



The Pakistan Credit Rating Agency Limited

ETIMAAD ENGINEERING (PRIVATE) LIMITED RATING REPORT

	NEW [JAN-18]	PREVIOUS [JUN-17]
Long-Term	BB+	BB+
Short-Term	A3	A3
Outlook	Stable	Stable

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JANUARY 2018

Profile & Ownership

- Etimaad Engineering Private Limited (Etimaad), established in May 2007, is an integrated engineering, construction and consultancy services provider, operating with its head office in Lahore.
- There is one subsidiary of Etimaad namely "One Tree Hill (Private) Limited.
- 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 some of whom left the company in past years.

Governance

- BoD comprises three members including the President and 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. Mohammad Sohail Shafique – Vice Chairman is a chemical engineer by profession. He has more than 25 years of experience in renowned local and foreign 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 has been appointed as CEO in FY15. He has worked with Etimaad as CFO and then COO previously. At his current role, 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 development activities, while bottom-line performance is subject to quality project selection, intelligent bid preparation, focused and cost-conscious execution capability.
- The topline of Etimaad had a little volatility on QOQ basis, although during FY17 there is marginal increase of ~3% on YoY basis.
- Higher proportion of construction contracts in the business (FY17: 75%; FY16: 66%; FY15: 58%) results in periodic booking of revenue, spread overtime.
- The company operates on thin margins. During FY17, gross margins remained stagnant on YoY basis (FY17: 18.4%; FY16: 18.3%; FY15: 5.2%).
- Controlled finance cost (PKR 26mln) and slight support from capital gains PKR 2mln (FY16: PKR -2mln); Hence, the company's net profit increased to PKR 34mln (FY16: PKR 20mln; FY15: PKR 24mln).
- During 1QFY18 top line of the Company had a dip, with a little increase in finance cost and no capital gains, bottom line stood at PKR 1mln (1QFY17: PKR 3mln).
- 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 be materialized.
- Going forward, while targeting steady 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 critical.

Financial Risk

- Long working capital cycle (1QFY18: 278days; FY17: 224 days; FY16: 194 days; FY15: 240 days) is a drag on management of short-term finance.
- Operating cash flows (FCFO) - a function of profitability stabilized (FY17: PKR 80mln; FY16: 70mln; PKR FY15: PKR -53mln) Hence, Coverages, improved at 3.1x.
- Although Etimaad's capital structure is adequately leveraged (debt to debt plus equity ratio: end-Sep17; 48%; end-June 45%; end-Jun 16: 43%; and end-Jun15: ~42%), 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

The ratings reflect Etimaad's adequate business profile appended by slightly improved profits. 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 has a reasonable universe of contracts on its plate, wherein margins are adequate. The performance of the company resonates with contracts in hand. The business strategy envisages enhanced focus on EPC in power sector; bagasse based power plants that reflect in its upcoming projects. The financial profile is adequately leveraged. The Company has stressed business profile due to limited free cash flows and Etimaad's need to avail bank guarantees for awarded projects. Herein, financial support of sponsors is key essential. 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.

KEY RATING DRIVERS

In the recent past, the management has undertaken several initiatives to streamline its business. Company is 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. 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.



Etimaad Engineering (Private) Limited

BALANCE SHEET	30-Sep-17	30-Jun-17	30-Jun-16	PKR (mln)
	3M	FY17	FY16	30-Jun-15
				FY15
Non-Current Assets	319	309	178	177
Investments (Incl. associates)	3	3	3	3
Equity	3	3	3	3
Debt	-	-	-	-
Current Assets	1,130	1,029	1,029	962
Inventory	581	524	402	398
Trade Receivables	333	318	377	308
Others	216	187	251	256
Total Assets	1,452	1,340	1,210	1,142
Debt	401	355	255	232
Short-term	242	201	155	204
Long-term (Incl. Current Maturity of long-term debt)	159	154	100	27
Other shortterm liabilities	518	454	511	485
Other Longterm Liabilities	7	7	6	4
Shareholder's Equity	525	524	438	421
Total Liabilities & Equity	1,452	1,340	1,210	1,142
INCOME STATEMENT				
Turnover	196	926	897	643
Gross Profit	39	169	165	33
Other Income	0	2	(2)	113
Financial Charges	(8)	(26)	(26)	(27)
Net Income	1	34	20	24
Cashflow Statement				
Free Cashflow from Operations (FCFO)	15	83	70	(53)
Net Cash changes in Working Capital	(27)	(60)	(90)	38
Net Cash from Operating Activities	(21)	(2)	(47)	(44)
Net Cash from InvestingActivities	(18)	(100)	(22)	128
Net Cash from Financing Activities	47	97	23	(32)
Ratio Analysis				
Performance				
Turnover Growth	-78.2%	396.3%	39.5%	55.6%
Gross Margin	19.7%	18.3%	18.4%	5.2%
Net Margin	0.4%	3.7%	2.3%	3.8%
ROE	0.6%	6.5%	4.7%	5.8%
Coverages				
Interest Coverage (FCFO/Gross Interest)	2.0	3.1	2.7	-2.0
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	0.9	1.1	1.3	-1.0
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	0.9	1.1	1.3	-1.0
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (21.6	2.9	2.4	-0.4
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	278.0	224.0	193.7	240.2
Capital Structure (Total Debt/Total Debt+Equity)	48.0%	45.0%	42.5%	41.5%

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		SHORT TERM RATINGS
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<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+	Very high credit quality. Very low expectation of credit risk.	
AA	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	
AA-		
A+	High credit quality. Low expectation of credit risk.	
A	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.	
A-		
BBB+	Good credit quality. Currently a low expectation of credit risk.	
BBB	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.	
BBB-		
BB+	Moderate risk. Possibility of credit risk developing.	
BB	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.	
BB-		
B+	High credit risk.	
B	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.	
B-		
CCC	Very high credit risk. Substantial credit risk	
CC	“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.	
C		
D	Obligations are currently in default.	

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 surveil the opinion due to lack of requisite information

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Regulatory and Supplementary Disclosure

Name of Issuer Etimaad Engineering (Private) Limited
Sector Engineering
Type of Relationship Solicited
Purpose of the Rating Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
10-Jan-18	BB+	A3	Stable	Maintain
13-Jun-17	BB+	A3	Stable	Maintain
13-Jun-16	BB+	A3	Stable	Initial

Related Criteria and Research
 Related Research Engineering, Procurement and Construction - View Point | Jun -17
 Rating Methodology Corporate Rating Methodology

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[Probability of Default \(PD\)](#)

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