The Pakistan Credit Rating Agency Limited

Rating Report

Sefam (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
02-May-2024	A-	A2	Stable	Maintain	Yes
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 assigned ratings reflect the evolving profile of Sefam (Pvt.) Limited ("the Company" or "SPL"). The Company has undergone an ownership transition after the execution of the de-merger scheme on 1st April 2023. After the de-merger transaction, SPL was operating with two brands Kayseria and Leisure Club (LC) whereas Shahnameh was incubation of LC, however, going forward it will be established as a separate brand and the remaining 08 brands are carved out and divested into East Gate Industries (Pvt.) Limited. The management of the SPL is mindful to cater the impact of de-merger by achieving sustainable growth in the top line while maintaining the profitability matrix at an optimal level by addressing inefficiencies. The SPL currently owns 149 shops spread across the multiple regions of the Country in the textile retail industry of Pakistan. The rating takes comfort from the presence of Sarena Textile Industries (Pvt) as a sponsoring group Company-a vertically integrated unit. In FY23, the de-merger transaction impacted the Company in two ways, (i) the separation of certain assets and liabilities and vesting them into East Gate Industries (Pvt) Limited & (ii) the reduction in the issued and paid-up share capital and unappropriated profits. During 6MFY24, after the spinoff of brands, the topline of the Company stood at PKR 2.9bln (FY23: PKR 23.9bln). The margins of the Company are muted due to low business volume. The financial risk profile of the Company is considered moderate as SPL gradually unloaded debt and un-leveraged their statement of financial position which can also be reflected by the leverage ratio of 23.1% during 6MFY24 (FY23: 86.0%). Moving forward as per the SPL management presentation, further unloading of debt is expected to create a buffer in their bottom line by managing inflated finance cost impact. The cashflows and coverages of the Company are considered adequate and need improvement. The Company optimally managed their working capital requirements mainly supplemented through internally generated cashflows and short-term borrowings. The rating watch assigns reflects the recent transition of the de-merger. The Company performance will be analyzed in the upcoming quarters and, appropriate rating action will be taken in due course of time. The size of the textile industry in Pakistan is estimated to be PKR 2.62Trn (LSM)~3.0% of the total GDP as of FY23. The composite & garment segment in the textile sector contributes ~ PKR 1.6Trn mainly dominated by knitwear, readymade garments, bedwear and towels followed by PKR 775bln from spinning and PKR 637bln from weaving. The escalation in energy tariffs & finance costs, PKR devaluation, and ensuring the availability of optimum quality raw materials are prime challenges specific to the industry.

The ratings are dependent on the Company's ability to sustain its brand position after the de-merger. The execution of corporate governance best practices is the essence of the overall governance that needs improvement. The sustainable growth in the top line while maintaining the profitability matrix at an optimal level is vital for assigned ratings. Adherence to the debt matrix at an adequate level is a perquisite for assigned rating.

Disclosure	
Name of Rated Entity	Sefam (Pvt.) 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 | Composite and Garments(Dec-23)
Rating Analysts	Muhammad Harris Ghaffar | harris.ghaffar@pacra.com | +92-42-35869504

Profile

Legal Structure Sefam (Private) Limited (SPL) 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, 31 years ago. Sefam previously owned 10 famous brands including Bareezé, Minnie Minors, Leisure Club, Chinyere, and Kayseria, but following a recent spinoff, Sefam now owns two brands under its umbrella: Kayseria and Leisure Club.

Operations Sefam Private Limited (SPL) is primarily engaged in the manufacturing and retailing of embroidered cloth and plain cloth, with a total of 149 retail outlets across the country.

Ownership

Ownership Structure The demerger resulted in an ownership transition, Ms. Seema has divested her interest in the company. Mr. Hamid now holds the majority shareholding with 83.18%, while Mr. Tariq and Ms. Ambreen each hold 8.41% stakes.

Stability The stability of the ownership structure is considered adequate after the ownership transition, and this impact will be analyzed in due course of time.

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 clothing 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 financial strength of the Company is primarily derived from its sponsoring group, Sarena. The sponsors of the Company have shown willingness to support the company in times of need, as evidenced by director loans.

Governance

Board Structure The governance framework underwent a transition following the demerger, with the Sefam Board now comprising two members from the sponsoring family: Mr. Hamid Zaman and Mr. Tariq Zaman. The induction of an independent director would improve the overall governance framework of the Company.

