



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-2023	A-	A2	Stable	Maintain	-
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 textile retail industry owning well-established brands. The Company was co-founded by Mr. Hamid Zaman and Ms. Seema Aziz and is an associated concern of the Sarena Group. Sefam previously owned 10 famous brands but with the recent spinoff to be finalized in this FY; Sefam shall be having two brands under its umbrella (Kayseria and Leisure Club). The Company aims to build around these brands with strategies in place to achieve long-term growth and cut down on non-productive expenses. The Company shall operate with a total of 149 shops spread across the country. The Company's revenue base is dominated by local sales and is on a growing trajectory. During FY22, the top-line enhanced to PKR 25bln (FY21: PKR 19bln). The presence of an experienced & professional management team possesses considerable experience in the textile business. During FY22, net profitability has notably increased to PKR 2.8bln (FY21: PKR 2.1bln). During 1QFY23, the net profitability clocked in at PKR 870mln. Margins reflect a comfortable position over the years. The liquidity profile of the Company is considered strong owing to healthy coverages and low leveraging whereas, efficient management of working capital remains essential.

During 9MFY23, the textile exports were valued at \$12.47bln compared to \$14.24bln, reflecting a 12% decline YoY - the declining trend has been recorded in the last two quarters. The Country's textile exports for the month of March clocked in at US\$1.26bln, up 7% MoM. The decline in the previous overall exports is driven by attrition in the demand pattern of export avenues. The hike in cotton prices and low demand in international markets is also a challenge. During the month of March, value-added textile exports increased by 6% MoM to US\$863mln mainly due to Readymade Garments and Knitwear increasing by 8% and 12% MoM respectively while towels decreased by 6% MoM. Basic textiles witnessed an increase of 8% MoM to US\$230mln in Mar-23. In volume terms, Knitwear, Readymade Garments, Bedwear, and Towels increased by 18%, 13%, 5%, and 2% MoM respectively. Moreover, a slowdown is prevailing in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries. The demand pattern is expected to improve in the upcoming quarters.

Disclosure

Name of Rated Entity	Sefam (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Composite and Garments(Dec-22)
Rating Analysts	Sehar Fatima sehar.fatima@pacra.com +92-42-35869504

Profile

Legal Structure Sefam (Private) Limited (Sefam or the Company) 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. The Company started out with its flagship brand, Bareezé, 30 years ago. Sefam previously owned 10 famous brands including Bareezé, Minnie Minors, Leisure Club, Chinyere, and Kayseria but with the recent spinoff incurred; Sefam shall be having two brands under its umbrella (Kayseria and Leisure Club).

Operations The Company shall operate with a total of 149 shops spread across the country.

Ownership

Ownership Structure Sefam is wholly owned by the children of the 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 the 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 in 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 ending 30th June 2022.

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.

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. However, after the spin-off, now the management of business affairs is expected to rest with Mr. Hamid. He will be 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 9MFY23, the textile exports were valued at \$12.47bln compared to \$14.24bln, reflecting a 12% decline YoY - the declining trend has been recorded in the last two quarters. The Country's textile exports for the month of March clocked in at US\$1.26bln, up 7% MoM. The decline in the previous overall exports is driven by attrition in the demand pattern of export avenues. The hike in cotton prices and low demand in international markets is also a challenge. During the month of March, value-added textile exports increased by 6% MoM to US\$863mln mainly due to Readymade Garments and Knitwear increasing by 8% and 12% MoM respectively while towels decreased by 6% MoM. Basic textiles witnessed an increase of 8% MoM to US\$230mln in Mar-23. In volume terms, Knitwear, Readymade Garments, Bedwear, and Towels increased by 18%, 13%, 5%, and 2% MoM respectively. Moreover, a slowdown is prevailing in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries. The demand pattern is expected to improve in the upcoming quarters.

Relative Position Sefam is among the pioneers of textile retailing 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 The sales revenue of Sefam for FY22 was recorded at PKR 25bln (FY21: PKR 18.9bln) posting an increase of 32.6%. Revenues are derived predominantly from local sales. Moreover, 50% of the total revenue is concentrated toward two brands namely: Minnie Minors and Bareeze. During 1QFY23, sales revenue stood at PKR 6.54bln.

Margins During FY22, the gross margin of the company remained largely the same at 52.1% (FY21: 52.1%). However, the operating margin improved (FY22: 21.4%, FY21: 20.4%) where the growth of operating expenses is dominated by selling and marketing expenses. Net profit margins improved during FY22 inched down to 11.3% (FY21: 11.4%). During 1QFY23, margins improved further. Gross and operating profit margins stood at 51.7% and 21.6% respectively.

Sustainability The Company regularly undertakes BMR for value addition to enhance its operational efficiency. Sefam aims to build around the two brands with strategies in place to achieve long-term growth and cut down on non-productive expenses.

