



The Pakistan Credit Rating Agency Limited

Rating Report

Matracon Pakistan (Pvt.) Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
10-Oct-2024	BBB	A2	Stable	Maintain	-
03-Jul-2024	BBB	A2	Stable	Maintain	-
10-Oct-2023	BBB	A2	Stable	Maintain	Yes
14-Apr-2023	BBB	A2	Stable	Maintain	-
20-Apr-2022	BBB	A2	Stable	Maintain	-
29-Apr-2021	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Matracon Pakistan (Pvt.) Limited ("The Company or Matracon") is in business since 1996 and is a big name in the construction industry. It has delivered many public and private projects since its inception. Matracon embarks upon large infrastructure projects in collaboration with different local and international JV partners including Chinese and Turkish, which in their own right are established institutions. Matracon was originally focused on roads construction and drainage systems, but recently the Company is focusing on designing buildings. Recently Matracon has awarded sizeable number of projects, which span a number of years, and are in the process - providing projected revenues in the coming years, few big projects are in pipeline as well. The rating watch previously assigned has been removed is also a reflection of healthy project basket, sustained improvement in business performance with growth in revenue and margins. During 9MFY24, the Company posted a topline of PKR 8.8bln (FY23: PKR 10.5bln, FY22: PKR 14.4bln). The gross margins stood at 11.7% during 9MFY24 (FY23: 9.3%, FY22: 11.6%), Same trend is followed by the net margin. Going Forward, the revenues and margins are expected to increase. The pipeline is healthy; therein for the sake of sustainable long term growth. As the entire income is tender-based, revenue depends on the Company's ability to bid successfully. Therefore the working capital requirement also depends on the project in execution; wherein performance guarantees are essential. The company's leveraging indicators are adequate and has reliance on non-funded banking lines only. Equity base of Matracon is adequate especially when compared with the non-funded obligations assumed by the Company.

The Ratings are dependent on the sustainability of the business and its financial structure; sustaining a steady revenue stream and timely completion of projects without any significant cost and time overruns. In addition timely allocation of funds and collection efficiency, as projected, will remain crucial to ratings. Any prolonged downturn in subdued business volume can have a detrimental effect on the rating. Improvement in governance and control environment is also important and needs to be strengthened.

Disclosure

Name of Rated Entity	Matracon Pakistan (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Rating Modifiers(Apr-24),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-24),Methodology Corporate Rating(Jul-24)
Related Research	Sector Study Construction(Apr-24)
Rating Analysts	Andleeb Zahra andleeb.zahra@pacra.com +92-42-35869504

Profile

Legal Structure Matracon Pakistan Pvt. Ltd. (hereinafter referred to as "the Company" or "Matracon Pak") is a Private Limited Company (unquoted) incorporated in 2006.

Background Mr. Abdul Qadir established Matracon Pak with an ambitious plan after having entrepreneurial experience of years, established the Company as sole proprietorship in 1995, in Quetta but later the initial business was closed and new office was developed in Lahore under the name of "Matracon Pakistan".

Operations Matracon Pak mainly confined their business activities with several commercial / residential building complexes in Pakistan, water supply work comprising large diameter pipelines, bridges, roads, siphons, canal regulators, airport facilities, factories, office buildings, pre-fabricated structure and other civil engineering works. In view of the expanding business and aspirations of international exposure, Matracon Pak was transformed into "Private Limited Company"

Ownership

Ownership Structure Matracon Pakistan Pvt. Ltd is mainly owned by Mr. Muhammad Abdul Qadir, with 99.9% ownership stake while the remaining 0.1% shares are owned by his father, Mr. Muhammad Ayub.

Stability Matracon Pak is majority owned by M. Qadir 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 business acumen of the partner is considered adequate.

Financial Strength The Company is entirely equity financed and if in the future need arises, the JV collaborations are all with Chinese companies, namely JICS (Japan International Cooperation System), ACEG (Anhui Construction Engineering Group) CCEC (China Civil Engineering Construction Corp) etc. These international collaboration shows the Company's interest in creating associations with reputable foreign companies.

Governance

Board Structure The Company has a two-member board. The overall governance matters are overseen by Mr. Muhammad Abdul Qadir along with his father Mr. Muhammad Ayub. Matracon Pak needs to include more people from diversified backgrounds on the board so that the strategic matters and governance matters of the Company are looked after properly.

