



The Pakistan Credit Rating Agency Limited

Rating Report

H. Sheikh Noor-ud-Din & Sons (Private) Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
01-Aug-2019	A-	A2	Developing	Maintain	YES
31-Jan-2019	A-	A2	Developing	Maintain	YES
02-Aug-2018	A-	A2	Stable	Maintain	-
29-Jan-2018	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

H. Sheikh Noor-ud-Din & Sons (HSNDS), manufacturing arm of NRS International, is primarily engaged in manufacturing of relief and health items for international donor agencies. The rating incorporates the Company's long term association with international donor agencies such as UNHCR, UNESCO, Red Cross and others as a qualified vendor. The Company manufactures Long Lasting Insecticidal Nets (LLIN) under brand name DAWAPlus®. Approved by World Health Organization, it is the second most used LLIN with over 40% market share in the world. LLIN represents a major share of revenues in the Company. In 9MFY19, due to ongoing ownership related changes, the Company did not bid for new contracts with international relief agencies, which led to proportionate decrease in revenue and overall profitability. However, after recent settlement agreement among sponsors, the Company's revenues are expected to improve. To cater the needs of volatile relief industry, HSDNS has to maintain higher inventory levels which in turn give rise to higher capital needs. Due to decrease in sales, inventory levels further increased and gave rise to working capital needs. This led to higher short term borrowings, impacting overall financial profile of the Company. However, with repayment of CAPEX related lease liabilities, overall leveraging remains moderate. The Company enjoys adequate debt coverages. Strong support from sponsors and other group businesses is a key rating factor.

Improving volumetric sales, profitability, prudent management of working capital and financial profile of the Company will be important. Meanwhile, successful transition and implementation of new shareholding structure, strengthening of governance framework and financial transparency for better oversight of strategic affairs is considered critical. Adherence to agreed upon financial matrices (Short term borrowing to Net working capital <70%, cash debt coverages of above 2.5x) will remain critical.

The ownership structure of the Company has been reorganized after the sponsors reached an agreement. PACRA has placed entity ratings of the Company on Rating Watch and continues to monitor the progress. The above mentioned process is expected to complete in near future and action will be taken accordingly.

Disclosure

Name of Rated Entity	H. Sheikh Noor-ud-Din & Sons (Private) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_Corporate_FY19(Jun-19), PACRA_Criteria_LT ST Relationship_FY19(Jun-19), PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study Relief Industry(Jan-19)
Rating Analysts	Muhammad Hassan muhammad.hassan@pacra.com +92-42-35869504

Profile

Legal Structure H. Sheikh Noor-ud-Din & Sons Pvt. Ltd. (HSNDS) was incorporated in 1979 as a Private Limited Company.

Background In 1966, Sheikh Muhammad Sarwar, founder and chairman of HSNDS, opened a local shop to sell canvas. A pivotal event in the Company was when it began to supply tents to the United Nations during the Iran-Iraq War in 1980.

Operations Principal operations of HSNDS comprise production and sale of humanitarian relief items, multi-purpose tents, insecticidal nets and solar solutions. The Company operates as the production arm of NRS Group.

Ownership

Ownership Structure The group is a family business owned and managed by Sarwar family via equal individual shareholdings of four brothers Farhan Sarwar, Farhaj Sarwar, Ahmar Sarwar and Furqan Sarwar. However, Sarwar family has decided to alter the ownership structure by August FY19. In the new structure, Mr. Farhan will cash out his shareholding in the Company and the remaining three brother; Mr. Farhaj Sarwar, Mr. Ahmar Sarwar and Mr. Furqan Sarwar will split the shareholding equally.

Stability The Company recently went through the process of re-designing its ownership structure. Sponsors of the Company reached an asset division agreement, which resulted in one of the four brothers exiting the Company with his share. The agreement also clearly lays out a road map for any future division of the Company assets in case of a split.

Business Acumen Sponsors have strong knowledge of the industry with extensive experience in the relevant fields. This facilitates smooth and effective running of the Company.

Financial Strength Financial Strength of the entity is considered strong. Apart from relief industry, the sponsors are also involved in other businesses like; oil extraction, real-estate and dairy products.

Governance

Board Structure The board is dominated by the sponsors. Currently, all four brothers are on the board but the composition will soon reduce to three brothers after the departure of Mr. Farhan Sarwar from the Company. All directors are executive directors.

Members' Profile Board members have significant industry experience and have a long association with HSNDS, as all board members are also the Company's shareholders. Mr. Farhan Sarwar- CEO HSNDS is also the chairman of the Company. He will soon discharge his responsibilities and one of the remaining three brothers will replace him as the Company chairman.

Board Effectiveness As a private limited company, HSNDS's board does not have any formal committees. Being executive directors, all directors are actively involved in the day to day operations of the Company. However, documentation of minutes of meetings need improvement.

