The Pakistan Credit Rating Agency Limited

WACKENHUT PAKISTAN (PVT.) LIMITED

	NEW [DEC-16]	PREVIOUS [DEC-15]
Entity		
Long Term	BBB	BBB
Short Term	A3	A3
Outlook	Stable	Stable

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DECEMBER 2016

Profile

- Wackenhut Pakistan (Pvt.) Limited (WPPL) was incorporated on December 24, 1992, under the Companies Ordinance 1984 as a private limited company. It is part of PATHFINDER Group. PATHFINDER is one of the country's largest providers of integrated security solutions and facilities management services, operating in all major cities and towns.
- WPPL was initially affiliated with an international security company – G4S Plc UK (G4S)1. In 2007, PATHFINDER's Chairman, Mr. Ikram ul-Majeed Sehgal acquired 50% stake in WPPL, while G4S continued to own the remaining portion. During August 2012, G4S withdrew its entire investment in Pakistan, and the stake was bought by Mr. Sehgal who took complete control of WPPL.

Governance & Management

- The board size has been increased to seven members and is congruent to expanding business operations. However, the room for improvement still exists as there is no independent representation and no board committees has been formed. The management committees perform the tasks usually associated with board committees. WPPL's operations are being managed by a competent team. Mr. Muhammad Abaad Elias – COO WPPL – is responsible for all operational activities. His expertise in the CIT business supplements the group vision of strengthening this segment. The organizational structure is robust with key positions filled.

Performance

- WPPL revenue stream historically comprises two main segments (i) Man Guarding, (ii) CIT (Cash in Transit). During the year, the company's revenue stream witnessed significant drop (FY16: ~ -28%, FY15: ~-2%) on account of transfer of manned guarding business to other group company SMS in the second half. Post transition, WPPL generates majority of its revenues from CIT services, with a small proportion of ATM replenishment. The revenue from CIT business has shown growth as a result of management's concerted effort of building its clientele.
- WPPL improve its margins in this segment. However, the overall margins of the company has dropped in comparison to previous year mainly owing to a high fixed cost related to man guarding segment still parked with WPPL. The company's finance cost has reduced by on a YoY basis (FY16: PKR21mln, FY15: PKR29mln) owing to reduction in its overall borrowings. The company's realization of a sizeable one-time gain of PKR 36mln helped in improving the profitability on a YoY basis. This one time gain is due to realization of part of total gain of PKR 140mln due to the sale and lease back transaction of vehicles.

Working Capital & Cash Flow

- The company's working capital needs can be bifurcated into two dimensions: a) working capital arising due to core business: it is being managed well in accordance with the industry practices. A slight increase in the receivable days is linked to the enhancement of CIT segment business volumes wherein most of the institutional customers demand relaxed terms.
  - Working capital arising from other issues: as WPPL is being used as a vehicle to finance liquidity needs of other group associates. The total receivables from associated companies witnessed an increased by ~ 29% (FY16: PKR 514mln, FY15: PKR 398mln, FY14: PKR 320mln).
  - Lower profitability and increasing receivable trend from associated company has lowered the cash generation. Consequently this has stressed the coverages of company. In order to timely meet the upcoming debt repayments, the company has to realize the receivables from associated concern.

Capital Structure

- During FY16, WPPL retired significant portion of its debt, which has brought down leveraging to ~35% (FY15: ~55%). The debt repayment was managed through internal cash flow and inter-group borrowing.
- The company's leveraging is likely to increase as fleet expansion is planned through a mix of internal cash. generation and external borrowing. In this regard, the company has procured an amount of PKR 210mln from HMB during 1HFY17.

RATING RATIONALE

The group streamlined its business strategy with WPPL specializing in Cash in Transit (CIT) business, while its man guarding services parked in Security & Management Services (SMS), another group company. The intended outcome is to focus on core high margin CIT segment and enhance its system share. The ratings reflect the company's robust industry positioning and its business model that garner strength from the Pathfinder Group's vision of offering a comprehensive set of security solutions through its dedicated companies. Hereby, the group distinguished itself by offering relatively better services to its human resources. The high fixed cost related to the man guarding segment subdued the improvement in the margins of CIT segment reducing the company's profitability. Pressure on company's financial profile remains; owing to sizeable cash requirements of new group ventures funded by WPPL's bank borrowings and payables. The management expects to achieve operational break even in most of the new ventures in the medium term.

