

RATING REPORT

Sachal Engineering Works (Pvt.) Limited

REPORT DATE:

August 23, 2023

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Action	Initial	
Rating Date	Aug 23, 2023	

COMPANY INFORMATION

Incorporated in 1990	External Auditors: Reanda Haroon Zakaria & Company Chartered Accountants
	Chairman: Mr. Abdul Karim Qureshi
Private Limited Company	CEO: Mr. Ahmad Ali Qureshi
Key Shareholders (with stake 5% or more):	
Ahmed Ali Qureshi: 50%	
Samina Ahmed: 13%	
Muhammad Ali Chandio: 12%	
Abdul Karim Qureshi: 10%	
Muratza Hussain Chandio: 8%	
Mukhtar Hussain Chandio: 5%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Industrial Corporates (May 2023)<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>**VIS Rating Scale**<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Sachal Engineering Works (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Sachal Engineering Works (Private) Limited (the Company) was incorporated as a private limited company in under the Companies Ordinance, 1984 (Repealed with the enactment of Companies Act, 2017) on August 19, 1990. The principal object of the Company is to carry on the business of road and other Infrastructure development.

Profile of CEO:

Mr. Ahmed Ali Qureshi has done his bachelors in civil engineering and transitioned into the professional career right after graduation. He has been supervising construction projects and managing business operations. He is also the founder director of Sachal Petroleum (Pvt.) limited, which is an associated company of the Sachal group.

Profile of Chairman:

Mr. Abdul Karim Qureshi is the founder of the Sachal Group of Companies and currently chairs the Board at SEWL. He is a graduate engineer from Sindh University with over 30 years of experience in the engineering field. In order to recognise meritorious services rendered by him in his professional career, his name has been included in the American International Who's Who of Professionals.

RATING RATIONALE

Sachal Engineering Works (Pvt.) Limited (SEWL or 'the Company') operates in infrastructure development sector, primarily involving expansion, planning, designing, implementation, construction and execution of roads, bridges and related projects. In an infrastructure starved country, the business risk profile of the Company is considered low given the China-Pakistan Economic Corridor (CPEC) and non-CPEC projects, which would entail substantial outlay from internal (mostly Govt. and Public Private Partnership (PPP) schemes) and external sources (multilateral and bilateral) over a significant time in future. The diversification of the Company by way of investments in Toll Roads and Hydro Power projects while mitigating the business risk, also provides financial strength to the Company.

In FY22 and FY23, more than two-third of the revenues emanated from Ghotki Kandhkot Road and Bridge project over Indus River, which is expected to be completed in July'27. As major cost components are indexed to inflationary adjustments in such projects, gross margins have remained healthy and depicted a range-bound variation over the years. The liquidity position of the Company is underpinned by adequate cash flow coverages and working capital management. In addition, the responsibility of financing arrangements in PPP projects lies with the respective Govt. entity, ensuring adequate and timely availability of funds, including coverage for cost overruns as well. The leverage indicators have remained at quite comfortable level on a timeline basis, reflecting strong risk absorption capacity. Meanwhile, the ratings will remain dependent on upholding financial metrics involving timely completion of key commercial projects. Moreover, effective management of business risks related to inherent uncertainty in the bidding process and timely receivables collection to avoid cash flows mismatch are considered critical form rating perspective.

Key Rating Drivers

Company's Overview: SEWL was established by Mr. Abdul Karim Qureshi in 1972 and currently he is the Chairman of the Board. He is a graduate engineer from Sindh University with over three decades of experience in this profession. At present, Mr. Ahmed Ali Qureshi, son of Mr. Karim, oversees the company in capacity of Chief Executive Officer (CEO) and holds 50% of the equity stake in this company. Mr. Ahmed is an engineer by profession, and is actively involved in the operations of the company and supervision of the construction projects. He is also the founding director of Sachal Petroleum (Pvt.) Ltd., an associated Company. Mr. Mukhtar Hussain holds 5% equity stake in SEWL and he is one of the founding directors of the Company. After graduation from Engineering University, Jamshoro Mr. Hussain stepped into the private sector and started working as director in the company. After receiving the practical knowledge in various facets of Electrical Engineering, he played a very important role in the execution of mega projects for the company. SEWL's clients are mostly provincial governments or government backed entities including National Highway Authority (NHA), Water and Power Development Authority (WAPDA), Sui Southern Gas Company Limited (SSGC), Government of Sindh (GoS) and Asian Development Bank (ADB). The Company holds ISO 9001: 2015 certification for civil construction work as per Standards Solutions Europe Ltd. Regulations.

