

## RATING REPORT

## Sachal Engineering Works (Pvt.) Limited

**REPORT DATE:**

November 18, 2024

**RATING ANALYSTS:**Musaddeq Ahmed Khan  
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## RATING DETAILS

Rating Category	Latest Ratings		Previous Ratings	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A2	A-	A2
Rating Outlook/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Initial	
Rating Date	Nov 18, 2024		Aug 23, 2023	

## COMPANY INFORMATION

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

## APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Industrial Corporates

<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

## RATING RATIONALE

*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(Private) Limited (the Company) was incorporated as a private limited company in under the Companies Ordinance, 1984 (Repealed with the enactment of Companies Act, 2017) on August 19, 1990.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 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 31 years of experience in the profession.*

**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.*

**Company Profile**

Sachal Engineering Works (Pvt.) Limited (SEWL or the 'Company') operates in infrastructure development sector, primarily involving Engineering, Procurement and Construction (EPC) contracts for construction of roads, bridges and related projects.

SEWL was founded in 1972 by Mr. Abdul Karim Qureshi, who is currently the Chairman of the Board. His son, Mr. Ahmed Ali Qureshi, an engineer and the current CEO, holds 50% equity and oversees the Company's operations. SEWL's key clients include government bodies such as the National Highway Authority (NHA), Water and Power Development Authority (WAPDA), Sui Southern Gas Company (SSGC), Government of Sindh (GoS), and the Asian Development Bank (ADB). Additionally, SEWL is part of the Lahore and Faisalabad Construction Company (LAFCO) consortium, a joint venture with Frontier Works Organization (FWO), Khalid Rauf & Co. (Pvt.) Ltd and M/S Habib Rafiq (Pvt.) Ltd to work on public infrastructure projects.

**Overview of the Company's Structure**

SEWL is licensed as a "C-A" contractor by the Pakistan Engineering Council, allowing it to undertake projects without any contract price limit. The organizational structure includes Project Directors for North and South regions, Technical Advisor, Financial Advisors and General Manager Technical, all reporting directly to the CEO. In addition to the Accounts and Finance team, the Company has a dedicated business development team for evaluation and participation in the bidding process and is headed by Manager Contract and Evaluation. In addition, and apart from other technical staff, a qualified team of mechanical, highway, materials and site engineers are also associated with the Company.

**Subsidiary Companies and Long-Term Investments**

SEWL has three key subsidiary companies: Ghotki Kandhkot Road & Bridge Company (Pvt.) Limited (GKRBC), Riali Hydro Power Company (Pvt.) (RHPC), and Uzghor Hydro Power Company (Pvt.) Limited (UHPC). GKRBC, a special purpose company (SPC), established in 2018 is focused on a PPP project being executed on Design, Build, Finance, Operate, and Transfer (DBFOT) basis. SEWL holds 53% stake in the SPC while GoS holds the remaining. By June 2024, SEWL had advanced PKR 3.27 billion towards this project, with the issuance of shares currently in progress.

SEWL has also expanded into renewable energy through RHPC, a 7.08 MW hydroelectric project in Muzaffarabad, where it holds a 51% equity stake amounting to PKR 229.5 million, with an additional PKR 796.05 million advanced as of June 2024. RHPC is in advance development phase. The power company signed a Power Purchase Agreement with CPPA, however was unable to secure debt financing due to non-availability of Implementation Agreement (IA). With ECC approval, expected within November 2024, the IA will be executed, which will facilitate RHPC to achieve financial close. Additionally, the Company holds a 50% stake in UHPC, an 82.25 MW hydroelectric project in Chitral, Khyber Pakhtunkhwa. By June 2024, SEWL had advanced PKR 113.76 million for further share issuance in this project. The plant is expected to commence commercial operations in 2029. UHPC Feasibility study is approved and is in pre-construction phase. Once the tariff is approved by the NEPRA, the Project Company will select EPC Contractor for the execution of the Project. SEWL has also invested in various projects by way of joint venture (JVs). Total investment in these JVs stood at PKR 410.025m (FY23: PKR 338.9m; FY22: PKR 338.9m) at end-June'24. Investment properties worth PKR 43.34m (FY23: PKR 43.34m; FY22: 37.6m) represents land and buildings located in Karachi, Sindh, which have been held for capital appreciation.