Members' Profile Mr. Muhammad Abdul Qadir, one of the founding member, has over four decades of evolving expertise, while only one board member has little industry experience and both members have been associated with the Board since the company's incorporation.

Board Effectiveness The Company has a board meeting quarterly and the minutes are not available. Board committees are not properly formed and there is technically single ownership and one person board means weak effectiveness.

Financial Transparency Clarkson Hyde Pakistan, the auditor, has expressed an unqualified opinion on Matracon Pakistan Pvt. Ltd.'s financial statements for the year ended June, 30th 2023. Additionally, auditing services will be provided by BakerTilly for FY23 & FY24 as well.

Management

Organizational Structure Matracon Pak. is working with six key functions namely (i) Finance, (ii) Marketing, (iii) Admin & HR, (iv) IT (v) Engineering, (vi) Procurement, reporting to the MD. Each division is working with whole team including technical staff & senior managers reporting to their respective GMs

Management Team Mr. Jehanzaib Saulat is the execution lead who oversees the business and business and all the matters pertaining to local clients and Mr. Akhwanzada Shahid Ali is the CFO, who looks after the matters pertaining to strategy, administration and finance including credit, liaison with banks, and Letters of Credits (LCs).

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

MIS Matracon is currently using customized accounting software from 'Intuit' Quickbooks Enterprise Solutions for its bookkeeping and accounting needs.

Control Environment The Company adheres to strict quality control standards as it is certified under ISO 9001:2005 which is also the need of the construction industry

Business Risk

Industry Dynamics The construction sector share in GDP for FY23 remained stable from the previous year (FY23: 2.8%, FY22: 2.9%, FY21: 2.7%). There are a number of other factors which changes this contribution, including GoP insignificant increase in the PSDP funding, growing inflation, and interest rates. Locally funded projects are facing difficulties due to delay in payments however, internationally funded projects are worked upon in a timely fashion.

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. Matracon Pakistan Pvt. Ltd., holding the CA category license caters to the needs of the niche market

Revenues During 9MFY24, the revenues clocked at PKR 8,833 (FY23: PKR 10,588mln, FY22: PKR 14,392mln, FY21: PKR 9,984mln). During FY23, the entity's revenues witnessed ~26% dip as compared to SPLY (FY22: PKR 14.39bln, FY21: 9.98bln). The Company has reported a significant decline in revenues which is in line with the industry trend as there was a halt in infrastructural activities experienced due increase in cost of raw materials and energy prices.

Margins During 9MFY24, along with the topline saw consistency, despite escalation in cost of production including raw material and energy prices, the Company has contributed to sustained gross margins (9MFY24: 11.7%, FY23: 9.3%, FY22: 11.6%: FY21: 25%). However, operating margin also followed the same trend (9MFY24: 11.2%, FY23: 8.8%, FY22: 11%). In 9MFY24, finance charges were approximately PKR 16mln (FY23: 18mln, FY22: PKR 55mln, FY21: PKR 2.6mln). The Company has managed to report profits for the period (9MFY24: PKR 690mln, FY23: PKR 648mln, FY22: PKR 503mln, FY21: PKR 2,008mln).

Sustainability The Company's management furnished reliable budgets and forecasts which reflects the strategy of the management and viability of the design path to reach the goal. Sustainability of the Company depends on securing new projects and getting funds of the execution.

Financial Risk

Working Capital For working capital needs, which is a function of inventory and receivables, a company relies on both internal robust and sustained cash flow stream. Over the periods, the company has reported decreasing tendency in reported operational cashflows (EBITDA- 9MFY24: PKR 1,099mln, FY23: PKR 1,191mln, FY22: PKR 1,729mln; FY21: PKR 2,644mln). On account of reduced cashflows and increased cost of production of ongoing projects, the Company's net cash cycle is portraying deteriorated position (9MFY24: 58days, FY23: 70days, FY22: 33days, FY21: 20 days).