The Sachal group is operating in various sectors, including construction, information technology (IT), telecom, mass media and agro-based industry. One of the sister concerns is Lahore and Faisalabad Construction Company (LAFCO). LAFCO is a consortium led by Frontier Works Organization (FWO) as a joint venture with Khalid Rauf & Co. (Pvt.) Ltd, M/S Habib Rafiq (Pvt.) Ltd. and SEWL. Its main operations included operations and maintenance (O&M) of public infrastructure. The group has started a small agriculture business entailing date dehydration and storage plant in Khairpur Special Economic Zone (KSEZ). Sachal Softec (Pvt.) Limited is engaged in the IT and telecom sector, primarily involving payphones business with over 5,516 payphones installed all over Pakistan since its inception.

Subsidiary Companies and Long-Term Investments: SEWL has three subsidiary companies, namely, Ghotki Kandhkot Road & Bridge Company (Pvt.) Limited (GKRBC), Riali Hydro Power Company (Pvt.) (RHPC) and Uzghor Hydro Power Company (Pvt.) Limited (UHPC). GKRBC is a special purpose company established in 2017 to develop the project through PPP on a Design, Build, Finance, Operate and Transfer (DBFOT) basis. SEWL has 53% shareholding in this GKRBC while GoS holds the remaining share. As of Mar’23, the Company has paid advances amounting Rs. 2.18b against investment in this project. Issuance of shares to the Company is in progress. Meanwhile, equity amounting Rs. 3.1b will be injected in the next four years.

The group has also ventured into the renewable energy projects. Equity stake in RHPC stands at 51% amounting to Rs. 229.5m while SEWL has also paid Rs. 442.4m in advance against additional investment in this project as of Mar’23. RHPC is a 7.08 MW hydroelectric power project in Muzaffarabad. Around 80% construction work has been completed while tariff determination is currently in process. Another Run-of-the-River (ROR) hydro power project by the group is Uzghor Hydro Power Company (Pvt.) Limited (UHPC). UHPC is an 82.25 MW hydro power project at Golen Gol, Chitral Khyber Pakhtunkhwa. SEWL has 50% equity stake in this project while as of Mar’23, the company has paid Rs. 104.8m with respect to advances against issuance of shares. The plant is expected to commence commercial operations in 2029 and UHPC has applied for modification in generation license awarded to the company by NEPRA. SEWL has also invested in various projects by mean of joint venture (JVs), recorded under equity method. Total investment in these JVs stood at Rs. 338.9m (FY22: Rs. 338.9m; FY21: Rs. 282.1m) at end-Mar’23. Investment properties worth Rs. 35.7m (FY22: Rs. 37.6m; FY21: Rs. 39.5m) represents land and buildings located in Karachi, Sindh, which have been held for capital appreciation.

Overview of the Company’s Operations: SEWL is licensed by the Pakistan Engineering Council to work as a constructor in category “C-A” (no limit) Contractor, which entails that the Company does not have any upper limit on the construction cost of the projects. The property, plant and equipment (PP&E) stood at Rs. 3.2b (FY22: Rs. 2.8b; FY21: Rs. 3.2b) at end-Mar’23. The operating fixed assets majorly includes concrete equipment, asphalt paving equipment, earthwork equipment, bridge construction equipment, construction support machinery, transport vehicles and pipe laying equipment. Around two-third of the equipment and machinery has been acquired on long-term lease and have been reported as right-of-Use (RoU) assets under IFRS-16.

