



The Pakistan Credit Rating Agency Limited

Rating Report

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

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Mar-2024	BBB+	A2	Stable	Upgrade	-
18-Jan-2024	BBB	A2	Stable	Maintain	-
18-Jan-2023	BBB	A2	Stable	Maintain	-
18-Jan-2022	BBB	A2	Negative	Maintain	Yes
18-Jan-2021	BBB	A2	Negative	Maintain	Yes
31-Jan-2020	BBB	A2	Negative	Downgrade	Yes
01-Aug-2019	A-	A2	Developing	Maintain	Yes
31-Jan-2019	A-	A2	Developing	Maintain	Yes
02-Aug-2018	A-	A2	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

H. Sheikh Noor-ud-Din & Sons (Private) Limited (“The Company” or “HSNDS”) is a family-owned entity that serves as the manufacturing and production arm of NRS Relief which is primarily engaged in the production and sale of a wide range of innovative relief products (tents, tarpaulins, canvas, mosquito nets, and other items) for humanitarian organizations. The family transaction was completed at the end of 2023, resulting in some changes in the ownership structure of the company. The sponsors have strong industry-specific knowledge & expertise. The financial strength of the entity is considered adequate as apart from the relief industry, the sponsors are also involved in other businesses like; edible oil manufacturing, poultry, and dairy products. HSNDS has sponsors dominant board. The governance of the Company is considered adequate and requires augmentation. Sales of the industry are majorly made to relief organizations worldwide. Recent global conflicts and increases in natural calamities have increased the global demand for relief equipment creating avenues for growth for HSNDS as reflected by the commendable growth of 196% YoY in the top line of the company mainly on the back of timely bidding for new contracts of international relief agencies after the resolution of ownership conflict. Relief tents remain their primary product followed by tarpaulin and mosquito nets. The Company’s gross profitability margin diluted slightly but the net profitability margin increased significantly on the back of complete deleveraging resulting in a reduction in finance cost enabling the company to register a hefty bottom line. The management of the Company is actively following its financial projections to achieve its future top-line targets. The financial risk profile of the Company has improved significantly and derives its strength from the deleveraged capital structure consequent to the repayment of the entire debt portfolio of the company. This improvement in the financial risk profile of the company is considered imperative for the upgraded ratings. The working capital management of the Company has also improved on the back of improved credit terms with the buyers. The company has generated healthy cash flows during the year. The ratings incorporate the Company’s long-term association with international donor agencies such as the UN, UNHCR, UNICEF, Red Cross, etc. Adequate support from sponsors and other group businesses remains a key rating factor. Going forward, maintaining a deleveraged capital structure and sustainability of the growth trajectory in the top line and profitability remain essential for the sustainability of the ratings.

The sustainability of ownership and new governance structure, sustainable growth in sales volumes, and stability in margins remain critical for ratings. Any deterioration in coverages and cash flows of the Company remains critical for the ratings.

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	Methodology Corporate Rating(Jul-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Relief(Feb-24)
Rating Analysts	Sohail Ahmed Qureshi sohail.ahmed@pacra.com +92-42-35869504

Profile

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

Background In 1966, Sheikh Muhammad Sarwar, founder and Chairman of the Company, 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 The Company's principal operations comprise producing and selling humanitarian relief items, multi-purpose tents, insecticidal nets, and solar solutions. The company operates as the production arm of NRS Group (NRS Relief).

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. In the new structure, Mr. Farhan has transferred his shareholding in the Company and the remaining three brothers; Mr. Farhaj Sarwar, Mr. Ahmar Sarwar and Mr. Furqan Sarwar have 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. The agreement also clearly lays out a road map for any future division of the Company assets in case of a split between the remaining three brothers. The transition in ownership structure has affected stability until its execution.

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

Financial Strength The financial strength of the entity is considered strong. Apart from the relief industry, the sponsors are also involved in other businesses like; oil manufacturing, poultry and dairy products.

Governance

Board Structure The board is dominated by the sponsors. Previously, all four brothers were on the board but the composition has changed and now the three brothers have remained on the board 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 the Company. During FY19, Mr. Farhaj Sarwar replaced Mr. Farhan Sarwar as the CEO and Chairman of the Company.

Board Effectiveness As a private limited company, the board does not have any formal committees. Being executive directors, three directors (Mr. Farhaj, Mr. Ahmar and Mr. Furqan) are actively involved in the day-to-day operations of the Company. There is room for improvement in the governance framework.

Financial Transparency RSM Avais Hyder Liaquat Nauman Chartered Accountants are the external auditors of the Company. The auditor has given an unqualified opinion on the financial statements for the year ended June 30, 2023.

