



The Pakistan Credit Rating Agency Limited

ETIMAAD ENGINEERING (PRIVATE) LIMITED

Initial

[JUNE-16]

Long-Term	BB+
Short-Term	A3
Outlook	Stable

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JUNE 2016

Profile & Ownership

- Etimaad Engineering Private Limited (Etimaad), established in May 2007, is an integrated engineering and consultancy services provider, operating with its head office in Lahore.
- There are two subsidiaries of Etimaad named “Etimaad Manufacturing (Private) Limited” and “One Tree Hill (Private) Limited”, however both entities are not operational.
- Etimaad had an investment through a joint venture in Middle East named Arabian Etimaad Industrial Company. This has been sold in FY15.
- Mr. Mazharuddin Ansari and Mr. Laeequddin Ansari, experienced professionals in local engineering industry, own 81% stake in Etimaad directly and indirectly through other family members. Remaining stake lies with fellow alliances of key sponsors who left the company in past years.

Governance

- BoD comprises three members including the CEO.
- Mr. Mazharuddin-Ansari, the Chairman, is the key founder of Etimaad. He carries more than four decades of engineering experience in renowned local and foreign organizations.
- Mr. Suhail Shafique – Vice Chairman is a chemical engineer by profession. He has 24 years of experience in renowned engineering services organizations.
- All board members carry executive roles in the company; thus lacking independent oversight at board level

Management and Systems and Control

- Mr. Farooq Hussain Mughal is appointed as CEO in FY15. He has worked with Etimaad as CFO and then COO previously. As he is new to his current role with responsibility of overall operations, support from senior executive members, Chairman and Vice-chairman, provides comfort.
- Management team is experienced.
- The company has an integrated financial, cost control and project management system, further strengthening of these is important with expected growth in business operations.

Business Risk

- Revenues of construction business dependent on developmental activities, while bottom-line performance is subject to quality selection and execution ability.
- The topline of Etimaad remained volatile. However, during FY15, volatility stayed in positive bound to result in an increase of ~56% on YoY basis.
- Higher proportion of construction contracts in the revenue mix (FY15: 58%); consequently recurring business has lower contribution in topline
- The company operates on thin margins. During FY15, gross margins remain limited; however improved on YoY basis (FY15: 5.2%, FY14: 0.8%).
- Sale of strategic investment in Arabian Etimaad Industrial Company (Jubail, Saudi Arabia) turned the bottom-line positive for FY15.
- Losses in major projects in the past, namely Shahbaz Air Base, NPT-Aiwan-e-Quaid-e-Azam and Aisha Steel Mills; the management’s expectation of some recovery is yet to materialize.
- Going forward, while targeting growth, the management visions Etimaad’s stability over the long-term. The management’s ability to improve its bottom-line performance by identifying and executing profitable projects is to be seen.

Financial Risk

- Long working capital cycle (FY14: 417 days, FY13: 307 days) is a drag on management of short-term finance.
- Negative operating cash flows (FCFO) - a function of continuous losses - shows a decreasing trend (FY15: PKR -52mln, FY14: PKR - 22mln). Therefore, interest and debt coverage remained under pressure.
- Although Etimaad’s capital structure is adequately leveraged (debt to debt plus equity ratio; end-Jun15: ~36%, end-Jun14: ~39%), due to suppressed cash flows the company’s short-term finances are secured by sponsor’s support – personal guarantees and certain assets of sponsors.

RATING RATIONALE

Etimaad, engaged in providing engineering, procurement, construction and maintenance services, was established in 2007. The Company's profile draws strength from its quality management team. Over the years, the sponsors established similar businesses mainly in Saudi Arabia (subsidiary) and Qatar (associate). Considering worsening market conditions due to geopolitical tensions in the region and the turmoil in oil prices, Etimaad decided to divest its shares and continued its focus in Pakistan. Etimaad has completed various projects in Pakistan and overseas. Etimaad faced challenges in its pursuit to build a sound business profile. These challenges mainly emanated from few projects involving cost overruns and legal/contractual disputes, leaving drag on overall equity base. Debt service coverages remained stressed given weak cash flows from operations. Nevertheless, the sponsors demonstrated their commitment by operationally supporting the business and providing, i) fresh capital whenever the need arose, and ii) security and personal guarantees to obtain financial facilities and guarantees.

