The Pakistan Credit Rating Agency Limited

Rating Report

Loads Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
16-Jan-2024	A	A1	Negative	Maintain	Yes
16-Jan-2023	A	A1	Negative	Maintain	Yes
17-Jan-2022	A	A1	Stable	Maintain	-
06-Feb-2021	A	A1	Stable	Maintain	-
06-Feb-2020	A	A1	Stable	Maintain	-
31-Aug-2019	A	A1	Stable	Maintain	-
01-Mar-2019	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan's auto industry is a part of large scale manufacturing, accounting for ~76% of the overall value of manufacturing activities within the country. The auto industry is considerably fragmented, holding over ~2,000 vendors in the OEM market. The demand is primarily driven by auto sales and are met through OEMs, replacements and export markets; while, the remaining is met through imports. However, during FY23, production level and thus, sales of auto industry posted a decline, primarily due to import restrictions imposed by the SBP; encompassing essentials like CKD and SKD kits. Overall the sector's margins remain exposed to inclining inflation, interest rates, and exchange rate fluctuations.
Loads Limited ('Loads' or the Company') holds association with Treet Corporation. The assigned ratings reflects the Company's position in the niche market of automotive products. Loads is a prominent automotive parts manufacturer catering to Original Equipment Manufacturers (OEMs) and Replacement/After Market (RM). Persistent economic instability, inflationary pressures, and exchange rate fluctuations has impacted the overall performance of the Company. Loads maintains an adequate topline, despite a decline of ~42%. Profitability was impacted due to impairment booked on the markup receivable from Hi-Tech Alloy Wheel Limited ('Hi-Tech'), a subsidiary. The Company holds significant investment in Hi-Tech and its commissioning got delayed due to economic uncertainty and downturn in the auto sector. The Company's envisions to strategies its financial risk, however, remains susceptible. Expected sale of assets may bring in substantial liquidity so as to manage the Company's repayment schedule.
Negative Outlook assigned to the Company reflects a persistently weak financial performance and position. A cautious effort is required to keep the financial profile intact. It is crucial for the Company to overcome its working capital challenges and hold the declining in equity base.

The ratings are dependent on the Company's ability to improve its business risk vis-à-vis financial risk profile along with sustainable margins. Cautious management strategies amidst challenging industry environment are pertinent. Moreover, prudent management of financial affairs remains important.

Disclosure

Name of Rated Entity	Loads 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 | Automotive Parts(Oct-23)
Rating Analysts	Nabia Rauf | nabia.rauf@pacra.com | +92-42-35869504

Profile

Legal Structure Loads Limited ('the Company') was incorporated on 01-Jan-79 as a private limited company. The Company got listed on Pakistan Stock Exchange (PSX) in 2016.

Background Over the years, the Group has ensured quality through technical collaboration with leading Japanese companies like Toyo Radiator Company, Futaba Industrial Company, Sankei Giken Kogyo, Yutaka Giken, Hamamatsu Pipe & Futaba for import of latest technologies and state-of-the-art machines for manufacture of radiators and exhaust systems. In addition, Loads Limited has in-house die designing & manufacturing facility with state-of-the-art Computer Numerical Control ("CNC") automatic die manufacturing machines.

Operations The Company manufactures radiators, exhaust systems and sheet metal components, used in various automobiles exhibiting the diversified product portfolio of the Company. The key clientele includes Toyota, Honda, Suzuki, Hino, Nissan, Isuzu, Massey-Ferguson, Mitsubishi, Yamaha, etc. The Company has two manufacturing plants – DSU 19 and DSU 38, both located at Port Qasim, Karachi.

Ownership

Ownership Structure Major stake (~41%) is held by Directors of the Company. While, Treet Corporation Limited (Associated Company) holds (~13%), followed by others (~10%), Modaraba and Mutual Funds (~0.37%) and Insurance Companies (~0.02%). Remaining stake of ~ 36% is held by the general public..

Stability The ownership is expected to remain stable.

Business Acumen The sponsors hold prominent position and market share in various business sectors of the economy.

Financial Strength The Company has maintained its financial strength. Going forward, the sponsors show willingness to support the Company, if needs be.

Governance

Board Structure Overall control of the Company lies with seven-members Board. The BoD comprises three Non – Executive, two Executive and two Independent Directors. The Board has dominating presence of sponsors with one female director.

Members' Profile The Chairman of the Board, Syed Shahid Ali holds an overall experience of more than four decades and is associated with the Company since 01-Jun-05. Other members of the Board carry diversified professional experience and have severed at leading positions.

Board Effectiveness During FY23, the Board met four times. The Board is assisted by two committees namely; Audit Committee and Human Resources & Remuneration Committee. Both the committees are chaired by Independent Directors. The minutes of the meetings are formally documented.

