



The Pakistan Credit Rating Agency Limited

Rating Report

Sefam (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
02-May-2022	A-	A2	Positive	Maintain	-
07-May-2021	A-	A2	Positive	Maintain	-
21-May-2020	A-	A2	Stable	Maintain	Yes
21-Nov-2019	A-	A2	Stable	Maintain	-
22-May-2019	A-	A2	Stable	Maintain	-
20-Nov-2018	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect Sefam (Pvt.) Limited's reputable image as one of the leading players in the clothing/home textile retail industry with several established brands. The Company operates a complete range of clothing brands targeting various segments of the retail market. The major portion of the Company's raw material is sourced from group companies, which allows efficient supply chain management while ensuring quality. Ratings positively take in to account the track record and presence of experienced & professional management team which possesses considerable experience in the retail business. With Bullish Sector dynamics, the Company has managed to sustain growth in revenues and margins in the retail market. Moreover, the Company has resorted to online sales as well. Topline and net profitability has been notably increased in 1HFY22. Liquidity profile of the Company is considered strong with manageable working capital cycle and sufficient cash flows to meet outstanding obligations. The capital structure remains low leveraged with strong coverages and efficient management of working capital.

The positive outlook signifies the improving revenue and profitability along with other strong financial parameters. Moreover, the comfort can also be drawn from the business risk profile backed by the healthy market position of the Company's various brands as well as benefits from the strong financial position of the sponsors.

The ratings are dependent on sustaining business performance amidst prevailing tough conditions. Maintaining strong financial profile amidst lower revenues is critical. The Company's ability to improve the governance framework by hiring better financial auditors will remain important.

Disclosure

Name of Rated Entity	Sefam (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Composite and Garments(Dec-21)
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Profile

Legal Structure Sefam (Private) Limited (Sefam) was incorporated in Pakistan in January, 1989, as a private limited Company.

Background Sefam was co-founded by Mr. Hamid Zaman and Ms. Seema Aziz and is an associated concern of Sarena and Ali Group of Industries. Sefam started out with its flagship brand, Bareezé, 30 years ago. It has now expanded to a family of 10 brands. Well-known brands owned by the Company include Bareezé, Minnie Minors, Leisure Club, Bareezé Home Expressions, Chinyere, Kayseria, among others, as well as a franchise of 'The Entertainer', which is the UK's largest independent toy retailer.

Operations The Company currently operates with 12 stitching units spread across Lahore and a total of 337 shops spread across the country. Only a couple of brands (Bareezé and Chinyere) have dedicated stitching and warehouse units, whereas, majority of the units are shared between brands. Additionally, the Company operates 6 Entertainer branches across Pakistan.

Ownership

Ownership Structure Sefam is wholly owned by the children of late Mr. J.A. Zaman. Ms. Seema Aziz and Mr. Hamid Zaman hold 41.67% of the Company, each, while Mr. Tariq Zaman and Ms. Ambreen Zaman hold the remaining 16.66%, equally.

Stability While no written agreement between the sponsors currently exists, the Group is moving towards consolidation and formalization of Group structure in line with the current management structure.

Business Acumen The sponsor group holds extensive experience and expertise in the textile and retail industry. They are viewed as the pioneers of introducing the concept of brands in Pakistan. Apart from the textile industry, the Group has also diversified into corporate farming, energy etc, through small scale ventures.

Financial Strength The net worth of the group is considered strong and the sponsors have shown willingness and ability to support the Company in the past through various director loans.

Governance

Board Structure Sefam's Board of Directors comprises six members, four from the sponsoring family and two independent members. The Company effectively has two boards in place, one is a 'family board' which only comprises members of the sponsor family while the other is the 'extended board', which includes the external members. The family board discusses matters pertaining to operations and future strategy, whereas, the extended board meets for strategic planning.

Members' Profile Representatives from the sponsor family include Mr. Hamid Zaman and Ms. Seema Aziz, and their sons, Mr. Mustafa Zaman and Mr. Ali Zain all of whom have been part of the Company for a significant period of time. The external members are seasoned professionals with experience in diversified sectors.