Management

Organizational Structure The Company has a broad organizational structure. It is mainly divided into four divisions. Three divisions operate in Pakistan whereas sales and marketing division is based in Dubai. The four divisions are 1) Finance, 2) Sales & Marketing Services, 3) Supply Chain Services, and 4) Production.

Management Team Mr. Farhaj Sarwar looks after the sales and marketing division of the group in Dubai and Mr. Furqan Sarwar oversees production division. Whereas, Mr. Ahmar Sarwar heads finance function, as well as, administrative responsibilities are discharged by Mr. Farhan Sarwar. Mr. Farhaj Sarwar recently replaced Mr. Farhan Sarwar as the CEO of the Company.

Effectiveness The Company maintains good IT infrastructure and related controls. Four management committees are in place which are i). Contingency Committee, ii). Legal Affairs Committee, iii). Taxation Committee & iv). HR Committee. These augment the effectiveness in decision making process of the senior management.

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

Control Environment The Company has a well-trained quality control department, which is responsible for ensuring strict product quality. The Company's compliance with internationally acclaimed quality standards help it meet customer specifications. The Company is ISO 9001, ISO – 14000, SEDEX and ISO 450001 certified.

Business Risk

Industry Dynamics Sales of the industry are majorly made to relief organizations worldwide to help people in areas affected by natural calamities or areas that are more prone to diseases caused by mosquitoes. Relief items are mainly provided in parts of Africa, parts of the Middle East, and Western Asia that are affected by war, floods, or other calamities. Recent flooding in Pakistan has also created an opportunity for the relief products providers to penetrate/ grow their volumes in the local market as well. Also, global calamities have opened new avenues of export for the sector. However, PVC is a major raw material for the sector and PVC prices, like those of other polymers, are linked to oil prices due to which there can be significant volatility, increasing the risk of the relief sector.

Relative Position The Company is one of Pakistan's leading manufacturers of core relief items and long-lasting insecticidal nets for humanitarian aid and public health sectors. The Company also has a moderate presence in the international market in netting

Revenues During FY23, the revenue of the Company showed an impressive growth of ~196% and increased to PKR 21,671m (FY22: PKR 7,325m). In previous years decline in sales was mainly on the back of delays in bidding for new contracts with internal relief organizations amid ownership division in the Company. The growth in topline is actually the regain of lost momentum in sales after the resolution of ownership dispute and also due to increased demand of relief equipment globally.. The Company's sales mix was dominated by Tent and Tarpaulin followed by bed linen sets and blankets.

Margins The Company's gross margin (FY23: 13.2%) remains stable over the year mainly on the back of stability in PVC prices. Improvement in profitability and net margins (FY23: 6.0%, FY22: 1.2%) is mainly attributable to significant reduction in the finance costs of the company owing to repayment of the entire debt by the company and some steps towards the economy of scale. Finance cost to sales ratio decreased to 2.3% which helped in boosting the net profitability margin in FY23. Resultantly, the net profit of the Company stood at PKR 1,309m in FY23 (FY22: 90m).

Sustainability In recent times, the Company's business suffered due to internal ownership changes but it has now been resolved. Secondly, they again started getting business and orders from international relief agencies along with the flooding situation in Pakistan (creating avenue for local sales as well) and repayment of entire debt portfolio by the company has improved the financial profile of the company which will help in sustainability of growth trajectory.

Financial Risk

Working Capital During FY23, the Company's net working capital cycle decreased to 44 days (FY22: 213 days), mainly on account of improvement in average inventory and receivable days. The Company's short-term trade leverage further increased to 64.2% in FY23 (FY22: -22.1%) due to an increase in net trade assets signifying sufficient room for borrowing is available to the company if needed.

Coverages During FY23, Free Cashflow from Operations (FCFO) clocked in at PKR 3,741m (FY22: PKR 1,324m) mainly due to higher EBITDA during the period. The increase in FCFO resulted in the EBITDA/Finance cost ratio to improve significantly. This argument is also supported by debt service coverage ratio EBITDA/ Finance cost: 8.0x, (FY22: 1.7x). The improvement in overall coverages was attributable to the increased profitability and elimination of debt.

Capitalization During FY23, the Company's leveraging improved and stood at 0% (FY21: 36.4%) on account of the repayment of total debts of the Company during the period under review which has been reduced to 0 from PKR 6,707m. This deleveraging of the capital structure has significantly improved the financial risk profile of the company along with a positive impact on the profitability of the company.