Coverages Matracon Pakistan Pvt. Ltd acquired interest bearing bank guarantees on short term basis. The company has demonstrated remarkable growth in its operating cashflows over the period. During 9MFY24, the Company's operating cashflows (FCFO) decreased to PKR 809mln (FY23: PKR 801mln, FY22: PKR 648mln, FY21: PKR 2,145mln), on back of declining profitability and margins. While current ratio stood at 12.9x on account of higher proportion of holding cash during the period of 9MFY24 (FY23: 1.8x, FY22: 6.3x, FY21: 3.2x).

Capitalization At end of Mar'24, the Company had totally equity financed capital structure as compared to previous year with a debt to debt plus equity ratio of 0.6% (FY23: 0.7%, FY22: 0.0%, FY21: 7.8%: FY20: 16%).



Matracon Pakistan Ltd. Construction	Mar-24 9M	Jun-23 12M	Jun-22 12M	Jun-21 12M
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A BALANCE SHEET

1 Non-Current Assets	1,847	1,896	1,831	1,722
2 Investments	2,326	2,326	526	526
3 Related Party Exposure	-	-	-	-
4 Current Assets	5,793	5,410	4,893	3,298
<i>a Inventories</i>	1,684	1,963	1,834	498
<i>b Trade Receivables</i>	56	54	194	194
5 Total Assets	9,966	9,632	7,251	5,546
6 Current Liabilities	448	3,012	772	1,019
<i>a Trade Payables</i>	-	-	-	70
7 Borrowings	-	-	-	-
8 Related Party Exposure	33	33	33	340
9 Non-Current Liabilities	4,003	1,795	2,302	547
10 Net Assets	5,482	4,792	4,144	3,640
11 Shareholders' Equity	5,482	4,792	4,144	3,640

B INCOME STATEMENT

1 Sales	8,833	10,588	14,393	9,984
<i>a Cost of Good Sold</i>	(7,796)	(9,605)	(12,719)	(7,422)
2 Gross Profit	1,037	984	1,674	2,562
<i>a Operating Expenses</i>	(49)	(53)	(89)	(44)
3 Operating Profit	988	931	1,584	2,518
<i>a Non Operating Income or (Expense)</i>	-	-	-	(8)
4 Profit or (Loss) before Interest and Tax	988	931	1,584	2,510
<i>a Total Finance Cost</i>	(16)	(18)	(55)	(3)
<i>b Taxation</i>	(282)	(265)	(1,026)	(499)
6 Net Income Or (Loss)	690	648	503	2,008

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	801	809	648	2,145
<i>b Net Cash from Operating Activities before Working Capital</i>	801	809	648	2,145
<i>c Changes in Working Capital</i>	(1,427)	2,040	(1,762)	492
1 Net Cash provided by Operating Activities	(626)	2,849	(1,113)	2,636
2 Net Cash (Used in) or Available From Investing Activities	(62)	(2,025)	(255)	(25)
3 Net Cash (Used in) or Available From Financing Activities	315	(508)	1,439	(1,220)
4 Net Cash generated or (Used) during the period	(373)	316	71	1,392

D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	11.2%	-26.4%	44.2%	52.5%
<i>b Gross Profit Margin</i>	11.7%	9.3%	11.6%	25.7%
<i>c Net Profit Margin</i>	7.8%	6.1%	3.5%	20.1%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital / Net Cash from Operating Activities before Working Capital)</i>	-7.1%	26.9%	-7.7%	26.4%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets / Total Equity)]</i>	17.9%	14.5%	12.9%	76.2%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	58	70	34	37
<i>b Net Working Capital (Average Days)</i>	58	70	33	20
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	12.9	1.8	6.3	3.2
3 Coverages				
<i>a EBITDA / Finance Cost</i>	N/A	N/A	N/A	N/A
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	N/A	N/A	N/A	N/A
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Financing Cost)</i>	0.0	0.0	0.0	0.1
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	0.6%	0.7%	0.0%	7.8%
<i>b Interest or Markup Payable (Days)</i>	N/A	N/A	N/A	N/A
<i>c Entity Average Borrowing Rate</i>	0.0%	0.0%	0.0%	0.0%

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
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.

Scale	Short-Term Rating
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.

Rating Modifiers | Rating Actions

Outlook (Stable, Positive, Negative, Developing)	Rating Watch	Suspension	Withdrawn	Harmonization
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'.	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.	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.	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.	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. Rating actions may include "maintain", "upgrade", or "downgrade".

Note: This scale is applicable to the following methodology(s):

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

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Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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