The Pakistan Credit Rating Agency Limited

Rating Report

Maaksons Engineering Corporation Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Aug-2023	BBB+	A2	Stable	Maintain	-
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” or “the company”) has been in the construction industry for many decades. 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 and has built a portfolio of properties at diverse locations. A few years ago, Maaksons re – strategized its business model towards real estate development to ensure revenue’s sustainability and diversification. However, the redefined strategy could not be sustained for long owing to immensely volatile macroeconomic indicators and the company has once again resorted to its forte of construction of roads and highways. Due to these frequent shifts in the business model, the company’s topline remained erratic over the years , however, in FY23 it surged multiple times and was recorded at PKR 4.07 billion (Management Numbers), due to inflows from recently awarded construction projects. Comfort can be drawn from the sponsors' experience and vision to preempt business strategy according to the changing landscape. Company's ability to demonstrate sustainable and continual growth in the revenues as well as profitability through being awarded sizeable number of projects remains critical to the ratings. The company has limited financial exposure and 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 completion of existing contracts on time, successful bidding for new ones and devising a strategy to build sustainable revenue stream 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-23)
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 of 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. The company has shifted its focus to Construction projects again after venturing into real estate development projects which have no longer remained economically feasible.

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 many decades now. 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 are the external auditors of the company. They 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. Audit of FY23 Financial Statements is currently in progress.

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. Majority of the construction revenue is from government contracts ranging from building of Infrastructure to Highways, Offices and Airports. In FY23 PKR~2,263bln was allocated for PSDP (PKR~800bln on Federal and PKR~1,463bln on Provincial Level). As of 8MFY23, ~50% of the federal allocated ~800bln got authorized/disbursed (8MFY22: ~43%). There is immense volatility in construction business which stems from a stuttering Pakistan economy with falling currency. At the same time, falling foreign exchange reserves have raised concerns over Pakistan's balance-of-payment.

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 ~ 4bln in management numbers for the FY ended June 2023, as against PKR 1,318bln last year. The company's revenues were boosted up by the revenue booked from the Shahdra Flyover Project amounting to PKR ~ 2.7bln. Recently started Italian Embassy project as well as few more of the newly awarded projects of construction in Lahore and Islamabad are going to support the topline further in next couple of years. However, no significant progress in company's other projects especially construction projects with DHA Lahore and real estate development projects due to poor economic viability may keep the revenue stream volatile in future.

Margins As per management numbers, Gross margins of the entity stood at 24.9% during FY23 (FY22: 13.9%; FY21: 19.2%; FY20: 23.5%). While operating margins stood at 20.9% (FY22: 3.5%; FY21: 9.7%; FY20: 17.8%) resulting in the company's net profit ratios of 15.7% (FY22:17.8%; FY21:8.3%; FY20: 5.3%).

Sustainability Given the slowdown in the economic activity and business diversification into real estate development and then back to construction projects, maintaining a continued healthy business pipeline remains a challenge. Construction projects of Shahdra Flyover and Italian embassy are the star projects of the company which shall support its topline in next couple of years.

Financial Risk

Working Capital For working capital needs, Maaksons relies on both internal cash flows as well as short term borrowing (STB). MAAKSONS net working capital days were recorded at 22 days in FY23 as compared to 34 days in FY22 (FY21: (27) days; FY20: (67) days). During FY23, MAAKSONS has further reduced reliance on short term borrowings to PKR 458mln from PKR 512mln as at end June'22, resulting in improvement in its trade leverage ratios.

Coverages During FY23, MAAKSONS free cash flows (FCFO) and EBITDA were recorded at 722mln and 932mln after amounting to PKR 5 mln and 71mln in FY22. Interest coverage ratio has been elevated to 13.1, 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 4,730mln in FY23 (FY22: 4,094mln; FY21: 3,858mln; FY20: 3,736mln) whereas total debt portion has been decreasing and recorded at PKR 499mln in FY23 (FY22 : 553mln; FY21 : 712mln; FY20 : 1,289mln). Resultantly, during FY23, the debt to debt plus equity ratio decreased to 9.5%. (FY22: 11.9%; FY21: 15.6%; FY20: 25.6%). Major portion of debt comprises of STB.