KEY RATING DRIVERS

The rating of the company is dependent upon its ability to add incremental profitability by focusing on high margin CIT business. Acquisition of further debt without adequate support from cash flows, compromising debt servicing capacity, would negatively impact.

INDUSTRY

Private security industry in Pakistan is in the development stage. In contrast to global practices, it is segmented with over 400 companies. Of these, only 217 are registered with All Pakistan Security Agency Association (APSAA). It is a strategically important industry, employing over 2000,000 individuals. The industry with two major segments – manned guarding (80%) and cash business (20%) is following an oligopolistic stance where there are dominant players in both segments. The CIT services are being offered through over 1,600 CIT vehicles. The target market for CIT is mainly Banks, Money Exchanges and Retail. CIT business is providing the industry better margins in

PKR mln

Wackenhut Pakistan (Pvt) Limited

	30-Jun-16	30-Jun-15	30-Jun-14
BALANCE SHEET	**Annual**	**Annual**	**Annual**
Non-Current Assets	**274**	**300**	**278**
Current Assets	**1,248**	**1,257**	**830**
Trade Receivables	154	279	221
Due from Associates	514	398	320
Others	579	579	289
Total Assets	**1,406**	**1,420**	**1,107**
Debt	**108**	**285**	**226**
Short-term	-	-	60
Long-term (Incl. Current Maturity of long-term debt)	108	285	166
Other Liabilities	921	784	552
Shareholder's Equity	**377**	**350**	**329**
Total Liabilities & Equity	**1,406**	**1,420**	**1,107**
INCOME STATEMENT			
Turnover	1,196	1,654	1,680
Gross Profit	265	268	255
Net Income	27	21	27
EBITDA	48	113	136
FCFO	(23)	25	62
RATIO ANALYSIS			
Performance			
Turnover Growth	-27.7%	-1.5%	-11.3%
Gross Margin	22.2%	16.2%	15.2%
Net Margin	3.3%	1.3%	1.6%
Leveraging (Total Debt/Total Debt+Equity)	22.3%	44.9%	40.7%
Coverages			
Interest Coverage (FCFO/Gross Interest)	-1.0	0.8	1.7
Debt Coverage (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	-0.6	0.2	0.4

STANDARD RATING SCALES & DEFINITIONS

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

Long Term Ratings

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 or 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**. "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 Ratings

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.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

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'.

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, a suspended rating should be considered withdrawn.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

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

Regulatory and Supplementary Disclosure

Name of Issuer	Weckenhut Pakistan (Pvt.) Limited
Sector	Security
Type of Relationship	Solicited
Purpose of the Rating	Independent Risk Assessment

Rating History

Date	Long Term	Short Term	Outlook	Action
31-Dec-16	BBB	A3	Stable	Maintain
31-Dec-15	BBB	A3	Stable	Maintain
29-Apr-15	BBB	A3	Stable	Initial

Related Criteria and Research

Rating Methodology — Corporate Rating Methodology

Rating Analysts

Rai Aman Zafar
ama.zafar@pacra.com
(92-42-35869504)

Rai Umar Zafar
rai.umar@pacra.com
(92-42-35869504)

Rating Team Statement

Rating Procedure
Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

Disclaimer

Rating Shopping
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PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public sources we consider to be reliable

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The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest
The analysts and members of the rating committees including the external member members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA
The analysts or any of its family members do not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This is, however, not applicable on investment in securities through collective investment schemes. PACRA has established appropriate policies governing investments and trading in securities by its employees
PACRA may provide consultancy/advisory services or other services to any of its clients or to any of its clients' associated companies and associated undertakings that is being rated or has been rated by it. In such cases, PACRA has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities
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 ii) fee mandate - signed with the payer, which can be different from the entity
PACRA ensures that the credit rating assigned to an entity or instrument should 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

Surveillance
PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer
PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so
PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

Reporting of Misconduct
PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality
PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties
Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

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Probability of Default (PD)

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