Financial Transparency Kaleem & Co. Chartered Accountants are the external auditors of the Company. The auditor has given an unqualified opinion on the financial statements as at 30th June 2018. Going forward, the Company plans to enhance its financial transparency by upgrading to a more established auditor.

Management

Organizational Structure HSNDS has a broad organizational structure. The Company's structure is mainly divided into four divisions. Three divisions operate in Pakistan whereas one division operates in Dubai. The four divisions are 1) Share Services, 2) Sales & Marketing Services, 3) Supply Chain Services and 4) Business Services.

Management Team Mr. Farhaj Sarwar looks after the sales and marketing division of the group in Dubai. Whereas, Mr. Ahmar Sarwar and Mr. Furqan Sarwar head Shared Services and Supply chain Services Division respectively. The fourth brother Mr. Farhan Sarwar resigned from the CEO position of the Company and Mr. Farhaj Sarwar will replace him by August 2019.

Effectiveness HSNDS maintains good IT infrastructure and related controls. The Company recently changed its Enterprise Resource Planning Software from SAP to Oracle EBS 12.27 and Qlik Sense in its facilities.

MIS The Company maintains a comprehensive MIS reporting system for the management to keep track of activities. The Company's MIS comprises range of reports including cash position, receivable position, payable position, production, inventory status reports, and segment wise profit & loss statement.

Control Environment HSNDS has a well-trained quality control department which is responsible for ensuring product quality. The Company's compliance with internationally acclaimed quality standards help HSNDS meet its customer specification. The Company is ISO 9001, ISO – 14000 and SA 8000 certified.

Business Risk

Industry Dynamics Sales of this industry are majorly made to areas affected by natural calamities or areas which are more prone to diseases caused by mosquitoes. Relief items are mainly sold in African areas and parts of Middle East, Western Asia which are affected by Middle East war and flood affected areas.

Relative Position HSNDS is one of the world's leading manufacturers of core relief items and long-lasting insecticidal nets for humanitarian aid and public health sectors. The Company also has 40% world market share in netting.

Revenues During 9MFY19, revenues of the Company clocked in at PKR 9.1bln (FY18: 19.6bln, FY17: 19.8bln). The relative decrease in HSNDS's revenue was mainly due to the Company not bidding for contracts with international relief organizations because of internal conflicts within the Company regarding ownership. The Company's sales mix remains dominated by insecticidal nets segment.

Margins During 9MFY19 cost of sales of the Company clocked in at PKR 7bln (FY18: PKR 15.8bln, FY17: PKR 16.6bln). The proportionate decrease was on the back of reduction in purchases amid rising raw material prices. Other the other hand, finance cost increased proportionately to PKR 403mln (FY18: PKR 483mln) due to higher interest rates. Despite increase in cost of sales and finance cost, the Company's margins improved mainly due to currency devaluation, since the Company exports all its production output. The gross margin of HSNDS in 9MFY19 increased to 23% (FY18: 18.9%) and operating margin to 16.3% (FY18: 12.5%). Net profit margin also improved to 10.2% during the period (FY18: 8.6%).

Sustainability The Company's revenue and margins will take approximately one year to recover from the effect of recent restructuring and reach previous year's level. Going forward, the Company is planning to expand its production facility by installing new plant and machinery for its Moon Netting project. The group is also planning to add oil extraction business in its portfolio.

Financial Risk

Working Capital The Company has signed long term agreements with its customers which require it to maintain higher levels of inventory to meet any unforeseen demand of relief items. During 9MFY19, the Company's net working capital cycle increased to 223 days (FY18: 104 days) due to higher inventory retention days as a result of lower sales (9MFY19: 128 days, FY18: 62 days). Short term borrowings increased to PKR 7,918mln (FY18: 6,318mln) to meet the financing gap due to higher inventory retention and lower receivable realization.

Coverages During 9MFY19, Free Cashflow from Operations (FCFO) clocked in at PKR 920mln (FY18: PKR 2,553mln) a relative decrease of 52% mainly due to decline in revenue. Decrease in FCFO led to decrease in the Company's profitability and coverages. Interest coverage ratio during the period came down to 2.5x (FY18: 5.7x) and debt coverage ratio to 1.6x (FY18: 4.5x), although remained adequate.

Capitalization HSNDS maintains moderately leveraged capital structure. The company mainly relies on finance lease in order to finance its CAPEX. Currently, the Company's leveraging stands at 45% (FY18: 41%). Going forward, in absence of any major CAPEX, leveraging is expected to decrease further. The Company does not pay dividends as the directors receive salaries instead of dividend.