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Financial Summary
PKR mln

Maaksons Engineering Corporation Ltd Construction	Jun-23 12M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	2,903	2,618	2,772	2,866
2 Investments	108	93	122	536
3 Related Party Exposure	741	741	277	467
4 Current Assets	1,924	1,966	2,395	2,008
a Inventories	-	-	-	-
b Trade Receivables	*369*	*419*	*344*	*308*
5 Total Assets	5,676	5,418	5,566	5,876
6 Current Liabilities	305	333	602	851
a Trade Payables	*137*	*160*	*355*	*504*
7 Borrowings	499	553	712	1,289
8 Related Party Exposure	85	380	394	-
9 Non-Current Liabilities	57	58	-	-
10 Net Assets	4,730	4,094	3,858	3,736
11 Shareholders' Equity	4,730	4,094	3,858	3,736
B INCOME STATEMENT				
1 Sales	4,066	1,318	1,406	2,001
a Cost of Good Sold	*(3,054)*	*(1,135)*	*(1,137)*	*(1,531)*
2 Gross Profit	1,012	184	269	470
a Operating Expenses	(162)	(138)	(133)	(113)
3 Operating Profit	850	46	136	357
a Non Operating Income or (Expense)	*132*	*384*	*138*	*3*
4 Profit or (Loss) before Interest and Tax	982	429	274	360
a Total Finance Cost	*(61)*	*(80)*	*(76)*	*(162)*
b Taxation	*(285)*	*(114)*	*(82)*	*(91)*
6 Net Income Or (Loss)	637	235	116	106
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*722*	*5*	*(16)*	*350*
b Net Cash from Operating Activities before Working Capital Changes	*661*	*(74)*	*(110)*	*188*
c Changes in Working Capital	*(521)*	*(108)*	*433*	*(619)*
1 Net Cash provided by Operating Activities	140	(182)	323	(431)
2 Net Cash (Used in) or Available From Investing Activities	556	100	753	148
3 Net Cash (Used in) or Available From Financing Activities	(123)	(180)	(610)	116
4 Net Cash generated or (Used) during the period	573	(262)	466	(168)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	208.4%	-6.3%	-29.7%	-39.5%
b Gross Profit Margin	24.9%	13.9%	19.2%	23.5%
c Net Profit Margin	15.7%	17.8%	8.3%	5.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	5.0%	-7.8%	29.6%	-13.5%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	14.4%	5.9%	3.1%	3.2%
2 Working Capital Management				
a Gross Working Capital (Average Days)	35	106	85	51
b Net Working Capital (Average Days)	22	34	-27	-67
c Current Ratio (Current Assets / Current Liabilities)	6.3	5.9	4.0	2.4
3 Coverages				
a EBITDA / Finance Cost	16.9	1.0	1.0	3.0
b FCFO / Finance Cost+CMLTB+Excess STB	10.7	0.1	-0.2	1.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.1	-0.6	-0.7	0.5
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	9.5%	11.9%	15.6%	25.6%
b Interest or Markup Payable (Days)	58.8	46.4	57.2	71.0
c Entity Average Borrowing Rate	10.3%	12.8%	7.3%	12.1%

Credit Rating

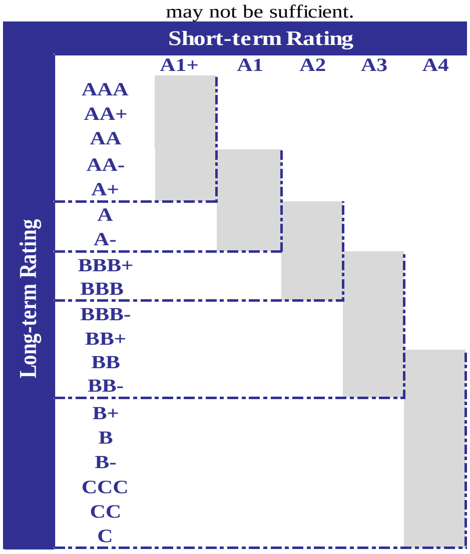
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
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.
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.
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+ 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.
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.

Short-term Rating

Scale	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
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 surveill 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):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(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 | Clause 11-(A)(p).
(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)
Proprietary Information