Board Effectiveness Frequency of board meetings vary across both the Boards. However, there is no fixed number of meetings that are to be held in a year. Meetings are conducted when deemed fit without documentation of minutes.

Financial Transparency M/s Arshad Raheem & Co. Chartered Accountants, who are not rated by the SBP but are QCR rated by ICAP, are the external auditors of the Company. Auditors have provided an unqualified opinion for the period ended 30th June 2021.

Management

Organizational Structure The organizational structure of the Company is well-defined and is based on different brands. Management of the brands is split between three individuals, namely, Mr. Hamid Zaman, Ms. Seema Aziz and, Mr. Ali Zain. All individuals report to the Board of Directors. Brands have independent and dedicated teams which are divided into various departments reporting to the relevant head.

Management Team Both Mr. Hamid Zaman and Ms. Seema Aziz are Managing Directors of the Company. While Mr. Hamid Zaman looks more after the strategic aspect of the business, Ms. Seema Aziz is actively involved in managing some of the brands that the group owns. They are assisted by a professional management team.

Effectiveness The Company does not have any formal management committees in place. Meetings among management are called when deemed fit and are participated in by relevant department heads without documentation of minutes.

MIS The Company relies on a combination of in-house developed, external and ready to use softwares for MIS. Sefam deploys SAP ECC 6 as its Enterprise Resource and Planning (ERP) system with three modules currently implemented. A major portion of the modules deployed have been developed in-house and are regularly updated.

Control Environment The Company invests heavily in research and development to come up with innovative designs and prints to capture the market. Quality is maintained through strict control measures in place. Additionally, the Company has in place in-house developed softwares which track production, customer feedback/complaints and worker efficiency.

Business Risk

Industry Dynamics During the period July-December FY21-22, textile exports surged 26 percent YoY, fielding \$9.39 billion in total export remittances, as compared to \$7.44 billion in the same period last year. This is attributable to increase in demand for textile products internationally and channeling of export orders towards Pakistani market. On a YoY basis, the exports of value-added textile items increased in both quantity and value in December 2021. Going forward, the textile sector's outlook is expected to stay positive in the medium term where the demand for textile products is expected to sustain. In the local market, the textile sector has recorded strong performance. The relief measures introduced by the State Bank of Pakistan such as deferment of loan payments for one year, low-interest rates, and salary refinance scheme also provided comfort to the sector. Many players have also availed the TERF scheme announced by the Central Bank. This will lead to overall leverage of the sector to increase; however, on relaxed financing rates. The sustainability of demand pattern for the current higher orders from Europe and USA remains essential for the feasible utilization of added capacity by textile players.

Relative Position Sefam is among the pioneers of textile retail brands in Pakistan and is among the top retailing companies in the country, particularly in eastern ladies wear. The Company largely caters to the quality conscious female buyer and has little competition in this niche.

Revenues During FY21, the Company's topline clocked at PKR 18.9bln (FY20: PKR 14.0bln) where tilt is majorly towards local market (~99%). Moreover, 60.8% of the total revenue is concentrated towards two brands namely: Bareeze (34.5%) and Minnie Minors (26.3%). During 1HFY22, the company's topline following the same growth pattern clocked in at PKR 11.0bln (1HFY21: PKR 8.3bln).

Margins Gross margin of the company recorded sizable improvement due to operational efficiency achieved through BMR. The same reflected in rising operating margin (end-Dec21: 22.1%, end-Jun21: 20.7%) where the growth of operating expenses is dominated by advertisements and depreciation. Net profit margins improved to 13.4% (end-Jun21: 11.4%).

Sustainability The Company regularly undertakes BMR for value-addition to enhance its operational efficiency. However, the Company hasn't any plan to incur any major CAPEX going forward. Moreover, the company has survived well in post-pandemic situation in the region where the online shopping strategy should be considered a major factor for meeting the industry benchmarks.

Financial Risk

Working Capital To meet the consumer demand, sefam maintain high stocks of inventory ready for sale. Net working capital days stood at 164 days for 1HFY22 (1HFY21: 179 days) which shows improvement in the efficiency of the company operations. Furthermore, company has maintained a strong borrowing cushion at trade assets levels of 74% which can be utilized for further borrowings when needed.