The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

H. Sheikh Noor-ud-Din & Sons (Private) Limited Relief	Jun-23 12M	Jun-22 12M	Jun-21 12M	Jun-20 12M
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A BALANCE SHEET

1 Non-Current Assets	15,530	12,634	11,314	11,393
2 Investments	-	-	-	-
3 Related Party Exposure	582	863	2,153	1,451
4 Current Assets	4,868	7,518	9,069	9,991
<i>a Inventories</i>	1,248	2,237	2,896	3,536
<i>b Trade Receivables</i>	1,708	2,034	2,527	3,375
5 Total Assets	20,980	21,016	22,535	22,835
6 Current Liabilities	2,143	1,181	673	645
<i>a Trade Payables</i>	1,227	814	335	405
7 Borrowings	-	6,707	9,317	9,714
8 Related Party Exposure	-	481	-	-
9 Non-Current Liabilities	175	84	75	57
10 Net Assets	18,662	12,563	12,471	12,419
11 Shareholders' Equity	18,662	12,563	12,471	12,419

B INCOME STATEMENT

1 Sales	21,671	7,325	5,815	6,015
<i>a Cost of Good Sold</i>	(18,810)	(5,856)	(4,631)	(4,345)
2 Gross Profit	2,861	1,469	1,185	1,671
<i>a Operating Expenses</i>	(924)	(493)	(473)	(544)
3 Operating Profit	1,937	976	712	1,127
<i>a Non Operating Income or (Expense)</i>	155	26	24	22
4 Profit or (Loss) before Interest and Tax	2,092	1,002	735	1,149
<i>a Total Finance Cost</i>	(534)	(831)	(616)	(820)
<i>b Taxation</i>	(249)	(81)	(70)	(66)
6 Net Income Or (Loss)	1,309	90	50	264

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	3,741	1,324	957	1,570
<i>b Net Cash from Operating Activities before Working Capital</i>	2,961	524	413	659
<i>c Changes in Working Capital</i>	3,768	3,959	951	72
1 Net Cash provided by Operating Activities	6,728	4,483	1,364	731
2 Net Cash (Used in) or Available From Investing Activities	(194)	(1,749)	(892)	(1,204)
3 Net Cash (Used in) or Available From Financing Activities	(6,707)	(2,559)	(397)	562
4 Net Cash generated or (Used) during the period	(173)	174	75	89

D RATIO ANALYSIS

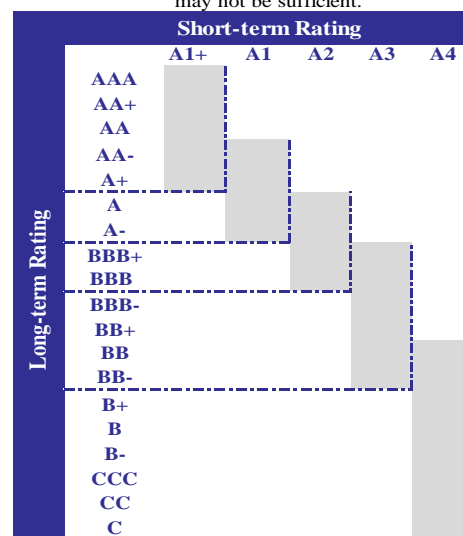
1 Performance				
<i>a Sales Growth (for the period)</i>	195.9%	26.0%	-3.3%	0.0%
<i>b Gross Profit Margin</i>	13.2%	20.0%	20.4%	27.8%
<i>c Net Profit Margin</i>	6.0%	1.2%	0.9%	4.4%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working C</i>	34.6%	72.1%	32.8%	27.3%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (T</i>	8.4%	0.7%	0.4%	2.1%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	61	242	387	419
<i>b Net Working Capital (Average Days)</i>	44	213	364	395
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.3	6.4	13.5	15.5
3 Coverages				
<i>a EBITDA / Finance Cost</i>	8.0	1.7	1.7	2.1
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	7.6	1.3	1.1	1.8
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi</i>	0.0	2.8	4.1	2.0
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equit</i>	0.0%	36.4%	42.8%	43.9%
<i>b Interest or Markup Payable (Days)</i>	0.0	110.8	132.6	65.2
<i>c Entity Average Borrowing Rate</i>	8.6%	9.5%	6.2%	8.5%

Credit Rating

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
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.
AA-	
A+	
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.
A-	
BBB+	
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-	
BB+	
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-	
B+	
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-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*The correlation shown is indicative and, in certain cases, may not hold.

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) 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.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

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(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

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- (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 | Clause 11-(A)(p).
- (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)
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- (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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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