The organizational structure includes Project Directors for North and South regions, Technical Advisor, Financial Advisors and General Manager Technical, where all of them directly report to the CEO. In addition to the Accounts and Finance team, the Company has a dedicated business development team for bidding process headed by Manager Contract and Evaluation. In addition, apart from other technical staff, a qualified team of mechanical, highway, materials and site engineers has been associated with the Company. The bidding process involves a technical round after which companies are shortlisted to place monetary bid for the projects. Most of the big-ticket projects are executed on PPP mode. Previously, the Company has completed various projects including construction, expansion, and renovation of the highways and bridges, for various clients. Following is the list of major projects delivered by SEWL over a period of last 6 years:

Table 1: Overview of Completed projects (2015-21):

Project Details	Client	Value in PKR (million)	Completion period
Thatta-Sujawal Bridge over Indus River on EPC/Turnkey Basis. 1,040 Meter Length (Four Lane) Bridge	Sindh Coal Authority, GoS	2,805	2015-16
Improvement of Road from Nooriabad to Jhmpir	Provincial Costal Highway Division, Hyderabad	450	2016
Laying of 42” Gas Pipeline, Lonikot to HQ-Hyderabad (26 KMs)	SSGC	250	2016-17

Reconditioning of Road from Nawabshah to Sanghar Mile 20/3-36/5+230	Provisional Highway Division, Shaheed Benazirabad	960	2016-17
Reconstruction of Four (04) Number Bridges and One Culvert including approaches between Badin and Wango Mor	Sindh Coal Authority, GoS	450	2016-18
Construction of Thatta-Sujawal Road Project	Sindh Coal Authority, GoS	1,630	2017-18
W/R of Dual Carriageway from 2 Lane to 3 Lane Each Side from Quaid Abad to Steel Mill	Provisional Highway Division, Hyderabad	1,041	2017
Site Remediation Contract Lot-I and Lot-II- 2 x 660 MW Coal Field Power Project Jamshoro	Jamshoro Power Company Limited	409	2017-18
Widening of Shahrah-e-Faisal, Karachi	Local Government Department, GoS	1,695	2017-18
Widening / Reconditioning of from Karachi-Thatta-Hyderabad Road to Jhampir Mile 6/3-16/0 (15.50 KM)	Provincial Costal Highway Division, Hyderabad	470	2017-18
Widening / Reconditioning of Road from Mile 11/4-19/4 along Nooriabad Jhampir Road (12.88 KMs)	Provincial Costal Highway Division, Hyderabad	563	2017-18
Construction of Connecting Road to Jhirk Mulaktyar Bridge Mile 0/0-6/7 (11 KMs)	Provincial Costal Highway Division, Hyderabad	955	2017-18
Bridge over Railway Line at Jamshoro Phattak with Flyover Bridge and Loops at Indus Highway N-55	Local Government Department, GoS	1,210	2017-18
Construction of Bridge at Sunset Boulevard and Gizri Boulevard	Local Government Department, GoS	470	2018
Construction of Flyover at Tipu Sultan Intersection along Shaheed-e-Millat Road	Local Government Department, GoS	615	2018
Renovation/Rehabilitation of Physical Infrastructure of Educational Institutions under Prime Minister's Education Reform Program in ICT, Islamabad – package 2	Capital Administration & Development Division, Project Implement Cell	803	2019
Renovation/Rehabilitation of Physical Infrastructure of Educational Institutions under Prime Minister's Education Reform Program in ICT, Islamabad – package 4	Capital Administration & Development Division, Project Implement Cell	847	2019
Bridge at 2.5 No. Intersection (Construction and Remodeling of 12000 Road Landhi Korangi)	GoS	330	2019
Bridge at 5 No. Intersection (Construction and Remodeling of 12000 Road Landhi Korangi)	Local Government Department, GoS	337	2019
National Highway Bahrain-Kalam (N-95): Lot-3, Asrit – Pashmal KM 117+250 to 125+800	NHA	1,322	2018-20
Package-2: Rehabilitation of National Bridges Chakdara –Kalam (N-95) Lot # 1: Chakdara– Bahrain (Bridge Package) – KM 000-106 (10 New Bridges) SEWL-TTC JV SEWL Share 60%	NHA	784	2019-20
Construction of 4-Lane Bridge over River Indus connecting Layyah with Taunsa SEWL-HRL JV	NHA	2,689	2018-20

SEWL Share 80%			
National Highway Bahrain-Kalam (N-95): Lot-3, Asrit – Pashmal KM 117+250 to 125+800	NHA	1,322	2018-21
Construction of 4-Lane bridge over river Indus connecting Layyah with Taunsa	NHA	2,689	2018-21
Construction of Yakmach-Kharan road project section 3 & 4	NHA	4,953	2018-21

