RATING REPORT

Izhar Construction (Pvt.) Limited (ICPL)

REPORT DATE:

December 15, 2022

RATING ANALYSTS:

Tayyaba Ijaz, CFA
tayyaba.ijaz@vis.com.pk

RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-1	A-	A-1
Rating Date	*December 12, 2022*		*June 29, 2021*	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION	
Incorporated in 1960	**External auditors:** PKF F.R.A.N.T.S., Chartered Accountants
Private Limited Company	**Chairman of the Board:** Mr. Ayub Sabir Izhar
	Chief Executive Officer: Mr. Amir Farooq Izhar
Key Shareholders: (Above 10%)	
Mr. Yaqoob Tahir Izhar -22%	
Mr. Amir Farooq Izhar - 18%	
Mr. Mahboob Nasir Izhar - 18%	
Mr. Marghoob Shakir Izhar - 15%	

APPLICABLE METHODOLOGY
VIS Entity Rating Criteria: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

OVERVIEW OF THE INSTITUTION

Izhar Construction (Pvt.) Limited was incorporated in 1960 under Companies Act 1913 (Repealed with enactment of the companies Act, 2017 on May 30, 2017) as a private limited company The principal activities of the company are rendering engineering services and to carry out construction work.

Profile of Chief Executive Officer

Mr. Amir Farooq Izhar has been associated with the company for three decades as CEO. He has done civil engineering from USA and has vast experience in Pre-Engineered Buildings System, Dwelling Construction Technology, sales and marketing strategy.

Profile of Chairman

Mr. Ayub Sabir Izhar is the group chairman of Izhar Group of Companies. He has done engineering from London, UK. He has been associated with the group for the last 36 years. He has vast experience in the fields of Construction engineering services, real estate development, business planning and strategy.

Financial Snapshot

Core Equity: end-FY22: Rs. 10.4b; end-FY21: Rs. 9.8b; end-FY20: Rs. 9.4b

Assets: end-FY22: Rs. 16.0b; end-FY21: Rs. 12.4b; end-FY20: Rs. 11.4b

Profit After Tax: FY22: Rs. 630.3m; FY21: Rs. 290.0m; FY20: Rs. 266.4m

RATING RATIONALE

The ratings assigned to Izhar Construction (Pvt.) Limited (ICPL) take into account the company's sound business risk profile emanating from its association with Izhar Group of Companies having an established footprint and strong brand equity in the construction business developed over the years. The ratings also incorporate inherent synergies and diversification in the group structure, providing implicit strength to the business model.

During FY22, ICPL's topline exhibited growth in line with execution of construction projects while the company was able to maintain its gross margins YoY despite increase in overall cost of project completion due to inflationary pressure, and highly competitive bidding in large contracts. Net margins improved notably primarily on the back of considerably higher other income emanating from gain on sale of fixed assets and investment property. Liquidity in terms of cash flows remained suppressed due to limited funds from operations amidst higher adjustments related to other income. The working capital management remained strong as evident from adequate current ratio and shorter net operating cycle vis-à-vis industry median. Sound capitalization in the presence of conservative capital structure further lowers the financial risk of the company. Meanwhile, the ratings remain sensitive to ICPL's presence in high business risk sector involving capsizing of revenues owing to political unrest & instability, and volatile economic environment. The ratings will remain dependent on upholding financial metrics involving timely completion of key commercial projects without any significant cost and time overruns. In addition, sustaining topline with collection efficiency to avoid cash flow mismatches will remain a critical rating driver.

Key Rating Drivers:

Growth in non-current assets led by increase in property, plant and equipment: PP&E was reported higher at Rs. 2.9b (FY21: Rs. 918.4m) primarily on account of recognizing revaluation surplus of Rs. 1.2b, additions amounting Rs. 708.5m, which majorly constituted freehold land, construction machinery and motor vehicles, along with the transfer of investment property. The company has sold of a piece of land, on which it has recorded a sizable gain. Investment property decreased to Rs. 941.2m (FY21: Rs. 1.1b) mainly due to disposal of land and transfer of land and building to PP&E. The land held by the company mainly comprises commercial, residential and agricultural land in Islamabad, Lahore and Peshawar. Investment in associates decreased to Rs. 1.5m (FY21: Rs. 51.5m) as a result of booking an impairment charge of Rs. 50m on Green Revolution (Pvt.) Ltd. due to closure of its operations; ICPL held 49.99% equity stake in the same. The outstanding value of investment in associate represented 9.93% equity stake in Green Industrial Solutions (Pvt.) Ltd.

