

## RATING REPORT

## Izhar Construction Private Limited (ICPL)

**REPORT DATE:**27<sup>th</sup> March, 2024**RATING ANALYST:**

Muhammad Subhan

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Rating Details	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
<b>Entity</b>	A	A-1	A-	A-1
<b>Rating Date</b>	March 27, 2024		December 12, 2022	
<b>Rating Outlook</b>	Stable		Stable	
<b>Rating Action</b>	Upgrade		Reaffirmed	

## COMPANY INFORMATION

<b>Incorporated in 1960</b>	<b>External auditors:</b> PKF F.R.A.N.T.S., Chartered Accountants
<b>Private Limited Company</b>	<b>Chairman:</b> Mr. Ayub Sabir Izhar
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer (CEO):</b> Mr. Amir Farooq Izhar
<i>Mr. Yaqoob Tabir Izhar - 22%</i> <i>Mr. Amir Farooq Izhar - 18%</i> <i>Mr. Mabhoob Nasir Izhar - 18%</i> <i>Mr. Marghoob Shakir Izhar - 15%</i>	

## APPLICABLE METHODOLOGY(IES)

**VIS Entity Rating Criteria: Industrial Corporates**<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

## APPLICABLE RATING SCALE(S)

**VIS Issue/Issuer Rating Scale:**<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

**Izhar Construction Private Limited**

**OVERVIEW OF THE INSTITUTION**

**RATING RATIONALE**

**Izhar Construction Private Limited** was incorporated in 1960 under Companies Act 1913 (Repealed with enactment of the companies Act, 2017 on May 30, 2017) as a private limited company.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 include rendering engineering services and construction work.

**Group Profile: Izhar Group** was established in 1959 by Engineer Izhar Ahmad Qureshi (Late) and has now moved in its 7<sup>th</sup> decade of successful innovative construction operations. The group comprises 10 companies; Izhar Construction Pvt. Ltd., Izhar Engineering Pvt. Ltd., Izhar Concrete Pvt. Ltd., Izhar Housing Pvt. Ltd., Izhar Pavers Pvt. Ltd., Accurate Pvt. Ltd., Green T & D Pvt. Ltd., MEP Solutions Pvt. Ltd., Green Industrial Solutions Pvt. Ltd., and Electrocraft Engineering.

**Corporate Profile**

Izhar Construction Private Limited ('ICPL' or 'the Company') was incorporated in Pakistan on May 13, 1960 under the repealed Companies Act, 1913 (now the Companies Act, 2017). The principal activities of the Company include civil construction, rendering engineering services, making, and sale of ready mix concrete. The Company's registered office is situated at 35-Tipu Block, New Garden Town, Ferozpur Road, Lahore and the plant at 36 KM, Multan Road, Lahore, Pakistan. The Company also owns agriculture farms located at 6 Km on Talagang-Kalar Kahar road, Kalar Kahar.

ICPL holds 49.99% and 9.93% equity stakes in two of the group companies namely Green Revolution Pvt. Limited, a company dedicated to introducing scientific technologies in agriculture, and Green Industrial Solutions Pvt. Limited., specializes in providing comprehensive turnkey solutions for power plants, grid stations, and process and control systems, respectively.

**Group Profile**

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**Operational Performance**

The Company has completed several private projects until FY23 and has a large number of contracts in hand including building and construction of malls, corporate offices, industrial buildings etc.

	<b>No. Of Contracts</b>	<b>Revenue Achieved/Expected</b>
Projects Completed during FY23	14	PKR 4,669.81 mln
Ongoing Projects in FY24	39	PKR 8,145.9 mln

**Key Rating Drivers**

**Business risk profile incorporates high cyclicity interconnected with reducing buying power and political uncertainty in the country**

The construction and real estate industry's business risk profile is assessed as high due to its highly cyclical nature interconnected with the country's fluctuating economic and political situation and reducing purchasing power in the market. The sector also faces capsizing of revenues owing to low investments and volatile economic environment.

The industry is highly dependent on the availability of two major raw materials; cement and steel which further expose the sector to the price risk on account of increasing price of the cement and steel products. The sector also faces a significant cost overrun risk due to the inflationary pressure. However, this risk is somewhat mitigated as materials of the majority private projects are provided by the clients, which lower the impact of spike in variable cost, otherwise to be borne by the Company. In case of government projects, set formulas and guidelines are present to adjust the cost escalation while the Company may have to bear some impact as well.