TTC: Techno Time Construction Company; HRL: Habib Rafiq (Pvt.) Limited

Moreover, with respect to following Environmental, Social and Governance (ESG) framework, the Company has established and adheres to its Health, Safety and Environment (HSE) Policy to make the project activities safe for all stakeholders. This is achieved by constructing well planned camps, up keeping the buildings and surroundings, controlling the emissions from machines and continuous training of staff and strict monitoring of HSE Policy, and periodic tests of the key persons and drills of the workers. SEWL has been endeavoring to adopt HSE Policy for the safety of the employees and prevention of the loss to property and the environment within the scope of civil works.

Revenues and Profitability: The revenues and construction costs are recognized using percentage of completion method. As per management, the Company generally bids for only those projects in which pre-funding is provided by the client, which ensures timely cash flows and better margins. Given the majority projects taken by the Company are public infrastructure development, the financial close responsibility lies with the Govt., thereby the risk of inadequate funding is minimal. Following is the list of ongoing projects being executed by the company along with expected completion timeline, cost and client names.

Table 2: Ongoing Projects

Project Name	Contract Value (million Rs.)	Client	%Age Completed	Expected Completion Date
Ghotki-Kandhkot Road & Bridge Project on BOT Basis	34,000	Works & Services Department, GoS	23%	July 2027
Construction of Makri Intake Weir and Installation of Flow Metering System SEWL-ZKA JV SEWL Share 51%	862	PWD, Building / PHE, Muzaffarabad, AJK	96%	Dec 2024
Establishment of 200 Bed General Hospital i/c MCH and Eye Hospital Rawalakot, District Poonch, AJ&K SEWL-ZKA JV SEWL Share 51%	696	PWD, Building / PHE (North), Muzaffarabad, AJK	60%	December 2023
Dualization of Jahangira-Swabi Road Left Over Portion, Package-I	808	PKHA (Pakhtunkhwa Highway Authority)	35%	March 2024
Dualization of Jahangira-Swabi Road Left Over Portion, Package-II	643	PKHA (Pakhtunkhwa Highway Authority)	35%	March 2024
Construction of Underpass at Ghulab Devi Hospital and Additional Lanes on Lahore Bridge, Lahore SARCO-SEWL JV	1,224	LDA (Lahore Development Authority)	85%	Dec 2023

SEWL Share 40%				
Construction of Naya Nazimabad Flyover	1,500	Javedan Corporation Limited	40%	Dec 2023
Improvement and Rehabilitation Mianwali - Muzaffargarh (N-135) Road 120+00 Kms to 160+000 Kms	1,345	NHA	25%	June 2024
Improvement and Rehabilitation Mianwali - Muzaffargarh (N-135) Road 200+00 Kms to 240+000 Kms	1,249	NHA	25%	June 2024
Construction of Balance Infrastructure Works Sector-4 (Package-1, 2, 3, 4 & 5) at DHA City, Karachi	1,664	DHA, Karachi	30%	May 2024

One of the mega project on which SEWL is currently working is Ghotki Kandhkot Road and Bridge Project (GKRB). Based on the recommendations of Indus River Commission (IRC), the original design of this project was revised, entailing replacement of 3-km Bridge over the River Indus with a 12.2-km Bank-to-Bank Bridge. The difference in upfront project cost may get off-set by significant O&M savings in the river training works for bank-to-bank bridge in the long-run. Furthermore, the bank-to-bank option would pose less probability of damage/destruction in heavy floods as perceived by the IRC. The expected construction time for the completion of this project has also been revised to around 4 years. In accordance with the revised scope, the total project cost has increased and is estimated at ~Rs. 34.0b. The project is being financed with debt to equity ratio of 70:30. Out of total equity contribution SEWL has 53% equity share in it while the rest is contributed by GoS.