Revenue growth majorly driven by execution of contracts with largely stable gross margins; other income provided considerable support to the bottomline: During FY22, topline was recorded higher at Rs. 7.3b (FY21: Rs. 6.6b). Gross revenue emanating from execution of contracts comprised 95% of the revenue mix. There was enhancement in scope of work in some of the projects, including DWP refrigeration plant and Dolmen Mall. In addition, a project from Civil Aviation Authority (CAA) involving construction of international airport parking in Lahore, has been fully completed while 5% retention money will be released following a year after completion. The company also generates some revenue from sale of ready-made concrete mix and agricultural income. The details of projects, with percentage work completed during FY22 is presented in the following table:

Project Name / Description	Approx. Contract Value (Million)	Contract Date	Client Name	Execution till June 22	Completion date
Nishat Hanger, Lahore	93.0	11-Apr-22	M/s. Nishat Group	0%	30-Jun-23
Lake City Roof Garden Apartments	390.0	7-Jun-22	M/s. Lake City Holdings	5%	30-Jun-24

Hybrid Acc Modification & RCC Raw Water Tank	196.0	2-Aug-22	M/s. DG Cement	0%	30-Jun-23
New Extruder Building Packages Lahore	66.7	16-Mar-22	M/s. Packages Convertors	80%	30-Sep-22
Pilling Work at DB -32 DHA Lahore	75.0	11-Feb-22	M/s. DB-32 Developers	80%	30-Nov-22
Production Unit for Fabrizio (Stylo)	250.0	1-Jan-22	M/s. MJMS (Pvt) Limited	50%	31-Dec-22
Lotte Akhtar Beverages Private Limited	100.0	28-Dec-21	M/s. Lotte Akhtar Beverages Private Limited	80%	30-Sep-22
Garment Unit for OMBRE Holding Pvt Ltd	4,270.0	9-Dec-21	M/s. OMBRE Holding Pvt Ltd	30%	31-Dec-23
Centaurus Mall Extension Islamabad	418.0	16-Jul-21	M/s. Pak Gulf Construction Private Limited	65%	31-Dec-22
Riaz Textile Unit 04	614.6	1-Jul-21	M/s. Riaz Textile Mill	75%	31-Oct-22
Haier Refrigeration Plant	378.0	30-Jun-21	M/s. Haier	85%	31-Aug-22
Nestle Head Office Packages Lahore	700.0	3-Mar-21	M/s. Packages Real Estate	90%	30-Sep-22
DWP Refrigeration Plant	500.0	8-Feb-21	M/s. DWP	50%	30-May-23
Indus Hospital & Health Network QF, NST & SMP Campus Lahore	810.0	6-May-17	M/s. Indus Hospital & Health Network	10%	30-Sep-23
Dolmen Mall	8,000.0	12-Nov-19	M/s. DHA Dolmen	75%	31-Jul-23
Hyundai Nishat (New Works)	201.0	20-Feb-22	M/s. Hyundai Nishat	95%	31-Jul-22
Mill Building & Cotton Godowns Nishat Mill	520.0	4-Dec-20	M/s. Nishat Textile	95%	31-Jul-22
Orient Tile Plant Faisalabad	206.4	5-Mar-21	M/s. Orient Materials	95%	31-Jul-22
Nippon Paint Extension	445.0	27-Jan-20	M/s. Nippon	95%	30-Sep-22
Car Parking	5,904.0	2017	M/s. CAA	100%	
Orient Hilton Johar Town Lahore	840.0	3-Mar-21	M/s. Orient Electronics	40%	31-Dec-23

During FY22, gross profits were recorded higher at Rs. 1.1b (FY21: Rs. 935.0m) with largely stable gross margins despite overall increase in cost of sales and highly competitive bidding in large projects. The cost of inventories consumed largely constitutes cement and steel while for majority of the private projects the materials were provided by the clients in order to lower the impact of spike in variable cost bear by the company. In case of government projects, there are set formulas and guideline to adjust the cost escalation while the company may have to bear some impact as well.

Administrative expenses were largely rationalized during the outgoing year. Other operating expenses were recorded higher mainly owing to impairment on investment in associate and higher contributions to employees related funds. However, other income provided impetus to the bottomline as the same was recorded sizably higher at Rs. 529.7m (FY21: Rs. 75.1m) largely due to gain on disposal of fixed assets comprising land and building, gain on disposal of investment property, profit on bank deposits and rental income from investment property and equipment. The finance cost comprised guarantee commission coupled with bank charges and has remained nominal owing to virtually debt free balance sheet. Accounting for taxation, the company recorded sizably higher net profits of Rs. 630.3m (FY21: Rs. 290.0m), with net margin of 8.6% (FY21: 4.7%) supported by rationalized operating costs and higher other income.