**Overview of the Company's Operations**

In span of three decades, the Company has completed more than 50 projects including construction, expansion, and renovation of the highways and bridges, for various clients. Most of the big-ticket projects are executed on PPP mode. Details of under construction and projects in pipeline are as under:

**Table 1: Ongoing Projects**

Project Name	Contract Value (million Rs.)	Client	%Age Completed	Expected Completion Date
Ghotki-Kandhkot Road & Bridge Project on BOT Basis	24,945	Works & Services Department, GoS	27.676%	January 2028
Construction of Makri Intake Weir and Installation of Flow Metering System SEWL-ZKA JV SEWL Share 51%	1,580	PWD, Building / PHE, Muzaffarabad, AJK	73.45%	December 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	68.10%	June 2025
Dualization of Jahangira-Swabi Road Left Over Portion, Package-I	808	PKHA (Pakhtunkhwa Highway Authority)	34.14%	June 2025
Dualization of Jahangira-Swabi Road Left Over Portion, Package-II	643	PKHA (Pakhtunkhwa Highway Authority)	43.55%	June 2025
Improvement and Rehabilitation Mianwali - Muzaffargarh (N-135) Road 120+00 Kms to 160+000 Kms	1,345	NHA	52.49%	March 2025
Improvement and Rehabilitation Mianwali - Muzaffargarh (N-135) Road 200+00 Kms to 240+000 Kms	1,249	NHA	57.25%	March 2025
Construction of Balance Infrastructure Works Sector-4 (Package-1, 2, 3, 4 & 5) at DHA City, Karachi	1,665	DHA, Karachi	20.72%	June 2025

Regarding the Environmental, Social and Governance (ESG) aspects, 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.

### Key Rating Drivers

**Low Business Risk:** In an infrastructure-starved country, the Company's business risk profile is considered low due to the significant investment expected in both China-Pakistan Economic Corridor (CPEC) and non-CPEC projects. These projects, funded largely by internal sources, such as government and public-private partnerships (PPP), as well as external multilateral and bilateral sources, are anticipated to involve substantial capital over a prolonged period. Additionally, the Company's diversified investments in toll roads and hydro power projects not only mitigate business risk but also enhance its financial strength.

As per management, the Company generally bids for only those projects in which pre-funding is provided by the client, which ensures adequate and timely availability of funds, including coverage for cost overruns as well. SEWL's liquidity is supported by adequate cash flow and minimal default risk, as most projects involve government entities responsible for financing arrangements in the PPP projects. Going forward, ratings will rely on maintaining key financial metrics, particularly the timely completion of significant public sector projects. Effective management of business risks, such as the inherent uncertainty in the

bidding process and timely collection of receivables to prevent cash flow mismatches, remains crucial from the ratings perspective.

**Revenues and profitability:** As of June 2024, the Company is executing seven ongoing projects, with an additional three projects as part of joint ventures (JVs). The revenues and construction costs are recognized using percentage of completion method. During FY24, the Company recorded net revenues of PKR. 5.67b (FY23: PKR 4.4b; FY22: PKR 3.8b), out of which 68.5% of revenues (FY22: 68.4%) emanated from Ghotki Kandkot project. Other major projects executed during FY23 and FY24, rehabilitation of Mianwali- Muazaffargarh Road N-135, Dualization of Swabi-Jehangira Road, Construction of Balance infrastructure at DHA Karachi & Construction of Flyover connecting Mangoh Pir with Nazimabad.

In government projects, various construction expenditure components, including cement, steel, and fuel, are indexed to inflationary adjustments, resulting in healthy gross margins that show range-bound variation. Administrative expenses remained rationalized despite inflationary pressures. Finance costs increased to PKR 430.71 million (FY23: PKR 337.72 million; FY22: PKR 195.6 million) in FY24, primarily due to higher lease liability markups. Other income rose to PKR 158.59 million (FY23: PKR 124.35 million; FY22: PKR 117.5 million) in FY24, driven by increased profits from joint ventures, markup on receivables from related parties, scrap sales, and gains from fixed asset disposals. Net margins improved to 9.72% (FY23: 2.39%; FY22: 6.37%) in FY24 due to controlled costs and increased other income.

**Liquidity Profile:** The liquidity position of the Company is underpinned by adequate cash flows against outstanding financial obligations. Funds from operations (FFO) amounted to PKR 1.68 billion (FY23: PKR 949.6 million; FY22: PKR 760.5 million) in FY24, where increase was largely attributed to higher profitability. FFO to total debt and long-term increased to 1.81x (FY23: 0.72x; FY22: 0.45x) and 1.92x (FY23: 0.80x; FY22: 0.67x), respectively. Debt service coverage stood at 2.27x (FY23: 1.31x; FY22: 1.04x) as of Jun'24.