**Chairman Profile:  
Mr. Ayub Sabir**

Izhar is the group chairperson of Izhar Group of Companies. He is an engineering graduate from London, United Kingdom (UK) and 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.

**CEO Profile: Mr.  
Amir Farooq Izhar**

has been associated with the company for three decades as CEO. He completed his civil engineering from United States of America (USA) and has vast experience in pre-engineered buildings system, dwelling construction technology, sales and marketing strategy.

The outlook on the real estate and construction sector in near future seems to remain uncertain due to the current instability in the politics and inflationary pressures leading to delays in projects on account of significant cost overruns.

**Sponsor support provides comfort to the ratings**

The Company being a part of Izhar Group provides support to the ratings. Izhar Group is a resourceful and well-reputed construction and real estate developer present in residential, commercial, and retail with some companies providing electrical solutions and services. Ample experience and track record of providing high quality projects at prime locations bode well for the ratings.

**The topline of the Company continues to grow with bottom-line impacted by operational challenges in FY23. The 1HFY24, however, shows improvement in the profitability profile**

The Company's revenue streams include construction contracts, prefabricated concrete elements and agricultural activities. Though the revenue increased to PKR 7,547 mln in FY23 (FY22: PKR 7,294 mln), the share of revenue from construction contracts marginally decreased to 91% (FY22: 94%) due to slowdown of construction activities amid rising construction cost, while sale of prefabricated concrete elements and income from agriculture segments improved to 6.9% (FY22: 4.9%) and 1.5% (FY22: 1.1%), respectively. Gross margin slightly increased to 15.7% (FY22: 15.2%) in FY23 as the Company was able to renegotiate some major contracts on cost plus basis to pass on additional cost to the clients. However, operating profit declined due to operational and inflationary pressure, further constraining the net margin.

The first half of FY24 also witnessed an improvement in the gross margin reporting at 19.0% due to full impact of the renegotiated contracts. The bottom-line in 1HFY24 also improved with trickling down of higher gross profits and reduction in the finance cost.

**FY23 depicted a declining coverage profile, however; 1HFY24 witnessed a significant uptick**

In FY23, the Company's debt service coverage ratio (DSCR) witnessed a decline, reporting at 3.2x (FY22: 8.5x). Given debt free balance sheet the DSCR represents coverage to the bank charges relating to bid bonds, guarantees against mobilization advance etc. This reduction in the DSCR was on account of affected funds flow from operations (FFO) as a result of lower gains from asset disposals and high income tax payments. However, in the 1HFY24 the DSCR significantly improved to 69.8x on account of significant uptick in the FFO, supported by high profit before tax and efficient operational performance.

**Capitalization profile strengthened on account of higher equity base and debt free capital structure**

The Company continues to maintain a debt free balance sheet supporting its strong capitalization profile. While the gearing consistently remains nil, the leverage ratio continues to stand at 0.30x (FY23: 0.30x, FY22: 0.37x) in 1HFY24 backed by higher equity base and trade payables remaining at comfortable level on a timeline basis.

**Company's manageable liabilities supporting the liquidity profile**

The liquidity profile depicts a positive momentum with the current ratio improving to 3.49x (FY23: 3.48x FY22: 2.96x) in 1HFY24. This positive momentum in the Company's liquidity position is on account of ICPL's manageable current obligations in comparison to its current assets.

**Consideration for future review ratings**

Going forward, ratings will remain sensitive to the current uncertainty in the country's political and economic situation affecting the construction and real estate industry coupled with timely materialization of the Company's current projects.

REGULATORY DISCLOSURES		Appendix I			
<b>Name of Rated Entity</b>	Izhar Construction Private Limited				
<b>Sector</b>	Construction & Real Estate				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<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>				
	27-03-2024	A	A-1	Stable	Upgrade
	12-12-2022	A-	A-1	Stable	Reaffirmed
	28-06-2021	A-	A-1	Stable	Reaffirmed
31-12-2019	A-	A-1	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.				
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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>		
	Mr. Waseem Iftikhar	General Manager - Finance	Feb 26, 2023		
	Mr. Syed Aamir Hashmi	General Manager - Finance	Feb 26, 2023		