In the recent past, the management has undertaken several initiatives to streamline its business. These include, i) sale of foreign operations to increase focus on local business, ii) organizational restructuring, and iii) revamping of overall business model in line with market dynamics with a strategic focus on subcontracting. The management is confident that the financial profile will gradually gain strength through organic growth. At the same time, the management remains focused to settle disputes and recover receivables to minimize deficit in projects where the company had incurred losses.

KEY RATING DRIVERS

The success of the management's initiatives is critical for prosperity of the company. Meanwhile, strengthening of governance structure is important which can be achieved by induction of non-executive member(s) on the Board.



Engineering, Procurement, and Construction (EPC)

The Pakistan Credit Rating Agency Limited

Financials (Summary)

PKR mln

Etimaad Engineering (Private) Limited

BALANCE SHEET	30-Jun-15	30-Jun-14	30-Jun-13
	Annual	Annual	Annual
Non-Current Assets	177	199	298
Investments (Incl. associates)	3	24	24
Equity	3	24	24
Debt	-	-	-
Current Assets	962	941	1,045
Inventory	398	476	498
Trade Receivables	308	287	313
Others	256	178	235
Total Assets	1,142	1,165	1,367
Debt	232	256	347
Short-term	204	199	250
Long-term (Incl. Current Maturity of long-term debt)	27	58	97
Other shortterm liabilities	479	493	632
Other Longterm Liabilities	10	9	3
Shareholder's Equity	421	406	385
Total Liabilities & Equity	1,142	1,165	1,367
INCOME STATEMENT			
Turnover	643	413	454
Gross Profit	33	3	(170)
Other Income	113	40	45
Financial Charges	(27)	(44)	(50)
Net Income	24	(59)	(237)
Cashflow Statement			
Free Cashflow from Operations (FCFO)	(53)	(22)	(144)
Net Cash changes in Working Capital	38	(16)	74
Net Cash from Operating Activities	(44)	(80)	(122)
Net Cash from Investing Activities	128	105	70
Net Cash from Financing Activities	(32)	(8)	(7)
Ratio Analysis			
Performance			
Turnover Growth	55.6%	-9.0%	100.0%
Gross Margin	5.2%	0.8%	-37.3%
Net Margin	3.8%	-14.2%	-52.1%
ROE	5.8%	-14.4%	-61.4%
Coverages			
Interest Coverage (FCFO/Gross Interest)	-2.0	-0.5	-2.9
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	-1.0	-0.3	-1.6
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	-1.0	-0.3	-1.6
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Inter	-0.5	-1.0	-0.5
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	240.2	417.0	306.9
Capital Structure (Total Debt/Total Debt+Equity)	36.7%	39.8%	47.4%

Etimaad Engineering (Private) Limited

Jun-16



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		SHORT TERM RATINGS
AAA	<p>Highest credit quality. Lowest expectation of credit risk.</p> <p>Indicate exceptionally strong capacity for timely payment of financial commitments.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+ AA AA-	<p>Very high credit quality. Very low expectation of credit risk.</p> <p>Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p>	
A+ A A-	<p>High credit quality. Low expectation of credit risk.</p> <p>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.</p>	
BBB+ BBB BBB-	<p>Good credit quality. Currently a low expectation of credit risk.</p> <p>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.</p>	
BB+ BB BB-	<p>Moderate risk. Possibility of credit risk developing.</p> <p>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.</p>	
B+ B B-	<p>High credit risk.</p> <p>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.</p>	
CCC CC C	<p>Very high credit risk.</p> <p>“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.</p>	
D	<p>Obligations are currently in default.</p>	

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.



Name of Issuer	Etimaad Engineering (Private) Limited
Sector	Engineering
Type of Relationship	Solicited
Purpose of the Rating	Independent Risk Assessment
Related Criteria and Research	
Related Research	Engineering, Procurement and Construction - View Point May -16
Rating Methodology	Corporate Rating Methodology
Rating Analysts	Sanna khan Aisha Khalid sanna.khan@pacra.com aisha@pacra.com (92-42-35869504) (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.
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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. 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