**Capitalization Profile:** The capitalization is supported by profit retention on a timeline basis. Resultantly, equity base has grown to PKR 6.59 billion (FY23: PKR 6.07 billion; FY22: PKR 5.96 billion) by end-FY24. In addition, equity base also included interest-free loan from directors' payable at discretion of the Company; the amount has remained unchanged at PKR 27.5 million 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 PKR 876.3 million (FY23: PKR 1.18 billion; FY22: PKR 1.31 billion) at end-June'24. The running finance facilities are utilized to finance working capital requirements. Outstanding amount of these short-term borrowings stood at PKR 52.0 million (FY23: PKR 129.59 million; FY22: PKR 542.3 million) at the end-June'24. The gearing and debt leverage have remained at quite comfortable level on a time line basis i.e., 0.14x (FY23: 0.22x; FY22: 0.31x) and 0.45x (FY23: 0.63x; FY22: 0.84x), respectively, as at end-June'24, reflecting strong risk absorption capacity and conservative approach of the Company to finance its operations.

**Sachal Engineering Works (Pvt.) Limited**
**Annexure I**

<b>FINANCIAL SUMMARY</b>			
<i>(PKR Millions)</i>			
<b>BALANCE SHEET</b>	<b>June 2022</b>	<b>June 2023</b>	<b>June 2024*</b>
Property, Plant and Equipment (including ROU assets)	2,843.1	2,430.0	2,028.1
Investment Property	37.6	43.3	43.3
Long-term Investment	3,264.8	3,676.1	4,794.8
Long-term Deposits	161.9	23.8	23.1
Retention Money Receivable	434.5	457.0	347.3
Contract Assets	2,190.7	1,897.9	1,032.3
Receivables from Custome*	767.6	25.8	47.1
Advances, deposits and other Receivables	685.4	1,113.9	307.4
Tax Refund due from the Government	126.7	92.0	47.7
Cash and bank balances	448.5	141.8	883.9
<b>Total Assets</b>	<b>10,776.8</b>	<b>9901.7</b>	<b>9555.0</b>
Long-Term Borrowings (including lease liabilities and current portion)	1,130.9	1,184.3	876.3
Short-Term Bank Borrowings	542.3	129.6	52.0
Deferred liability	249.0	297.2	(202.8)
Trade and Other Payables	2,873.5	2,206.9	2,219.6
Accrued Mark-up on Secured Borrowings	17.1	12.5	14.6
<b>Total Liabilities</b>	<b>4,813.2</b>	<b>3,830.5</b>	<b>2,959.7</b>
Paid-Up Capital	889.7	5,936.1	5,936.1
<b>Total/Tier-1 Equity</b>	<b>5,963.5</b>	<b>6,071.1</b>	<b>6,595.3</b>
<b>INCOME STATEMENT</b>			
	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>
Net Sales	3,824.5	4,448.3	5,673.3
Gross Profit	867.4	1,098.7	1,904.5
Operating Profit	775.2	806.5	1,531.8
Finance Cost	195.6	337.7	430.7
Other Income	117.5	124.3	158.6
Profit Before Tax	579.6	468.8	1,101.1
Profit After Tax	243.7	106.4	551.5
<b>RATIO ANALYSIS</b>			
	<b>June 2022</b>	<b>June 2023</b>	<b>June 2024*</b>
Gross Margin (%)	22.7%	24.7%	33.6%
Net Margins (%)	6.4%	2.4%	9.7%
Current Ratio (x)	1.08	1.16	0.87
Net Working Capital (in m Rs.)	298.1	441.8	(341.5)
Funds from Operations (FFO)	760.5	949.6	1,683.1
FFO to Total Debt (x)	0.45	0.72	1.81
FFO to Long Term Debt (x)	0.67	0.80	1.92
Gearing (x)	0.31	0.22	0.14
Debt Leverage (x)	0.84	0.63	0.45
Debt Servicing Coverage Ratio (x)	1.21	1.31	2.27
ROAA (%)	2.5%	1.0%	5.7%
ROAE (%)	4.2%	1.8%	8.7%
(Stock in Trade+ Trade Debt) to Short-Term Borrowing (x)	5.46	14.84	20.76

\*Unaudited

<b>REGULATORY DISCLOSURES</b>		<b>Annexure II</b>			
<b>Name of Rated Entity</b>	Sachal Engineering Works (Pvt.) Limited				
<b>Sector</b>	Cement & Construction				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Ratings				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: ENTITY</u></b>				
	18-Nov-2024	A-	A2	Stable	Reaffirmed
	23-Aug-2023	A-	A2	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>		
	Mr. Fuad Kehar	Executive Director- Financial Unit	October 22, 2024		