During FY22, the Company recorded net revenues of Rs. 3.8b (FY21: Rs. 4.9b; FY20: Rs. 2.0b), out of which 68.4% of revenues (FY21: 20%) emanated from Ghotki Kandkot project. In FY21, around 60% of the revenues pertained to Yakmach Kharan Road project, whereas in FY22, the same contributed ~10% to the billed amount. Other major projects executed during FY22 and FY21, included renovation/rehabilitation of ISD education Institute, Port Qasim project, rehabilitation of Mianwali-Muzaffargarh Road N-135, Dualization of Swabi-Jehangira Road, rehabilitation of Behrain-Kalam Road N-95, Sindh Irrigated Agricultural Productivity Enhancement Project and construction & remodeling Landhi Korangi Bridge. The value of sales tax has remained limited, and represents sales tax charged only to private customers as the Government bodies are exempt from the chargeability of sales tax. The topline also included Rs. 722.9m (FY21: Rs. 187.6m; FY20: Rs. 44.9m) in respect of unbilled revenue recognized on the basis of percentage of completion method.

In government projects various components of construction expenditures including cement, steel and fuel etc. are indexed to inflationary adjustments. Therefore, gross margins have remained healthy on a timeline basis and showed a range-bound variation. Administrative expenses remained largely rationalized with inflationary pressure over years. Finance cost increased to Rs. 195.6m (FY21: Rs. 112.9m; FY20: Rs. 172.5m) mainly due to higher markup on lease liabilities. Other income was recorded higher at Rs. 117.5m (FY21: Rs. 31.9m; FY20: Rs. 194.5m) mainly due to increase in share on profit from joint ventures, markup on receivables from related parties, scarp sales and gain on disposal of fixed assets. Accounting for taxation, bottom line was reported lower at Rs. 243.7m (FY21: Rs. 588.1m; FY20: Rs. 237.3m) while net margins decreased to 6.37% (FY21: 11.91%; FY20: 11.82%) owing to contraction in topline, higher finance cost and effective tax rate.

In 9MFY23, the SEWL recorded Rs. 3.1b in net revenues, more than two-third of which emanated from GKRB project. Gross margins remained sizeable at 24.12%. Other income amounted to Rs. 148.0m, which largely included share of profit from associates and proceeds from scrap sales. The company has posted Rs. 267.4m in net profits while net margins improved to 8.61% during 9MFY23. The provisional revenues for FY23 clocked in at Rs. 4.6b while GKRB project accounted for ~70% (Rs. 3.17b) of the revenue mix. The rest of the topline included amount billed against Improvement and Rehabilitation

Mianwali - Muzaffargarh (N-135), construction of Naya Nazimabad Flyover and Dualization of Swabi-Jehangira Road. As per the provided information, GKRB project has achieved 23% completion as of Jun'23. Naya Nazimabad Flyover project is expected to complete by end-Dec'23 while Swabi-Jehangira project and Mianwali package are projected to complete by end-Mar and Jun, 2024, respectively. Going forward, GKRB project would be the main revenue driver for around next four years. Meanwhile, the bidding process of several projects is underway in which SEWL intends to participate in the ongoing year. The related bodies have issued proposals for pre-qualification of these projects. The mega projects are usually awarded to more than one construction company. Nonetheless, economic and political stability will remain key growth factor in infrastructure development projects in the country.

Table 2: Proposed Projects

Project Description	Approx. Project Size (Km)	Approx. Project Cost (Rs. Billions)
Peshawar-Torkham Expressway-World Bank Project With Tunnels & Bridges	40	40
Motorway-Chakdara to Timergarah	60	180
M7-Hub-Dadu Motorway CPEC	150- 200	250-300
Kohat to Hunza Motorway	40	60
DI Khan to Zoib Motorway	140	500-600
Kotri to Thatha Motorway	60	120

Liquidity Profile: The liquidity position of the company is underpinned by adequate cash flows against outstanding financial obligations. Funds from operations (FFO) amounted to Rs. 703.8m (FY21: Rs. 1.2b; FY20: Rs. 703.1m) in FY22, where decrease in FFO was largely attributed to lower profitability. FFO to total debt and long-term have remained adequate at 0.38x (FY21: 1.15x; FY20: 0.49x) and 0.54x (FY21: 1.17x; FY20: 0.65x), respectively. Debt service coverage inclusive of lease rental payments stood at 1.0x (FY21: 1.17x; FY20: 1.40x) as of Jun'22. During 9M'FY23, FFO amounted to Rs. 353.3m, which on annualized basis was lower. Therefore, cash flow coverages also seemed to be under some pressure in 9M'FY23.

