



The Pakistan Credit Rating Agency Limited

M. A. ALEEM KHAN & SONS (PVT) LTD RATING REPORT

	INITIAL [DEC-17]
Entity	
Long Term	BBB+
Short Term	A2
Outlook	Stable

REPORT CONTENTS
1. RATING ANALYSES
2. FINANCIAL INFORMATION
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

JANUARY 2018

M. A. ALEEM KHAN & SONS (PRIVATE) LIMITED PROFILE	
Incorporated	1984
Major Business	Construction
Legal Status	Un-Listed
Head Office	Lahore

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
<ul style="list-style-type: none"> Mr. M. A. Aleem Khan, the founder of the company is identified as the man at the last mile and is entrusted with the oversight of the entire business. Six directors hold 90% of the shares, each director's share being 15%. The MD holds 5% of the shares while his two daughters-in-law hold 2.5% each. 	

GOVERNANCE	ADEQUATE
<ul style="list-style-type: none"> The overall control of the company vests with the seven board of directors. There is no independent director on the board, as it would ensure effective, transparent and independent oversight. Similarly, the size of the company warrants a larger board to ensure effective oversight. M/s. Kamran & Co. Chartered Accountants is the external auditor of the company and has expressed an unqualified audit opinion on the financial statements for the year ended June 30th, 2017. 	

MANAGEMENT	GOOD
<ul style="list-style-type: none"> The company operations are divided into two regions, Islamabad and Lahore, which operate independently under the oversight of MD/Chairman M. A. Aleem Khan. Company head office is in Lahore while Islamabad has the regional office. Business pertaining to Lahore region is under the management of M. Wasim Khan and his two sons. Ahsan A Khan looks after the business development whereas Zunair A Khan looks after finance and execution in Lahore region. Business pertaining to Islamabad region is managed by M Nadeem Khan and his two sons. Shehzer A Khan looks after executional matters and Shahnawaz A Khan manages finance and business development in Islamabad region. 	

SYSTEMS & CONTROLS	ADEQUATE
<ul style="list-style-type: none"> MAAKSONS is currently using Axiom ERP System for generating daily reports in order to track project specific progress. It is a web based system which is accessible to all the staff working on project and generates reports on supplier, procurement, and inventory etc. The company generates quarterly reports for the Board. Whereas the project MIS module is used on a daily basis which keeps track of all project related matters for regional offices separately. 	

PERFORMANCE	GOOD
<ul style="list-style-type: none"> During FY17, revenue grew by about 10% compared to previous year's 139% (FY17: PKR 3,220mln; FY16: PKR 2,930mln). As finance cost jumped up due to increase in long term loans by approx. 44%, net profit margin deteriorated a little (FY17: 8.3%, FY16: 8.7%). Hence, MAAKSONS posted net profit of PKR 266mln, up 3.9% YoY. MAAKSONS has recently started working on some major construction projects in Lahore including Signal Free Corridor in DHA worth approx. PKR 2.45bln which includes 2 flyovers 3 underpasses, and Prism 9 Package V in DHA worth approx. PKR 2.46bln. including projects in Islamabad. 	

FINANCIAL RISK	GOOD
<ul style="list-style-type: none"> MAAKSONS working capital management is very strong with improving negative net working capital days (FY17: -21 days, FY16: -8 days). During FY17, MAAKSONS free cash flows (FCFO), amounted to PKR 376mln, up by 16% YoY. Although core debt coverage reduced a little but it still remained in a comfortable zone during the period (FY17: 3.4x, FY16: 5.2x). At end-FY17, the company had a slightly leveraged capital structure, with a debt to debt plus equity ratio of 22% (FY16: 18%). Long term borrowings have surged to PKR 167mln (FY16: PKR 79mln) largely in order to finance expansion drive. Major portion of debt comprises STB (76%) from various commercial banks. 	



M. A. Aleem Khan & Sons (Pvt) Ltd

BALANCE SHEET	30-Jun-17	30-Jun-16	30-Jun-15
	Annual	Annual	Annual
Non-Current Assets	1,462	1,450	878
Investments (Incl. Associates)	-	-	-
Equity	-	-	-
Debt Securities	-	-	-
Investment Property	497	-	726
Current Assets	2,741	2,716	900
Inventory	-	-	-
Trade Receivables	318	269	202
Others	2,422	2,447	698
Total Assets	4,700	4,166	2,504
Debt	690	481	161
Short-Term	523	403	118
Long-term (Incl. Current Maturity of Long-Term Debt)	167	79	43
Other Short-Term Liabilities	1,595	1,536	450
Other Long-Term Liabilities	-	-	-
Shareholder's Equity	2,415	2,149	1,893
Total Liabilities & Equity	4,700	4,166	2,504

INCOME STATEMENT

Turnover	3,220	2,930	1,229
Gross Profit	643	581	302
Other Income	0	1	2
Financial Charges	(44)	(31)	(28)
Net Income	266	256	115

Cashflow Statement

EBITDA	576	526	225
Free Cashflow from Operations (FCFO)	376	323	139
Net Cash changes in Working Capital	(7)	(16)	85
Net Cash from Operating Activities	326	280	224
Net Cash from Investing Activities	(339)	(396)	(276)
Net Cash from Financing Activities	(3)	314	(40)
Net Cash Generated during the period	(16)	199	(91)

Ratio Analysis

Performance

Turnover Growth (same period last year)	9.9%	138.5%	524.5%
Gross Margin	20.0%	19.8%	24.6%
Net Margin	8.3%	8.7%	9.4%
ROE	11.7%	12.7%	6.3%

Coverages

Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Unco)	3.4	5.2	3.4
Interest Coverage (x) (FCFO/Gross Interest)	8.5	10.5	5.0
Debt Payback (Years) (Total Lt. Debt (excluding Covered Short T	0.5	0.3	0.4

Liquidity

Net Cash Cycle (Inventory Days + Receivable Days - Payable Day	-21	-8	-29
--	-----	----	-----

Capital Structure (Total Debt/Total Debt+Equity)	22%	18%	8%
---	-----	-----	----

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.	

<p>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’.</p>	<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. 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.</p>	<p>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.</p>	<p>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</p>
---	---	--	---

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/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.



[Rated Entity](#)

Name of Rated Entity
Sector
Type of Relationship

M A Aleem Khan & Sons (Pvt) Limited
Construction
Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Entity					
Dissemination Date	Long Term	Short Term	Outlook	Action	
10-Jan-18	BBB+	A2	Stable	Initial	

Related Criteria and Research

Construction Sector | Dec-17

Methodology:

Corporate Rating Methodology|Jul17

Rating Analysts

S. Muhammad Obaid muhammad.obaid@pacra.com (92-42-35869504)	Jhangeer Hanif Jhangeerl@pacra.com (92-42-35869504)
---	--

Rating Team Statement

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

PACRA maintains principle of integrity in seeking rating business. 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 but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information.

Conflict of Interest

PACRA, the analysts involved in the rating process, and members of its rating committee do not have any conflict of interest relating to the credit rating done by them.

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 Office 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;

Prohibition

None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's written consent. PACRA reports and ratings constitute opinions, not recommendations to buy or to sell.

[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 each rating notch. These studies are available at our website (www.pacra.com). However, actual transition of a particular rating may not follow the pattern observed in the past.