



The Pakistan Credit Rating Agency Limited

Rating Report

Secure Logistics Group (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
03-Apr-2020	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Secure Logistics Group (Private) Limited is a mid-sized company engaged in logistics, vehicle management and tracking services. The ratings reflect increased business activity as the company scales up its operations while generating improved profitability. The company has received sizeable equity injection from JSPE Fund, Karandaz Pakistan and Saudi Bugshan Group in the form of convertible and common equity. This has considerably augmented the Company's financial strength. The equity funding has also enabled the Company to reduce its borrowing while simultaneously facilitating expansion plans.

The sector is, however, constrained by the inherent limitations pertaining to the logistics industry emanating from the fragmented nature of the sector and dependence on economic activity. The company aims to venture into new segments which will diversify the revenue base while increased business in the form of new clients is on the horizon. The growth path is defined and ambitious, however, the management is confident to achieve it.

With the introduction of new investors, the company intends to leverage its expanded board to improve the corporate governance structure. Going forward, the sound control environment is expected to improve further.

The ratings are dependent on sustained business profile while ensuring profitability, enhanced corporate governance and control environment.

Disclosure

Name of Rated Entity	Secure Logistics Group (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-19),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-19)
Related Research	Sector Study Trucks & Buses(Dec-19)
Rating Analysts	Maryam Ijaz maryam.ijaz@pacra.com +92-42-35869504

The Pakistan Credit Rating Agency Limited

Profile

Legal Structure Secure Logistics Group (Private) Limited (SLG) is a privately owned company, it commenced its operations in 2013.

Background Commencing from the security business in 2013, the company eventually expanded into the provision of logistics and tracking.

Operations Secure Logistics Group (Private) Limited (SLG) provides logistics, fleet management and vehicle tracking services to leading corporate clients, financial institutions, insurance companies and multinationals.

Ownership

Ownership Structure The sponsors, Mr. Pervaiz Khan, Mr. Gulraiz Khan and Ms. Afshan Nasir cumulatively own ~73% of the shareholding. The remaining shareholding is held by Karandaaz Pakistan and Saudi Bugshan Group in equal proportion.

Stability Mr. Gulraiz Khan, Chief Executive Officer, has been associated with the company since inception and was joined by Mr. Pervaiz Khan during 2014. The shareholding structure has remained stable.

Business Acumen The Company has established itself as an emerging presence in the logistics and tracking sector, garnering the notable corporate clients. Furthermore, it is expected to extend its footprints into new sectors.

Financial Strength The owners of the company do not own any other investments. The injection of equity from foreign entities has bolstered the financial standing.

Governance

Board Structure With the induction of new shareholders i.e. Saudi Bugshan Group and Karandaaz Pakistan, the company will increase the size of its Board of Directors to a total of seven members. Among the members of the Board of Directors, in addition to the representatives of the Sponsor Shareholders, Saudi Bugshan Group, Karandaaz Pakistan and JSPE will have one member each.

Members' Profile Mr. Pervaiz Khan and Mr. Gulraiz Khan have extensive experience and knowledge of the industry. With the expansion of the board, they are aided by other board members who possess diverse industry experience. The Executive Chairman, Mr. Pervaiz Khan is a seasoned professional, holding three decades of experience in Public and Private sector, Investment banking and Energy companies.

Board Effectiveness The Board comprises of professionals from varying backgrounds from Public and Private sectors each one contributing to his area of expertise. The Board has recently constituted an Audit Committee.

Financial Transparency The company's auditor, Horwath Hussain Chaudhury & Co, issued an unqualified audit report for FY18.

Management

Organizational Structure The organizational structure is well segregated. The core operations report to Mr. Gulraiz Khan whereas the support functions of Finance, HR and IT report to Mr. Pervaiz Khan.

Management Team The Chief Executive Officer, Mr. Gulraiz Khan is a former military personnel and holds a Master degree from United Kingdom and United States. He holds over twenty years of military and ten years of industry experience. The management team is a well experienced blend of professionals and have demonstrated commitment to the company, contributing positive synergies for organizational growth.

Effectiveness SLG has its own set of SOPs with a good control environment. However, with the increase in the size of the company, the company's board is being expanded to strengthen the Corporate Governance structure. Internal audit function is also being formulated to ensure transparency and best practices in the day to day affairs of the Company.

MIS The company was previously using MIS system developed by Sidat Hyder. However, the implementation of ERP, SAP- Business One is in process and will be functional by May 2020. The system has the ability to generate various management reports on daily, weekly and monthly basis and will also integrate various businesses / functions

Control Environment SLG maintains a robust control environment documented through various manuals and stand-alone SOPs.

Business Risk

Industry Dynamics The proposed infrastructure of road and rail that will be constructed under CPEC will be a game changer for the Logistics Sector of Pakistan while bringing in huge opportunities. As per China's vision to move 300-400 Million Tons per year from CPEC route in year 2030, long haulage will scale up considerably which will bring heightened opportunities.

Relative Position The company is an emerging player in fragmented logistics sector, garnering a decent foothold.

Revenues During FY18, the company recorded a revenue of PKR 410mln, registering an impressive growth up from PKR 26mln in the previous year. In the year 2019, the revenue increased to PKR 965mln. The company has contracts from large scale manufacturing corporate clients whereby it transports the goods either through bulk category or container category. The major corporates belong to cement, steel and packaging sector.