The outstanding receivables from customers amounted to Rs. 913.7m (FY22: Rs. 767.6m; FY21: Rs. 228.4m) as of Mar'23. Receivables at end-Mar'23 entirely represented billed revenue recognized based on the stage of completion, as certified by the independent engineers, which is billed to customers subsequent to year end based on agreed terms. Meanwhile, in FY22, it also included Rs. 722.9m (FY21: Rs. 187.6m) of unbilled receivables receivable from GKBRC - the subsidiary company and was not past due. The customer base of SEWL includes various governmental and provincial bodies as mentioned earlier in this report. Therefore, counterparty risk is minimal. On the other hand, retention money of Rs. 378.4m (FY22: Rs. 434.5m; FY21: Rs. 491.2m) are part of long-term receivables, representing the amount released by the client after the completion of a project. The longstanding relationship with its clients has been built upon quality of the delivered projects and fulfillment of obligations on timely basis. At times the Company also generates cash flows through sale and lease back of machinery and equipment while also realizing some profit on its disposal. In FY22, the company disposed of plant and machinery worth Rs. 1.04b (FY21: Rs. 280m) and leased back the same from financial institutions. Contract assets amounted to Rs. 1.2b (FY22: Rs. 2.2b; FY21: Rs. 1.2b) as of Mar'23. These represents cost incurred on various projects in progress as on the reporting date but not billed to clients due to stage of completion not reached and therefore, cost not transferred to the statement of profit or loss under cost of construction contracts. Advances, deposits and prepayments stood higher at Rs. 960.0m (FY22: Rs. 685.4m; FY21: 967.3m) largely due to margin deposits against bank guarantees, advances paid against other expenses. Bank guarantee amounting to Rs. 1.6b (2021: Rs. 1.3b) has been issued on behalf of the Company by banking companies for bidding and performance of contracts to various customers. These are secured against cash margin as mentioned above and against registered mortgage of various properties owned by the Company and personal properties of the directors. Total aggregate available and unavailed facility amounted to Rs. 2.3b (2021: 2.3b) million and Rs. 692.8m (2021: 1.02b) as on Jun 30, 2022. Income tax refund due from Govt. stood at Rs. 126.7m (FY22: Rs. 126.7m; FY21: Rs. 159.4m). Cash

and bank balances held by the Company amounted to Rs. 89.4m (FY22: Rs. 448.5m; FY21: Rs. 277.1m) at end-9M'FY23.

Trade and other payables stood at Rs. 2.1b (FY22: Rs. 2.9b; FY21: Rs. 1.9b) which largely included trade creditors and unsecured mobilization advances. Being a construction company, SEWL has access to cash flows through mobilization advance (normally 10 to 20% of the contract value) received before starting a project. Mobilization advance received against various projects stood at Rs. 897.0m (FY22: Rs. 2.4b; FY21: 1.8b) at end-Mar'23. Attock Petroleum, Lucky Cement, Faizan Steel, Total Petroleum and Pakistan State Oil are among major suppliers of the Company for bitumen, cement, steel, oil lubricants and diesel, respectively. Payment terms with majority of these suppliers entail 100% advance payment while payments to subcontractors for sand, aggregate & crush and other materials are made on bill to bill basis. The current ratio has remained adequate and largely stable on a timeline basis (9M'FY23 & FY22: 1.1x; FY21: 1.2x). Overall working capital management has remained satisfactory supported by adequate internal cash flow generation and access to project financing.

Capitalization Profile: The paid-up capital of the Company amounted to Rs. 889.7m (FY22 & FY21: Rs. 889.7m) as at Mar'23. The capitalization is supported by profit retention on a timeline basis. Resultantly, core equity base has grown to Rs. 6.2b (FY22: Rs. 6.0b; FY21: Rs. 5.7b) by end-9M'FY23. In addition, equity base also included interest-free loan from directors payable at discretion of the Company; the amount has remained unchanged at Rs. 27.5m over the years.