Members' Profile Prior to the demerger, Ms. Seema Aziz held the position of Managing Director within the company. Mr. Hamid Zaman is now the Managing Director of the company. With overall experience spanning four decades, he has been associated with the company for 34 years.

Board Effectiveness As sponsors are in an execution role, they ensure their availability and provide insights and guidance whenever required on the day-to-day operations of the company.

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 issued an unqualified opinion for the period ending 30th June 2023.

Management

Organizational Structure The company has a lean organizational structure that reflects an adequate delegation of authority matrix.

Management Team Mr. Mustafa Ahmad Zaman is the Group CEO at Sarena and Sefam (Pvt.) Limited. He has served as a director at both Sarena Industries and Sefam (Pvt.) Limited. Mr. Kanwal Shahzad holds the position of CFO in the company, having been associated with Company for four years and overall experience of 15 years. Mr. Bilal Ahmed Khan is the COO of the company. With over two decades of overall experience, he has been associated with SPL for the last fourteen years.

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.

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 has implemented. A major portion of the modules deployed have been developed in-house and are regularly updated.

Control Environment Quality of brands is maintained through strict control measures. Additionally, the company has in-house developed software that tracks production, customer feedback/complaints, and worker efficiency.

Business Risk

Industry Dynamics The size of the textile industry in Pakistan is estimated to be PKR 2.62Trn ~3.0% of the total GDP as of FY23. The composite & garment segment in the textile sector contributes of ~ PKR 1.6Trn mainly dominated by knitwear, readymade garments, bedwear and towels followed by PKR 775bln from spinning and PKR 637bln from weaving. The escalation in energy tariffs & finance costs, PKR devaluation, and ensuring the availability of optimum quality raw materials are prime challenges specific to the industry to assess the international market and stay price-wise competitive.

Relative Position Post demerger transaction, Kayseria and Leisure Club operate as the two primary brands under the umbrella of SPL. With 149 retail outlets spread across various regions and zones of the country, the company's market share is considered adequate.

Revenues In FY23, the Company reported a net revenue of PKR 23,941mln inclusive of revenues from ten brands, compared to PKR 25,125mln in FY22. The company primarily sells products domestically, with the majority of its revenue stemming from the Kayseria brand. The export segment contributed PKR 76mln to the total sales. The 6MFY24 results showed that the Company's net revenue was recorded at PKR 2,930mln from its two brands.

Margins In FY23, the company achieved a gross profit of PKR 10,935mln (compared to PKR 13,079mln in FY22 and PKR 1,208mln in 6MFY24), with a gross profit margin of 45.1% (down from 52.1% in FY22 and 41.2% in 6MFY24). The net profit margin dipped to 6.1% from 11.3%. During 6MFY24, the company reported a net loss of PKR 322mln, resulting in a net margin of -11%. Margins of the Company are muted on back of lower business volume.

Sustainability SPL was operating with two brands, Kayseria and Leisure Club, while Shahnameh—a men's clothing brand—was incubated under the Leisure Club brand. Moving forward, it has been decided to establish Shahnameh as a separate brand from Leisure Club. Thus, SPL will have three brands in FY25. According to the SPL management presentation, the company plans to gradually consolidate its performance and then focus on strategies to expand its business volumes in due course of time. The company invests in research and development to come up with innovative designs and prints to capture the market. The management of the company is mindful of gradually reducing debt to unleveraged their capital structure and manage inflated finance costs, thus creating a cushion in the company's profitability matrix.

Financial Risk

Working Capital In FY23, the Company's net working capital days improved to 100 days from 150 days in FY22, owing to a reduction in inventory days to 124 days from 174 days. The Company optimally managed its working capital requirements, mainly supplemented through internally generated cash flows and short-term borrowings.

Coverages The Company's FCFO decrease substantially to PKR 2,579mln from 5,179mln, primarily due to diminished profitability resulting in a reduction in EBITDA. Consequently, the company's coverages exhibited a deterioration, with the interest coverage ratio declining to 3.4x from 7.4x.