The Pakistan Credit Rating Agency Limited

Financial Summary

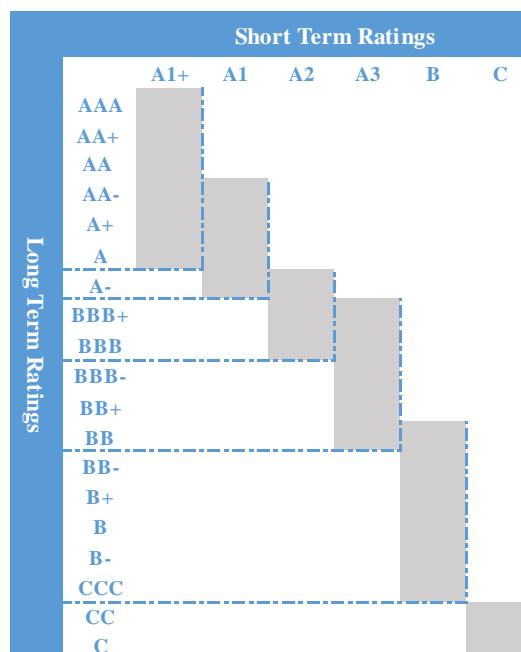
PKR mln

H. Sheikh Noor-ud-Din & Sons (Private) Limited Relief	Mar-19 9M	Jun-18 12M	Jun-17 12M	Jun-16 12M
A BALANCE SHEET				
1 Non-Current Assets	5,262	7,317	6,384	5,779
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	14,424	9,915	9,690	6,957
a Inventories	5,194	3,323	3,375	2,786
b Trade Receivables	4,316	3,002	3,016	2,898
5 Total Assets	19,686	17,232	16,074	12,736
6 Current Liabilities	522	1,154	2,074	2,750
a Trade Payables	211	805	797	849
7 Borrowings	8,636	6,517	6,131	3,354
8 Related Party Exposure	-	-	10	99
9 Non-Current Liabilities	47	41	23	-
10 Net Assets	10,481	9,519	7,836	6,534
11 Shareholders' Equity	10,481	9,519	7,836	6,534
B INCOME STATEMENT				
1 Sales	9,104	19,596	19,838	15,263
a Cost of Good Sold	(7,012)	(15,886)	(16,594)	(12,826)
2 Gross Profit	2,092	3,710	3,244	2,438
a Operating Expenses	(605)	(1,251)	(1,214)	(1,065)
3 Operating Profit	1,488	2,458	2,030	1,373
a Non Operating Income	(48)	(91)	(77)	(55)
4 Profit or (Loss) before Interest and Tax	1,440	2,367	1,954	1,318
a Total Finance Cost	(403)	(487)	(466)	(236)
b Taxation	(109)	(198)	(185)	(133)
6 Net Income Or (Loss)	928	1,683	1,302	948
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	920	2,553	2,059	1,417
b Net Cash from Operating Activities before Working Capital Changes	566	2,037	1,625	1,180
c Changes in Working Capital	(4,562)	(1,190)	(3,394)	(1,476)
1 Net Cash provided by Operating Activities	(3,997)	847	(1,769)	(296)
2 Net Cash (Used in) or Available From Investing Activities	1,882	(1,219)	(900)	(1,309)
3 Net Cash (Used in) or Available From Financing Activities	2,153	340	2,679	1,666
4 Net Cash generated or (Used) during the period	38	(33)	10	61
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-38.1%	-1.2%	30.0%	--
b Gross Profit Margin	23.0%	18.9%	16.4%	16.0%
c Net Profit Margin	10.2%	8.6%	6.6%	6.2%
d Cash Conversion Efficiency (EBITDA/Sales)	18.4%	14.4%	11.7%	10.5%
e Return on Equity (ROE)	12.4%	19.4%	18.1%	14.5%
2 Working Capital Management				
a Gross Working Capital (Average Days)	238	118	111	128
b Net Working Capital (Average Days)	223	104	96	108
c Current Ratio (Total Current Assets/Total Current Liabilities)	27.6	8.6	4.7	2.5
3 Coverages				
a EBITDA / Finance Cost	4.6	6.3	5.6	8.6
b FCFO / Finance Cost+CMLTB+Excess STB	1.6	4.5	3.5	3.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.0	0.1	0.2	0.5
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Short-Term Borrowings / Total Borrowings	45.2%	40.6%	43.9%	34.6%
b Interest or Markup Payable (Days)	0.9	1.0	1.0	0.8
c Average Borrowing Rate	6.5%	7.0%	8.7%	5.4%

Credit Rating Scale & Definitions

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	A1	A strong capacity for timely repayment.
AA		A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
AA-		A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A+	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
A		C	An inadequate capacity to ensure timely repayment.
A-			
BBB+	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.		
BBB			
BBB-			
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.		
BB			
BB-			
B+	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.		
B			
B-			
CCC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.		
CC			
C			
D	Obligations are currently in default.		



Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.	Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.	Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.	Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.	Harmonization A change in rating due to revision in applicable methodology or underlying scale.
--	--	---	---	--

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA’s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA’s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA’s prior written consent