RATING REPORT

Associated Technologies (Pvt.) Limited

REPORT DATE:
March 1, 2019

RATING ANALYSTS:

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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-1	A-	A-2
Rating Date	*26 February'19*		*14 February'18*	
Rating Outlook	Stable		Stable	
Rating Action	Upgrade		Initial	

COMPANY INFORMATION

Incorporated in 1987	**External auditors:** Naveed Mukhtar & Co. Chartered Accountants
Private Limited Company	**Chairman of the Board:** Mr. Mobashir A. Malik
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Mobashir A. Malik
Mr. Mobashir A. Malik & family- 100%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria *Industrial Corporate (May 2016)*
http://www.vis.com.pk/docs/Corporate-Methodology-201605.pdf

Associated Technologies (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Associated Technologies (Pvt.) Limited (ATL) was incorporated in October, 1987 as a private limited company under the Companies Ordinance, 1984 (Now Companies Act, 2017). Principal activities of the company include manufacturing, fabrication of steel towers and construction of civil works. ATL factory is ISO 9001, 14000 & 18000 certified and has a capacity of producing 1500 tons of galvanized steel products per month.

Profile of the Chairman/ CEO

Board is chaired by Mr. Mobashir A. Malik who also serves as Chief Executive Officer (CEO) of the company. He has done Masters in Mechanical Engineering from Texas A&M University, USA and carries around 35 years of work experience in management and engineering including association with ATL since its inception.

Financial Snapshot

Core Equity: *FY18: Rs. 4.9b; FY17: Rs. 4.2b; FY16: Rs. 3.2b*

Assets: *FY18: Rs. 5.8b; FY17: Rs. 5.2b; FY16: Rs. 4.1b*

Sales: *FY18: Rs. 2.2b; FY17: Rs. 3.0b; FY16: Rs. 2.5b*

Profit After Tax: *FY18: Rs. 710m; FY17: 831m; FY16: 585m*

RATING RATIONALE

The ratings assigned to Associated Technologies (Pvt.) Limited (ATL) take into account its low leveraged capital structure, sound liquidity position, and strong coverages. The ratings are constrained by relatively higher risk inherent in type of business; the main revenue stream is dependent on the number and quantum of contracts won by the company, which, in turn, is contingent on the competitive bidding process.

Key Rating Drivers:

Asset mix dominated by Investment properties, Trade debts and Cash & Bank balances: Investment properties constituted the major portion of asset base; increase in fair-value of investment properties has supplemented assets of the company. Other major assets include cash & bank balances and trade debts. The company has notable long-term investments in subsidiary & associated undertakings. Long-term loans and advances comprised Rs. 414m at end-FY18, out of which Rs. 398m (FY17: Rs. 360m) was due from Kandiah Hydro Power (Pvt.) Limited (KHPL – a Subsidiary Company). According to news sources, Private Power & Infrastructure Board (PPIB) has scraped 548 MW Kaigah Hydropower Project (being managed by KHPL). However, as per management, KHPL has gone to the court against the PPIB's decision and is quite hopeful about the decision in their favor.

Sales declined in FY18 with lower gross and operating profit margins: Over the last three years, sales of the company have grown at a CAGR of around 26%. Supply of goods was the major revenue driver in FY18. While revenue emanating from civil contracts decreased in FY18, higher revenue from supply of goods supported revenue to a certain extent. According to the management, overall lesser number of civil contracts were floated in public sector during FY18. Moreover, anticipating devaluation of Pak rupee against US dollar with related increase in cost of sales, the company opted to bid at a higher rate. Resultantly, the number of civil contracts from WAPDA awarded to company stood lower in FY18, leading to drop in market share (FY18: 31%; FY17: 37%).

While the gross and operating margins have remained sound, the same have declined in FY18 due to increase in sales of lower margin supply of goods along with decrease in revenues generated from higher margin civil contracts. Administration expenses increased on a timeline basis owing to inflationary pressure along with revision in salaries of senior management during FY18. Other income, in terms of positive change in fair-value re-measurement of investment properties, continues to provide impetus to the bottom line. Finance cost stood lower on account of lower average borrowings in FY18. In line with decline in sales and gross margins, net profit stood lower during the outgoing year.

During 1HFY19, the company recorded a revenue of Rs. 1.1b. The management has projects worth Rs. 1.5b in hand to be executed by end-FY19. Currently, revenue stream of Rs. 2.6b is projected for FY19 that might increase with inclusion of some other projects. ATL has signed contracts with some telecommunication companies for developing its own sites to generate rental income; the management is targeting 100 such sites to be developed by end-FY19. The management is projecting about Rs. 90m, Rs. 250m and Rs. 250m of rental income from this avenue in FY19, FY20 and FY21 respectively that will further support profitability.

Adequate liquidity profile as evident from healthy cash flows in relation to outstanding obligations and adequate debt service ability:
Liquidity profile of the company is considered sound in view of ample cash available and higher cash flows in relation to outstanding obligations. Funds fro
m operations (FFO), though remained adequate, declined owing to lower profitability during

FY18. In the absence of debt obligations, coverages remained robust in the outgoing year. The company is projecting a capex of Rs. 400m in property plant and equipment. The management plans to finance the said capex with the combination of debt and equity. The company intends to mobilize long-term debt of around Rs. 250m for the said purpose. With adequate cash flows projected, coverages are expected to remain sound, going forward.

