



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
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 all segments of the retail market. The major portion of the Company's raw material is sourced from group companies, which allows it to maintain profitability while ensuring quality. The Company has witnessed growth over the years amid positive industry dynamics and higher consumer spending. Margins continued to maintain an upward trend indicating efficient operations and improved profitability. Ratings draw strength from the Company's strong financial profile, characterized by a low leveraged capital structure, strong coverages and efficient management of working capital.

The ratings are dependent on the Company's ability to improve governance framework. Additionally, working capital management and ensuing borrowings should be monitored closely. Adverse movement in margins and/or coverages would be critical for the ratings.

Disclosure

Name of Rated Entity	Sefam (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study Textile(Oct-18)
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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 has a total of 297 shops spread across the country with 482 points of sale in total. It operates with 12 stitching units spread across Lahore. 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 42% of the Company, each, while Mr. Tariq Zaman and Ms. Ambreen Zaman hold the remaining 16%, equally.

Stability While no documented agreement exists between the family members, the shareholding structure is well defined and no ownership change is planned in the upcoming years.

Business Acumen All the sponsors have a solid background in the textile industry, backed with quality education from prestigious universities. In addition to textile, the sponsors also possess experience in diversified industries including agriculture, transportation and energy.

Financial Strength Over the years the group has grown its presence in Pakistan by diversifying its ventures including livestock and dairy farming. The sponsors of the business have shown willingness and ability to support the Company through various long-term loans in the past.

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. They have expressed an unqualified opinion on the financial statements of the Company for the year ended June 30, 2018.

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 9MFY19, Pakistan's textile exports stagnated (~0.1% growth YoY) due to a unit price dip across major categories which set off the volumetric increase spurred by the currency devaluation. Meanwhile, the local textile retail industry remains under pressure due to fierce competition between retail brands struggling to compete through various discounts and sale offers, often at the expense of their own profitability.

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 Sefam's revenues are derived predominantly from local sales (~99%) and have witnessed healthy revenue growth over the years. During FY18, the company posted revenue of ~PKR 12,846mln, a ~17% YoY growth led mainly by Bareeze and Minnie Minors, which collectively account for over 50% of the Company's total revenues. During 1HFY19, the Company's topline clocked in at ~PKR 6,778mln, a ~18% YoY spurred by quantitative growth in sales across major brands.

Margins Sefam's gross margin inched up YoY (FY18: ~42%, FY17: ~41%), due to operational efficiency achieved through BMR in some stitching units. The same reflected in improved operating margin (FY18: ~8%, FY17: ~6%), wherein selling and marketing expenses constitute the bulk of its operating expenses, a trait inherent to the retail industry. Net profit of the Company amounted to ~PKR 589mln while net margin of the Company stood at ~5% (FY17: ~4%). In 1HFY19, margins showed further improvement, a result of increased prices in some brands. Gross margin amounted to ~44% while net margin remained stagnant at ~5%, due to higher short-term borrowings during the period to finance inventory needs.

Sustainability Going forward, the group plans on entering the spinning industry so that products which require special fabrics can be produced by Sefam and give it greater quality control. Moreover, the Company aims to expand its international presence by focusing on exports. With respect to the group, an effort is being made to consolidate all companies under one group Company.

Financial Risk

Working Capital Sefam's working capital needs are a function of its inventories and trade receivables. The Company maintains high stocks of finished goods in order to meet consumer demand at its shops. During 1HFY19, the Company's net cash cycle increased to ~65 days (1HFY18: ~46 days), as finished goods inventory was quite high to meet retail demand in the upcoming lawn season. Overall, the Company maintains a comfortable borrowing cushion at trade assets level, boding well for its working capital management.

Coverages While coverages showed improvement in FY18 owing to strong profitability, they deteriorated in 1HFY19, though still remained strong. This was mainly due to higher finance cost on account of higher borrowing during the year to finance higher working capital needs as well as BMR. Resultantly, debt-service coverage for 1HFY19 amounted to 9.0x (1HFY18: 10.5x) while core debt coverage was 3.7x (1HFY18: 6.3x).

Capitalization Sefam has a moderately leveraged capital structure (1HFY19: ~41%), though leveraging has been on the rise since FY17 (~34%), mainly comprising short-term borrowings. During FY18, the Company's short-term borrowings showed an increase of ~53% over FY17, reflecting higher inventory needs and increased further to ~PKR 2.2bln in 1HFY19. The Company continues to avail sponsor loans to finance capital expenditure.



Sefam (Pvt.) Limited

Private Limited

BALANCE SHEET	Dec-18 6M	Jun-18 12M	Jun-17 12M	Jun-16 12M
a Non-Current Assets	2,091	1,975	1,765	1,613
b Investments (Incl. Associates)	454	380	193	187
Equity Instruments	118	118	118	118
Debt Instruments	112	62	62	62
Investment Property	-	-	-	-
Others	225	201	14	7
c Current Assets	5,367	4,841	3,953	3,608
Inventory	3,550	3,115	2,029	1,751
Trade Receivables	-	45	13	15
Others	1,818	1,680	1,912	1,842
d Total Assets	7,912	7,196	5,912	5,407
e Debt/Borrowings	2,466	2,181	1,469	1,627
Short-Term	2,196	2,003	1,313	1,459
Long-Term (Incl. Current Maturity of Long-Term Debt)	270	178	156	168
Other Short-Term Liabilities	1,601	1,504	1,328	1,130
Other Long-Term Liabilities	317	298	292	243
f Shareholder's Equity	3,529	3,213	2,823	2,407
g Total Liabilities & Equity	7,912	7,196	5,912	5,407

INCOME STATEMENT

a Turnover	6,778	12,846	10,955	10,307
b Gross Profit	2,980	5,411	4,503	3,895
c Net Other Income	(20)	(39)	(8)	(2)
d Financial Charges	(81)	(96)	(79)	(143)
e Net Income	316	589	416	285

CASH FLOW STATEMENT

a Free Cash Flow from Operations (FCFO)	459	901	800	599
b Total Cashflows (TCF)	459	901	800	599
c Net Cash changes in Working Capital	(453)	(834)	(223)	620
d Net Cash from Operating Activities	(68)	(17)	490	1,065
e Net Cash from Investing Activities	(200)	(316)	(233)	(108)
f Net Cash from Financing Activities	216	427	(180)	(549)
g Net Cash generated during the period	(52)	93	77	408

RATIO ANALYSIS

a Performance				
Turnover Growth	18%	17%	6%	14%
Gross Margin	44%	42%	41%	38%
Net Margin	5%	5%	4%	3%
ROE	19%	20%	16%	13%
b Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+U	3.7	6.3	6.0	3.0
Interest Coverage (X) (FCFO/Gross Interest)	6.0	10.4	11.2	4.5
Debt Payback (Years) (Total Debt (excluding Covered Short T	0.4	0.2	0.2	0.4
c Capital Structure (Total Debt/Total Debt+Equity)				
Net Cash Cycle (Inventory Days + Receivable Days - Payable L	65	47	35	100
d Capital Structure (Total Debt/Total Debt+Equity)	41%	40%	34%	40%

Sefam (Pvt.) Limited

May-19

Credit Rating Scale & Definitions

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

Long Term Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+ 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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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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

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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.
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- (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)

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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 | 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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