The Pakistan Credit Rating Agency Limited

KINGCRETE BUILDERS
RATING REPORT

	INITIAL [DEC-17]
Entity	
Long Term	BB-
Short Term	B
Outlook	Stable

REPORT CONTENTS

DECEMBER 2017

KINGCRETE BUILDERS PROFILE	
Incorporated	Partnership Concern
Major Business	Construction
Legal Status	Un-Listed
Head Office	Rawalpindi

INDUSTRY SNAPSHOT

Construction sector's share in GDP was 2.74% in FY17 against a share of 2.65% last year. This sector has witnessed a growth of 9.05% against a growth of 14.6% last year, as many CPEC related projects were initiated in 2015-16. Of these projects, only a few handful of companies have benefitted most as they enjoy economy of scales, good relationship with government bodies and can bid the lowest price. Most of the companies secure contracts based on their branding within the industry, word of mouth, and their ability to execute.

OWNERSHIP — GOOD

- Kingcrete is registered as a partnership concern with five partners. The founder Mr. Nawaz A Minhas and his brother, Mr. Ijaz A Minhas are senior partners, with his two sons, Mr. M Nadir Minhas and Mr. M Sikander Minhas, and his relative Mr. Saeed A Malik, as partners of the firm.
- Mr. Nawaz A Minhas and his family also have ownership of a few other companies involved in the construction sector, namely Kingcrete Project Management (Pvt) Limited which is a project management consultancy, KD Plaza (Pvt) Limited which is a commercial plaza cum office building in Lahore, Gulf Heights which is a budget apartments project in Rawalpindi and Kingcrete Developers which is a JV of commercial property with Army Welfare Trust in Rawalpindi.

GOVERNANCE — NEEDS IMPROVEMENT

- Kingcrete, as a partnership, does not have a formal Board of Directors (BoD) structure. The company is being run by the partners; they have their respective roles in the management of the company.
- The oversight function – which is normally the function of the Board – is being exercised by the two senior partners, namely Mr. Nawaz Ahmed Minhas and Mr. Ijaz Ahmed Minhas.
- The auditors of the company M/s. Rafi & Co. Chartered Accountants, are the external auditor of the company and have expressed an unqualified audit opinion on Kingcrete Builders financial statements for the year ended June 30, 2017.

MANAGEMENT — GOOD

- Mr. Nawaz A Minhas – Managing Director leads the management team of the entity and has almost 40 years of rich experience. He is the technical and executional lead who oversees the business.
- Mr. Sikander Minhas, his younger son who is the CFO, has been associated with Kingcrete since 2010 and oversees all business matters including business development, execution of the projects and matters related to machinery and heavy equipment.
- His elder son, Mr. Nadir Minhas, besides looking after executional matters in Rawalpindi office, also looks after the HR function and CSR program. Legal matters are headed by Mr. Saeed A Malik.
- Kingcrete Builders is working with four key functions namely (i) Finance, (ii) Operations, (iii) Administration & HR, and (iv) Corporate & Legal Affairs reporting to the Partners.

SYSTEMS & CONTROLS — ADEQUATE

- Kingcrete is currently using a customized construction related software from GCA Solutions as its main ERP software. They are only using the financial and project management module of the software and plan to integrate payroll, procurement, inventories, and other areas of the business in the near future.
- The firm prepares quarterly accounts for its management and partners and keeps track of its performance through reports generated on project MIS, with the help of ERP software.

PERFORMANCE — ADEQUATE

- Kingcrete, in recent years, has witnessed considerable variation in its revenues, primarily due to the nature and size of the contracts initiated in a given year. During FY17, the entity's revenues witnessed a 57% drop in comparison to prior year growth of 49% (FY17: PKR 1.06bln; FY16: PKR 2.46bln.).
- During FY17, though topline dropped significantly, a more than proportionate increase in the cost of sales slightly decreased gross margins (FY17: 22.9%, FY16: 25.3%) primarily due to higher raw material cost.
- With decreasing gross margins, high finance cost and higher tax rate however, considerably dented growth of pre-tax profitability for the period (FY17: PKR 5mln, FY16: PKR 275mln).
- In some years a tax mismatch increases tax rate YoY because revenue is booked on receipt basis whereas tax is deducted on percentage of work completed on the basis of IPC's.
- Kingcrete has some major construction projects in the pipeline starting in a couple of months' time. The entity is looking at business, from local contracts, in excess of PKR 8 bln from building works in the next two years besides the company's own real estate development projects.

FINANCIAL RISK — NEEDS IMPROVEMENT

- During 2016, Kingcrete had to borrow long term loan amounting to PKR 479.58mln and take running finance to cater to increased business volume. As at end FY17, working capital requirements of the company increased due to increase in trade receivables. Net cash cycle increased significantly (FY17: 338days, FY16: 147days) on the back of increased trade debts.
- In FY17, Kingcrete's operating cashflows (FCFO) dropped to PKR 85mln (FY16:469mln) due to less than half the revenue stream from last year. Also, the long term loan procured in FY16 caused its interest coverage ratio to deteriorate (FY17: 1.4x, FY16: 4.9x).
- In FY16 the entity acquired long term debt and short term running finance in FY16 & FY17 for increased business requirements. Long Term Debt constitutes 70% of total debt.
- Given the nature of construction industry and business scenario, the company's financial profile is expected to remain stretched; reliance on STB may increase to service long-term debt.

PKR mln

Kingcrete Builders

BALANCE SHEET	30-Jun-17	30-Jun-16	30-Jun-15
	Annual	Annual	Annual
Non-Current Assets	**142**	**121**	**87**
Investments (Incl. Associates)	-	-	-
Equity	-	-	-
Debt Securities	-	-	-
Investment Property	-	-	-
Current Assets	**1,831**	**2,175**	**1,883**
Inventory	-	-	-
Trade Receivables	1,189	1,092	1,232
Others	642	1,083	652
Total Assets	**1,973**	**2,297**	**1,970**
Debt	**536**	**801**	**832**
Short-Term	196	194	-
Long-term (Incl. Current Maturity of Long-Term Debt)	339	606	832
Other Short-Term Liabilities	97	224	124
Other Long-Term Liabilities	78	-	-
Shareholder's Equity	**1,262**	**1,272**	**1,014**
Total Liabilities & Equity	**1,973**	**2,297**	**1,970**
INCOME STATEMENT			
Turnover	**1,059**	**2,456**	**1,650**
Gross Profit	243	622	447
Other Income	0	-	2
Financial Charges	(62)	(77)	(65)
Net Income	**5**	**275**	**185**
Cashflow Statement			
EBITDA	169	563	374
Free Cashflow from Operations (FCFO)	147	546	374
Net Cash changes in Working Capital	(496)	(281)	-
Net Cash from Operating Activities	(411)	188	309
Net Cash from InvestingActivities	(31)	(61)	-
Net Cash from Financing Activities	(77)	480	-
Ratio Analysis			
Performance			
Turnover Growth (same period last year)	-56.9%	48.9%	-94.3%
Gross Margin	22.9%	25.3%	27.1%
Net Margin	0.5%	11.2%	11.2%
ROE	0.4%	24.0%	18.2%
Coverages			
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncc	1.1	1.8	0.4
Interest Coverage (x) (FCFO/Gross Interest)	1.1	4.7	5.7
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short T	62.2	2.1	2.7
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Day	338	147	245
Capital Structure (Total Debt/Total Debt+Equity)	30%	39%	45%

CREDIT RATING
SCALE & 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 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 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.

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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information