Conservative capital structure with low leverage indicators:
Internal capital generation and gain from fair value re-measurement routed through income statement have supplemented core equity. Moreover, the sponsors have injected further capital in the form of unsecured interest free loan from directors and associated undertakings amounting Rs. 111.6m (FY17: Rs. 69.0m) at end-FY18. The company's balance sheet was debt free (end-FY17: Rs. 49.7m) at end-FY18. Despite procurement of debt in FY19, leverage indicators are projected to remain low with higher equity base.

Professional management team striving for better corporate governance framework
While the company possesses an experienced and professional management team, being a private limited company, corporate governance has considerable room for improvement. Meanwhile, as per the management, implementation of new customized ERP system, Oracle Fusion, has been 80% completed and all modules will be fully implemented by July 1, 2019. The company's CFO resigned in December 2018 and the new CFO has joined the company. Apart from that, senior management has depicted stability.

Associated Technologies (Pvt.) Limited — Appendix I

Financial Summary *(in PKR millions)*

BALANCE SHEET	**June 30, 2016**	**June 30, 2017**	**June 30, 2018**
Property Plant and Equipment	426	134	213
Investment Properties	2,222	2,638	3,093
Long-Term Investments	106	120	120
Loan & Advances – long-term	-	368	414
Stock in Trade	214	189	271
Trade Debts	348	682	633
Loans and Advances – short-term	133	101	191
Income Tax Refundable	176	158	185
Cash and Bank Balances	433	777	700
Other Assets	61	41	24
Total Assets	4,119	5,208	5,844
Trade and other Payables	548	963	887
Short Term Borrowings	287	50	-
Long-Term Borrowings ***(Inc. current maturity)***	-	-	-
Employee Benefit Obligation	35	45	55
Tier I Equity	3249	4,150	4,902
Total Equity	3,249	4,150	4,902

INCOME STATEMENT	**June 30, 2016**	**June 30, 2017**	**June 30, 2018**
Net Sales	2,546	3,039	2,214
Gross Profit	220	613	395
Operating Profit	167	557	327
Other Income	538	456	499
Profit After Tax	585	831	710
FFO	15	396	223

RATIO ANALYSIS	June 30, 2016	June 30, 2017	June 30, 2018
Gross Margin (%)	8.7	20.2	17.9
Operating Margin (%)	6.6	18.3	14.8
Net Margin (%)	23	27.3	32.1
Current Ratio (x)	1.6	1.9	2.3
Net Working Capital	530	935	1,117
FFO to Long-Term Debt (x)	n.a	n.a	n.a
FFO to Total Debt (x)	0.05	7.99	n.a
Debt Service Coverage Ratio (x)	2	23	20
ROAE (%)	7.8	29.0	15.7
Gearing (x)	0.09	0.01	n.a
Debt Leverage (x)	0.27	0.26	0.19

Associated Technologies (Pvt.) Limited — Appendix II

Projections *(Amount in PKR millions)*

BALANCE SHEET	June 30, 2019	June 30, 2020	June 30, 2021
Property Plant and Equipment	652	685	711
Investment Properties	3,418	3,743	3,993
Long-Term Investments	186	278	487
Long Term Loans & Advances	333	300	270
Stock in Trade	250	225	325
Trade Debts	592	562	534
Loans and Advances	138	131	151
Cash and Bank Balances	570	770	799
Other Assets	243	242	240
Total Assets	6,382	6,936	7,510
Trade and other Payables	679	577	548
Short Term Borrowings	-	-	-
Long-Term Borrowings *(Inc. current maturity)*	246	197	143
Deferred Liabilities	42	42	42
Tier I Equity	5,414	6,120	6,776
Total Equity	5,414	6,120	6,776

INCOME STATEMENT	June 30, 2019	June 30, 2020	June 30, 2021
Net Sales	2,573	2,978	3,321
Gross Profit	503	518	781
Operating Profit	426	437	697
Other Income	426	509	275
Profit After Tax	707	767	783

FFO	345	334	582
RATIO ANALYSIS	**June 30, 2019**	**June 30, 2020**	**June 30, 2021**
Gross Margin (%)	19.6	17.4	23.5
Net Margin (%)	27.5	25.8	23.6
Current Ratio (x)	2.5	3.1	3.4
Net Working Capital	1,064	1,298	1,440
FFO to Long-Term Debt (x)	1.4	1.69	4.06
FFO to Total Debt (x)	1.4	1.69	4.06
Debt Service Coverage Ratio (x)	5.65	4.22	6.9
ROAE (%)	13.7	13.3	12.1
Gearing (x)	0.05	0.03	0.02
Debt Leverage (x)	0.18	0.13	0.11

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix III

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 IV
Name of Rated Entity	Associated Technologies (Pvt.) Limited
Sector	Engineering
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
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.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
26/02/2019	A-	A-1	Stable	Upgrade
14/02/2018	A-	A-2	Stable	Initial