The management expects to sustain the topline in the ongoing year in line with completion of the ongoing projects and securing new ones for which the bidding is in process. According to management, there has been no significant delays in any of the key projects and all have been under progress as per set timelines.

Adequate liquidity underpinned by sound working capital management: Despite higher profitability funds from operations (FFO) remained suppressed due to sizeable adjustments related to other income during the outgoing year while higher income tax payments have continued to impact the cash flows. The inventories held by the company increased notably due to the impact of higher volumes and cost of materials used in construction. Trade debts were also reported higher while as a percentage of net sales remained largely stable by the year end. The aging profile of receivables has remained satisfactory. Short-term loans comprised interest free loans to associated companies, related parties and members. The term of these loans was less than one year at the reporting date while aging has remained satisfactory with majority falling in one year bracket. Short-term deposits, advances and prepayments increased mainly due to increase in advances to vendors. Tax refunds increased due to higher income tax refunds. The company has maintained sizeable cash and bank balances, around two-third of which were held in current accounts. Trade and other payables increased notably to Rs. 4.1b (FY21: Rs. 2.5b) due to higher advances from customers, mobilization advance payables and trade creditors. The raw material suppliers give credit period of about 30 days except for cement purchases which are generally executed on cash basis. Current ratio has remained sizeable on a timeline basis. In addition, cash conversion cycle remained manageable and relatively shorter than the industry median.

Sound capitalization underpinned by augmentation in equity on the back of profit retention and conservative capital structure due to virtually debt-free balance sheet: The core equity stood higher at Rs. 10.4b (FY21: Rs. 9.8b) on account of internal capital generation. During FY21, share capital amounting Rs. 150m was issued; paid-up capital stood at Rs. 250m (FY21: Rs. 250m) at end-FY22. Accounting for revaluation surplus, total equity base rose to Rs. 11.8b (FY21: Rs. 10.0b) by end-FY22. The company paid Rs. 10m in interim dividend for the outgoing year. ICPL meets its entire working capital need through internal sources; the company's balance sheet has continued to remain debt free. The liabilities included only trade and other payables. Debt leverage has remained at very comfortable level on a timeline basis. The banks have issued guarantees for various amounts at the request of the company in connection with the contracts awarded. Going forward, equity base is expected to enhance on the back of profit retention while given absence of any debt, capitalization indicators will remain strong, according to management.

FINANCIAL SUMMARY (in millions Rs.)			
BALANCE SHEET	**FY20 (Restated)**	**FY21 (Restated)**	**FY22 (Unaudited)**
Property, plant & Equipment	880	918	2,907
Tax Refunds Due from Govt.	-	2,517	2,799
Cash & Bank Balances	1,277	1,501	1,845
Total Assets	**11,413**	**12,442**	**15,950**
Trade and Other Payables	1,877	2,465	4,079
Long Term Debt *(including current maturity)*	-	-	-
Short Term Debt	-	-	-
Tier-1 Equity	9,354	9,794	10,433
Total Equity	**9,536**	**9,976**	**11,828**
Paid-up Capital	100	250	250
INCOME STATEMENT	**FY20 (Restated)**	**FY21 (Restated)**	**FY22 (Unaudited)**
Net Sales	4,647	6,557	7,294
Profit Before Tax	271	447	935
Profit After Tax	266	290	630
RATIO ANALYSIS	**FY20 (Restated)**	**FY21 (Restated)**	**FY22 (Unaudited)**
Current Ratio (x)	5.03	4.15	2.92
Debt Leverage (x)	0.20	0.25	0.39
Gearing (x)	n.m.	n.m.	n.m.
ROAA (%)	2.3	2.4	4.4
ROAE (%)	2.9	3.0	6.2

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES Appendix III

Name of Rated Entity	Izhar Construction (Pvt.) Limited
Sector	Cement & Construction
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
12-12-2022	A-	A-1	Stable	Reaffirmed
28-06-2021	A-	A-1	Stable	Reaffirmed
31-12-2019	A-	A-1	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.
Probability of Default	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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Contents may be used by news media with credit to VIS.

Due Diligence Meeting/s Conducted

Name	Designation	Date
Mr. Waseem Iftikhar	G.M. Finance and MIS	14th Sep & 14th Nov'2022