Coverages Cash flows of the Company has grown by 25.5% amounting to PKR 2,309mln (CY20: PKR 1,840mln). Interest coverage clocked at 7.0x (end-Jun21: 6.5x) while debt coverage inched up to 2.7x (end-Jun21: 2.3x).

Capitalization The leveraging of the Company has improved to 37.5% (end-Jun21: 41.9%). Where short term financing comprises of 31.9% (end-Jun20: 23.1%) to meet it working capital needs. Equity base of the Company enhanced to PKR 13.3bln as at end-Dec21 (end-Jun21: PKR 11.9bln) attributable to healthy profitability of the Company.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Sefam (Pvt.) Limited Composite and Garments	Dec-21 6M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	7,281	6,906	6,297	2,121
2 Investments	-	-	-	-
3 Related Party Exposure	2,524	3,760	428	326
4 Current Assets	13,975	12,390	12,111	10,715
<i>a Inventories</i>	10,621	10,555	9,498	8,006
<i>b Trade Receivables</i>	282	267	370	347
5 Total Assets	23,780	23,056	18,836	13,161
6 Current Liabilities	2,167	2,321	1,756	1,584
<i>a Trade Payables</i>	737	1,019	1,096	1,005
7 Borrowings	7,416	8,072	6,780	1,825
8 Related Party Exposure	608	524	347	320
9 Non-Current Liabilities	200	234	213	314
10 Net Assets	13,389	11,905	9,740	9,118
11 Shareholders' Equity	13,389	11,904	9,740	9,118
B INCOME STATEMENT				
1 Sales	11,082	18,936	14,025	15,539
<i>a Cost of Good Sold</i>	(5,267)	(9,066)	(7,234)	(9,318)
2 Gross Profit	5,814	9,870	6,790	6,221
<i>a Operating Expenses</i>	(3,362)	(6,008)	(5,229)	(5,021)
3 Operating Profit	2,453	3,862	1,562	1,200
<i>a Non Operating Income or (Expense)</i>	(31)	(53)	(5)	(28)
4 Profit or (Loss) before Interest and Tax	2,422	3,809	1,557	1,171
<i>a Total Finance Cost</i>	(332)	(643)	(592)	(174)
<i>b Taxation</i>	(605)	(1,002)	(230)	(532)
6 Net Income Or (Loss)	1,485	2,165	735	466
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	2,309	4,119	2,335	749
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	1,995	3,454	1,809	586
<i>c Changes in Working Capital</i>	(1,083)	(1,152)	(1,491)	712
1 Net Cash provided by Operating Activities	912	2,302	318	1,298
2 Net Cash (Used in) or Available From Investing Activities	306	(256)	(317)	(268)
3 Net Cash (Used in) or Available From Financing Activities	(1,284)	(23)	(63)	(215)
4 Net Cash generated or (Used) during the period	(66)	2,023	(62)	815
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	17.0%	35.0%	-9.7%	21.0%
<i>b Gross Profit Margin</i>	52.5%	52.1%	48.4%	40.0%
<i>c Net Profit Margin</i>	13.4%	11.4%	5.2%	3.0%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	11.1%	15.7%	6.0%	9.4%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]</i>	23.5%	20.0%	7.8%	5.2%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	179	199	237	203
<i>b Net Working Capital (Average Days)</i>	164	179	210	180
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	6.4	5.3	6.9	6.8
3 Coverages				
<i>a EBITDA / Finance Cost</i>	9.9	7.5	4.7	8.7
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.7	2.3	1.6	3.2
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	1.4	1.8	2.9	0.8
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	37.5%	41.9%	42.3%	19.0%
<i>b Interest or Markup Payable (Days)</i>	54.7	46.0	64.4	80.8
<i>c Entity Average Borrowing Rate</i>	8.6%	8.5%	17.9%	7.3%

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+	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+	
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):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk 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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Conduct of Business

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- (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.
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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)
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- (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)
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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)

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