Margins Gross margins increased to 54.1% in FY18 (FY17:21%) on the back of increased revenue. The operating margin was recorded at 43% while the net profit margin was recorded at 31.4%. The net profit showed continuous growth and was reported PKR 118mln (FY17), PKR 128mln (FY18), PKR 153mln (FY19). This was due to the enhancement in long haul fleet each year. Further, long-haul and short-haul trucks have been added to the fleet as a result of the investment made by JSPE Fund, Saudi Bugshan Group and Karandaaz Pakistan.

Sustainability SLG aims its transition into the 3PL model whereby it will provide distribution services to its existing and prospective clients. Furthermore, the company also aims to explore opportunities from CPEC. The recent round of capital raising is expected to be followed by an IPO in the coming years.

Financial Risk

Working Capital Net working capital days of the company were recorded at 31 as at CY18 while maintaining a current ratio of 1.5x. The company has running finance facilities from major banks in the country.

Coverages Free Cash Flow from operations of the company stood at PKR 197mln in FY18. The company sustained its interest coverage ratio of 5.3times (FY17) which rose to 5.4x (FY18).

Capitalization The company has received sizeable equity injection from Saudi Bugshan Group and Karandaaz Pakistan. The proceeds are being used to expand its fleet size and repayment of debt.



Secure Logistics Logistics	Dec-18 12M	Dec-17 12M	Dec-16 12M
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A BALANCE SHEET

1 Non-Current Assets	1,022	1,026	0
2 Investments	-	-	-
3 Related Party Exposure	227	227	456
4 Current Assets	209	216	0
<i>a Inventories</i>	-	7	-
<i>b Trade Receivables</i>	75	66	-
5 Total Assets	1,457	1,469	456
6 Current Liabilities	144	188	4
<i>a Trade Payables</i>	49	37	0
7 Borrowings	473	598	-
8 Related Party Exposure	82	53	-
9 Non-Current Liabilities	1	-	-
10 Net Assets	757	629	452
11 Shareholders' Equity	757	629	452

B INCOME STATEMENT

1 Sales	410	26	-
<i>a Cost of Good Sold</i>	(188)	(20)	-
2 Gross Profit	222	6	-
<i>a Operating Expenses</i>	(46)	(2)	(0)
3 Operating Profit	176	3	(0)
<i>a Non Operating Income or (Expense)</i>	8	116	64
4 Profit or (Loss) before Interest and Tax	184	119	64
<i>a Total Finance Cost</i>	(42)	(1)	-
<i>b Taxation</i>	(14)	(1)	-
6 Net Income Or (Loss)	129	118	64

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	197	5	(0)
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	156	5	(0)
<i>c Changes in Working Capital</i>	25	1	0
1 Net Cash provided by Operating Activities	181	6	0
2 Net Cash (Used in) or Available From Investing Activities	(155)	-	-
3 Net Cash (Used in) or Available From Financing Activities	(25)	-	-
4 Net Cash generated or (Used) during the period	1	6	0

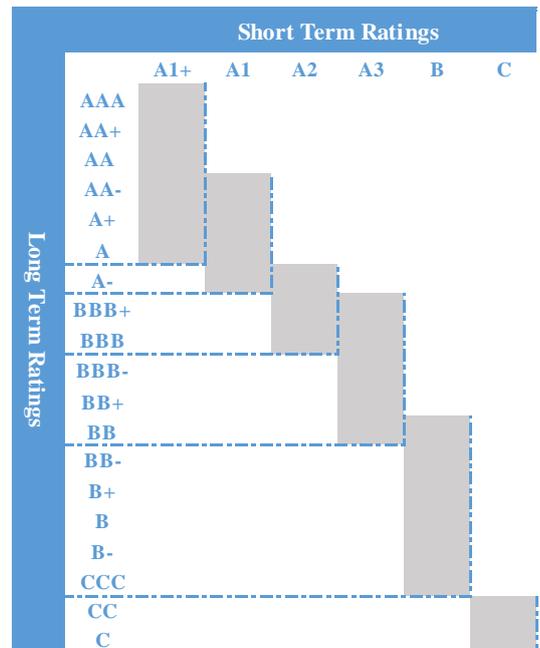
D RATIO ANALYSIS

1 Performance			
<i>a Sales Growth (for the period)</i>	1476.0%	--	N/A
<i>b Gross Profit Margin</i>	54.1%	21.3%	N/A
<i>c Net Profit Margin</i>	31.4%	453.0%	N/A
<i>d Cash Conversion Efficiency (EBITDA/Sales)</i>	54.4%	19.9%	N/A
<i>e Return on Equity (ROE)</i>	18.6%	21.8%	N/A
2 Working Capital Management			
<i>a Gross Working Capital (Average Days)</i>	69	1031	N/A
<i>b Net Working Capital (Average Days)</i>	31	771	N/A
<i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i>	1.5	1.1	0.0
3 Coverages			
<i>a EBITDA / Finance Cost</i>	5.4	5.3	N/A
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.7	0.0	0.0
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	2.6	135.6	-74.1
4 Capital Structure (Total Debt/Total Debt+Equity)			
<i>a Total Borrowings / Total Borrowings+Equity</i>	38.5%	48.8%	0.0%

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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(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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