Capitalization Following demerger the equity base of the Company reduced substantially to 529mln from ~14bln. During 6MFY24, equity base strengthened to ~PKR2bln. In FY23, Company short term borrowing reduced to 1,289mln from 2,913mln in FY22 and it further reduced to 597mln during 6MFY24. A long-term loan of PKR 917mln was obtained from a director in FY23, this loan was repaid in Dec '23. The leverage ratio in FY23 was noted at 86%, which declined to 23.1% during the 6MFY24 due to debt reduction (unloading of debt). Further strengthening of the equity base and reducing debt would enhance the financial risk profile of the company.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Sefam (Pvt.) Limited Textile | Composite & Garments	Dec-23 6M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	957	1,817	9,690	6,906
2 Investments	-	-	-	-
3 Related Party Exposure	274	200	2,156	3,835
4 Current Assets	3,101	3,279	16,270	12,315
a Inventories	*2,573*	*2,911*	*13,387*	*10,555*
b Trade Receivables	*56*	*8*	*-*	*51*
5 Total Assets	4,332	5,295	28,116	23,056
6 Current Liabilities	1,441	1,368	4,113	2,321
a Trade Payables	*1,180*	*800*	*2,399*	*1,019*
7 Borrowings	641	2,341	8,332	8,072
8 Related Party Exposure	-	917	694	524
9 Non-Current Liabilities	122	140	225	234
10 Net Assets	2,129	528	14,751	11,905
11 Shareholders' Equity	2,128	528	14,751	11,904
B INCOME STATEMENT				
1 Sales	2,930	23,941	25,125	18,936
a Cost of Good Sold	*(1,722)*	*(13,006)*	*(12,047)*	*(9,066)*
2 Gross Profit	1,208	10,935	13,079	9,870
a Operating Expenses	(1,408)	(7,554)	(7,699)	(6,008)
3 Operating Profit	(200)	3,381	5,380	3,862
a Non Operating Income or (Expense)	-	*(109)*	*(10)*	*(53)*
4 Profit or (Loss) before Interest and Tax	(200)	3,272	5,370	3,809
a Total Finance Cost	*(100)*	*(757)*	*(711)*	*(643)*
b Taxation	*(22)*	*(1,057)*	*(1,812)*	*(1,002)*
6 Net Income Or (Loss)	(322)	1,458	2,846	2,165
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*17*	*2,579*	*5,179*	*4,760*
b Net Cash from Operating Activities before Working Capital Changes	*(83)*	*1,989*	*4,549*	*4,094*
c Changes in Working Capital	*178*	*(957)*	*(2,359)*	*(1,152)*
1 Net Cash provided by Operating Activities	95	1,032	2,189	2,942
2 Net Cash (Used in) or Available From Investing Activities	780	(139)	(1,484)	(3,522)
3 Net Cash (Used in) or Available From Financing Activities	(1,002)	(974)	(962)	(23)
4 Net Cash generated or (Used) during the period	(128)	(81)	(256)	(603)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-75.5%	-4.7%	32.7%	35.0%
b Gross Profit Margin	41.2%	45.7%	52.1%	52.1%
c Net Profit Margin	-11.0%	6.1%	11.3%	11.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	6.6%	6.8%	11.2%	19.1%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareho*	-48.4%	19.1%	21.4%	18.2%
2 Working Capital Management				
a Gross Working Capital (Average Days)	173	124	175	204
b Net Working Capital (Average Days)	111	100	150	185
c Current Ratio (Current Assets / Current Liabilities)	2.2	2.4	4.0	5.3
3 Coverages				
a EBITDA / Finance Cost	1.0	6.1	10.1	8.5
b FCFO / Finance Cost+CMLTB+Excess STB	0.2	2.7	2.8	2.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-0.3	1.1	1.4	1.5
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	23.1%	86.0%	38.0%	41.9%
b Interest or Markup Payable (Days)	199.2	105.2	83.4	46.0
c Entity Average Borrowing Rate	4.3%	9.7%	8.2%	7.4%

Credit Rating

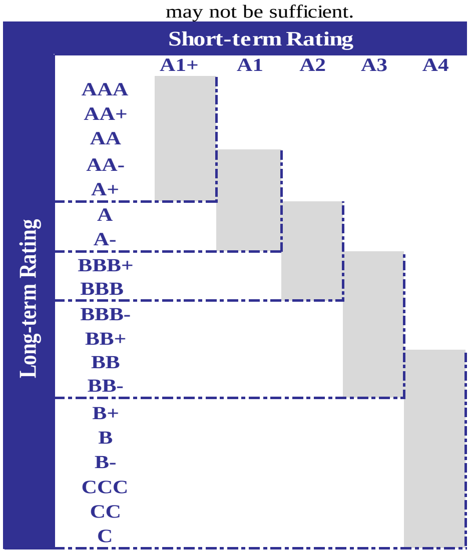
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

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

Short-term Rating

Scale	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
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 surveill 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

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 | 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)
(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 | 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)

Proprietary Information