The debt profile of the Company has largely comprised long-term lease liabilities obtained to finance its operating fixed assets. Lease liabilities including current portion stood at Rs. 1.6b (FY22: Rs. 1.2b; FY21: Rs. 883.0m) at end-Mar'23. Meanwhile, the Company obtained one-off facility to the tune of Rs. 104.9m in FY21, introduced by SBP to refinance payment of wages and salaries at subsidized rate of 3%. The loan was completely repaid in the outgoing year. The running finance facilities are utilized to finance working capital requirements. Outstanding amount of these short-term borrowings stood at Rs. 285.6m (FY22: Rs. 542.3m; FY21: Rs. 16.9m) while the aggregate limit of these facilities stood at Rs. 717 m. Deferred liabilities largely pertained to deferred tax liabilities created on account of taxable temporary difference due to accelerated tax depreciation. The gearing and debt leverage have remained at quite comfortable level on a time line basis i.e., 0.30x (FY22: 0.31x; FY21: 0.18x) and 0.68x (FY22: 0.84x; FY21: 0.56x), respectively, as at end-Mar'23, reflecting strong risk absorption capacity and conservative approach of the Company to finance its operations.

Sachal Engineering Works (Pvt.) Limited
Annexure I

BALANCE SHEET	FY 21	FY 22	3QFY23
Property, Plant and Equipment (including ROU assets)	3,175.5	2,843.1	3,162.2
Investment Property	39.5	37.5	39.5
Long-term Investment	2,177.8	3,264.8	3,340.1
Long-term Deposits	181.1	161.9	263.3
Retention Money Receivable	491.2	434.5	378.4
Contract Assets	1,237.8	2,190.7	1,204.9
Receivables from Customers	228.4	767.6	913.7
Advances, deposits and other Receivables	967.3	685.4	960.0
Tax Refund due from the Government	159.4	126.7	126.7
Cash and bank balances	277.1	448.5	89.4
Total Assets	8,935.0	1,0960.7	1,0478.1
Long-Term Borrowings (including lease liabilities and current portion)	987.9	1,314.8	1,554.6
Short-Term Bank Borrowings	16.9	542.3	285.6
Deferred liability	250.5	249.0	249.0
Trade and Other Payables	1,947.4	2,873.5	2,149.2
Accrued Mark-up on Secured Borrowings	10.8	17.1	5.1
Total Liabilities	3,216.8	4,997.2	4,243.4
Paid-Up Capital	889.7	889.7	889.7
Total/Tier-1 Equity	5,718.2	5,963.5	6,230.9
INCOME STATEMENT	FY 21	FY 22	3QFY23
Net Sales	4,936.2	3,824.5	3,106.0
Gross Profit	1,234.3	867.4	749.0
Operating Profit	1,077.9	775.2	736.0
Finance Cost	112.9	195.6	235.6
Other Income	31.9	117.5	148.0
Profit Before Tax	965.0	579.6	500.4
Profit After Tax	588.1	243.7	267.4
RATIO ANALYSIS	FY 21	FY 22	3QFY23
Gross Margin (%)	25.01%	22.68%	24.12%
Net Margins (%)	11.91%	6.37%	8.61%
Current Ratio (x)	1.19	1.08	1.18
Net Working Capital (in m Rs.)	449.3	298.1	504.6
Funds from Operations (FFO)	1,155.9	703.8	353.3
FFO to Total Debt (x)	1.15	0.38	0.19*
FFO to Long Term Debt (x)	1.17	0.54	0.23*
Gearing (x)	0.18	0.31	0.30
Debt Leverage (x)	0.56	0.84	0.68
Debt Servicing Coverage Ratio (x)	2.48	1.39	1.01
ROAA (%)	7.20%	2.45%	2.49%*
ROAE (%)	10.84%	4.17%	4.39%*
(Stock in Trade+ Trade Debt) to Short-Term Borrowing (x)	86.81	5.46	7.42

*Annualized

REGULATORY DISCLOSURES		Annexure II			
Name of Rated Entity	Sachal Engineering Works (Pvt.) Limited				
Sector	Cement & Construction				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	23-Aug-2023	A-	A-2	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	VIS, 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(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
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Due Diligence Meetings Conducted	Name	Designation	Date		
	Mr. Fuad Kehar	Executive Director- Financial Unit	July 13, 2023		
	Mr. Zafar Bakhtiari	Executive Director Financial Unit			