Financial Risk

Working Capital During FY22, net working capital days were reduced to 154 days (FY21: 179 days). Owing to a decrease in inventory days (FY22: 174 days, FY21: 193 Days). Furthermore, the company has a strong borrowing cushion at trade assets levels of 64% which can be utilized for further borrowings when needed. During 1QFY23, short-term trade leverage increased to 70%.

Coverages Cash flows of the Company exhibited growth amounting to PKR 5.17bln (FY21: PKR 4.1bln). Interest coverage reflected improvement to 7.4x (FY21: 6.5x). The same is reflected in operating coverage (FY22: 2.8x, FY21: 2.3x). During 1QFY23, coverages improved further, where the interest and operating coverages inclined to 9.2x and 3.0x respectively.

Capitalization Sefam has improved its leveraging by decreasing its total debt over the years. During FY22, leveraging reduced sizably to 38.0% (FY21: 41.9%) owing to an increase in the shareholder's equity. During 1QFY23, leveraging further reduced to 36.1%. The equity base of the Company has strengthened, over the years, to clock in at PKR 15,621mln (end-Jun22: PKR 14,751mln).



The Pakistan Credit Rating Agency Limited

Financial Summary

		PKR mln			
Sefam (Pvt.) Limited		Sep-22	Jun-22	Jun-21	Jun-20
Textile		3M	12M	12M	12M
A BALANCE SHEET					
1	Non-Current Assets	9,814	9,690	6,906	6,297
2	Investments	-	-	-	-
3	Related Party Exposure	558	2,084	3,760	428
4	Current Assets	17,896	16,342	12,390	12,111
	<i>a Inventories</i>	14,138	13,387	10,555	9,498
	<i>b Trade Receivables</i>	578	385	267	370
5	Total Assets	28,269	28,116	23,056	18,836
6	Current Liabilities	3,613	4,113	2,321	1,756
	<i>a Trade Payables</i>	2,063	2,399	1,019	1,096
7	Borrowings	7,988	8,332	8,072	6,780
8	Related Party Exposure	821	694	524	347
9	Non-Current Liabilities	226	225	234	213
10	Net Assets	15,621	14,751	11,905	9,740
11	Shareholders' Equity	15,621	14,751	11,904	9,740
B INCOME STATEMENT					
1	Sales	6,549	25,125	18,936	14,025
	<i>a Cost of Good Sold</i>	(3,162)	(12,047)	(9,066)	(7,234)
2	Gross Profit	3,387	13,079	9,870	6,790
	<i>a Operating Expenses</i>	(1,973)	(7,699)	(6,008)	(5,229)
3	Operating Profit	1,414	5,380	3,862	1,562
	<i>a Non Operating Income or (Expense)</i>	(61)	(10)	(53)	(5)
4	Profit or (Loss) before Interest and Tax	1,353	5,370	3,809	1,557
	<i>a Total Finance Cost</i>	(135)	(711)	(643)	(592)
	<i>b Taxation</i>	(348)	(1,812)	(1,002)	(230)
6	Net Income Or (Loss)	870	2,846	2,165	735
C CASH FLOW STATEMENT					
	<i>a Free Cash Flows from Operations (FCFO)</i>	1,218	5,179	4,119	2,335
	<i>b Net Cash from Operating Activities before Working Capital Changes</i>	1,218	4,549	3,454	1,809
	<i>c Changes in Working Capital</i>	-	(2,359)	(1,152)	(1,491)
1	Net Cash provided by Operating Activities	1,218	2,189	2,302	318
2	Net Cash (Used in) or Available From Investing Activities	-	(1,484)	(256)	(317)
3	Net Cash (Used in) or Available From Financing Activities	-	(962)	(23)	(63)
4	Net Cash generated or (Used) during the period	1,218	(256)	2,023	(62)
D RATIO ANALYSIS					
1	Performance				
	<i>a Sales Growth (for the period)</i>	4.3%	32.7%	35.0%	--
	<i>b Gross Profit Margin</i>	51.7%	52.1%	52.1%	48.4%
	<i>c Net Profit Margin</i>	13.3%	11.3%	11.4%	5.2%
	<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	18.6%	11.2%	15.7%	6.0%
	<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]</i>	22.9%	21.4%	20.0%	7.5%
2	Working Capital Management				
	<i>a Gross Working Capital (Average Days)</i>	198	179	199	257
	<i>b Net Working Capital (Average Days)</i>	167	154	179	228
	<i>c Current Ratio (Current Assets / Current Liabilities)</i>	5.0	4.0	5.3	6.9
3	Coverages				
	<i>a EBITDA / Finance Cost</i>	9.2	10.1	7.5	4.7
	<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	3.0	2.8	2.3	1.6
	<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	1.4	1.4	1.8	2.9
4	Capital Structure				
	<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	36.1%	38.0%	41.9%	42.3%
	<i>b Interest or Markup Payable (Days)</i>	126.1	83.4	46.0	64.4
	<i>c Entity Average Borrowing Rate</i>	6.2%	8.2%	8.5%	8.2%

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

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- 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 | Clause 11-(A)(p).
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- (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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- (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)
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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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