment of sales tax amounting to PKR 1,645mln.

Management

Organizational Structure The company operations are divided into two regions, Islamabad and Lahore, which operate independently. Company head office is in Lahore while in Islamabad is the regional office. Business pertaining to Lahore region is under the management of M Waseem Khan and his two sons while pertaining to Islamabad region is managed by M Nadeem Khan and his two sons.

Management Team MAAKSONS has a team of experienced and competent professionals who have been with the entity over a long period of time.

Effectiveness Functions of the management are clear and well-defined to effectively achieve its underlying goals and objectives. System of internal control is in place, although continuous review of these controls by an internal audit department would ensure further effectiveness of the management

MIS MAAKSONS is currently using Axiom ERP System for generating daily reports in order to track project specific progress. It is a web based system which is accessible to all the staff working on project and generates reports on supplier, procurement, and inventory etc.

Control Environment MAAKSONS 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 The major demand driver for the construction sector is the Public Sector Development Programme (PSDP) expenditure followed by Private Investments. The budgeted size of PSDP allocation for FY22 is PKR~727bln (FY21: PKR~550 bln). Cut in PSDP along with augmenting rates of inflation may pose problems as the construction industry is currently facing difficulties in pricing its housing units as project-completion costs have soared massively, with steel prices skyrocketing 96% between January 2021 and June 2022 and cement price surging by over 72% in the same period, raising the overall expenditure by at least 40%.

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

Revenues The company reported topline of PKR 763mln in 1HFY22 as against PKR 801mln in the same period last year. The company's revenues remained depressed due to economic slowdown in recent years. However, MAAKSONS has multiple DHA Lahore based projects with expected good amount of return. Completion of Corporate 7 and MPQ (Maaksons Pak Qatar Takaful) projects in Islamabad as well as two new housing projects in Arifwala and Amenabad are expected to boost up the revenue stream in future.

Margins The gross margins of the entity stood at 24.8% during 2QFY22 (FY21: 19.2%; FY20: 23.5%; FY19: 15.7%). While operating margins stood at 17.1% (FY21: 9.7%; FY20: 17.8%; FY19: 10.7%) resulting in the firm's net profit ratios of 13.5% (FY21:8.3%; FY20: 5.3%; FY19: 5.6%).

Sustainability MAAKSONS new focus is to provide accommodations for the populations outbursts and growing families and has thus formed an SPV called Garden Square Developers (GSD) for this purpose. This project started in May 2021 and a few hundreds of houses have already been handed over. After completing “Corporate 7” project, a building built in Gulberg Green Islamabad, MAAKSONS has launched 2 new buildings with PAK Qatar Takaful and has established a separate entity by the name of MPQ, MAAKSONS PAK QATAR Takaful for the said purpose.

Financial Risk

Working Capital MAAKSONS net working capital days were recorded at 29 days in 1HFY22 as compared to (27) days in FY21 (FY20: (67) days; FY19: (84) days). During 1HFY22, MAAKSONS has significantly reduced reliance on short term borrowings to PKR 467mln from PKR 650mln as at end June'21, resulting in improvement in its trade leverage ratios.

Coverages During 1HFY22, MAAKSONS free cash flows (FCFO) and EBITDA have rebounded and recorded at 147mln and 157mln after amounting to PKR (16) mln and 71mln in FY21. Interest coverage ratio has been elevated to ~9.4, due to improvement in FCFO's and significant reduction in finance cost due to reduced reliance on borrowings.

Capitalization Equity portion of the company has been increasing gradually and recorded at PKR 4,133mln in 1HFY22 (FY21: 3,858mln; FY20 : 3,736mln) whereas total debt portion has been decreasing and recorded at PKR 489mln in 1HFY22 (FY21 : 712mln; FY20 : 1,289mln). Resultantly, during 1HFY22, the debt to debt plus equity ratio decreased to 10.6%. (FY21: 15.6%; FY20: 25.6%). Major portion of debt comprises of STB.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Maaksons Engineering Corporation Ltd Construction	Dec-21 6M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	2,665	2,772	2,866	2,337
2 Investments	435	92	506	482
3 Related Party Exposure	261	307	497	557
4 Current Assets	1,995	2,395	2,008	2,206
<i>a Inventories</i>	-	-	-	-
<i>b Trade Receivables</i>	392	344	308	249
5 Total Assets	5,357	5,566	5,876	5,581
6 Current Liabilities	247	602	851	1,552
<i>a Trade Payables</i>	137	355	504	793
7 Borrowings	489	712	1,289	1,092
8 Related Party Exposure	489	394	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	4,133	3,858	3,736	2,937
11 Shareholders' Equity	4,133	3,858	3,736	2,937
B INCOME STATEMENT				
1 Sales	763	1,406	2,001	3,308
<i>a Cost of Good Sold</i>	(574)	(1,137)	(1,531)	(2,788)
2 Gross Profit	189	269	470	520
<i>a Operating Expenses</i>	(59)	(133)	(113)	(167)
3 Operating Profit	131	136	357	353
<i>a Non Operating Income or (Expense)</i>	43	138	3	185
4 Profit or (Loss) before Interest and Tax	173	274	360	537
<i>a Total Finance Cost</i>	(17)	(76)	(162)	(123)
<i>b Taxation</i>	(53)	(82)	(91)	(229)
6 Net Income Or (Loss)	103	116	106	185
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	147	(16)	350	383
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	127	(110)	188	286
<i>c Changes in Working Capital</i>	50	433	(619)	(627)
1 Net Cash provided by Operating Activities	177	323	(431)	(341)
2 Net Cash (Used in) or Available From Investing Activities	(135)	753	148	(198)
3 Net Cash (Used in) or Available From Financing Activities	(190)	(610)	116	458
4 Net Cash generated or (Used) during the period	(149)	466	(168)	(81)
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	8.6%	-29.7%	-39.5%	-37.6%
<i>b Gross Profit Margin</i>	24.8%	19.2%	23.5%	15.7%
<i>c Net Profit Margin</i>	13.5%	8.3%	5.3%	5.6%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	25.9%	29.6%	-13.5%	-7.4%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sl</i>	5.2%	3.1%	3.2%	6.5%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	88	85	51	34
<i>b Net Working Capital (Average Days)</i>	29	-27	-67	-84
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	8.1	4.0	2.4	1.4
3 Coverages				
<i>a EBITDA / Finance Cost</i>	9.4	1.0	3.0	5.5
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	8.8	-0.2	1.4	0.8
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.1	-0.7	0.7	1.6
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	10.6%	15.6%	25.6%	27.1%
<i>b Interest or Markup Payable (Days)</i>	69.7	57.2	71.0	107.3
<i>c Entity Average Borrowing Rate</i>	4.7%	7.3%	12.1%	13.9%

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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	
CC	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.
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>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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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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(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 | Clause 11-(A)(p).

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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)

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(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)

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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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