Financial Transparency External Auditors M/S Yousaf Adil, Chartered Accountants has issued an unqualified audit report pertaining to the financial statements for FY23.The firm is QCR rated and on SBP's panel in category "A".

Management

Organizational Structure The Company operates through nine departments namely: (i) Finance, (ii) IT, (iii) Import, (iv) Human Resource & Admin, (v) Technical, (vi) Special Project & Development, (vii) Production, (viii) Material Planning & Sales and (ix) Quality Assurance / ISO. Head of Finance, IT and Import reports to CFO. While, Heads of operational departments report to Chief Operating Officer (COO). Both, the COO and the CFO reports to the CEO, who then reports to the Board.

Management Team Mr. Munir Karim Bana serves as the Chief Executive Officer (CEO) of the Company since 01-Sep-05. He holds an overall experience of more than four decades and is associated with the Board since 1996. Mr. Shamim Ahmed Siddiqui serves as the Chief Financial Officer (CFO) of the Company since 2005. He holds an overall experience of more than thirty-four years. He is associated with the Company since 1984.

Effectiveness The Company has operational management committee to monitor overall operations. The committee is chaired by the CEO and comprises thirteen members. The committee meets monthly to monitor the operational challenges and strategies.

MIS The Company deploys SAP system with the ability to generate reports on a daily, weekly and monthly basis besides other comprehensive data. The Company has modernized its existed facilities and installed hi-tech machinery in order to comply with the rising demand and introduce greater efficiency.

Control Environment The Company has obtained quality certifications IS0-14001 and IS0-9001, demonstrating its emphasis on producing high-quality products.

Business Risk

Industry Dynamics Pakistan's auto industry is a part of large scale manufacturing, accounting for ~76% of the overall value of manufacturing activities within the country. The auto industry is considerably fragmented, holding over ~2,000 vendors in the OEM market. The demand is primarily driven by auto sales and are met through OEMs, replacements and export markets; while, the remaining is met through imports. However, during FY23, production level and thus, sales of auto industry posted a decline, primarily due to import restrictions imposed by the SBP; encompassing essentials like CKD and SKD kits. Overall the sector's margins remain exposed to inclining inflation, interest rates, and exchange rate fluctuations.

Relative Position The Company dominates the market share with major OEMs.

Revenues The Company derives revenue from the sale of auto parts including: exhaust systems (~60%), sheet metal components (~31%) and radiators (~9%). During FY23, the Company recorded dip of ~42% and revenue stood at ~PKR 4.4bln (FY22: ~PKR 7.7bln), owing to less business volumes of the auto industry. High non operating expense coupled with increased finance cost significantly declined the bottom-line and the Company recorded net loss of ~PKR 1.2bln (FY22: profit - ~PKR 267mln). During 1QFY24, the Company followed the similar trend and revenue witnessed dip of ~36% and stood at ~PKR 0.8bln (1QFY23: ~PKR 1.3bln). Non operating income supplemented the bottom-line and the Company reduced the net loss at ~PKR 9mln (1QFY23: ~PKR 11mln).

Margins During FY23, gross profit margin increased and stood at ~16% (FY22: 10%), owing to increase in sale price and manufacturing cost. Operating margin improved and stood at ~10.5% (FY22: ~7%), due to controlled operating expenses. Net loss due to loss against investment of subsidiary led to significantly declined net profit margin at negative and stood ~28% (FY22: ~3%). During 1QFY24, the Company followed the similar trend and gross profit margin stood at ~18.5% (1QFY23: ~12%). Operating margin increased to ~13% (1QFY23: ~7%). The Company gradually reduced net loss during the period resulting improved net profit margin at ~17% (1QFY23: 16%).

Sustainability For local manufactured cars, consumers prefer to opt for parts manufactured by original parts makers, instead of the second-tier parts makers or imported varieties. Due to current economic condition, sustainability of the Company remains highly stretched.

Financial Risk

Working Capital As of FY23, net working capital days increased and stood at 130days (FY22: 88days), owing to increased receivable days (FY23: 54days, FY22: 32days) coupled with increased payable days (FY23: 33days, FY22: 15days). As of 1QFY24, net working capital days slightly improved and stood at 123days (1QFY23: 127days), owing to stagnant receivable days (1QFY24: 52days, 1QFY23: 53days) coupled with decreased payable days (1QFY24: 30days, 1QFY23: 42days). Receivables are mainly due from related parties and clients whereas, payables are attributed to suppliers. Borrowing cushion remains negligible.

Coverages As of FY23, Free Cash Flow from operations (FCFO) of the Company improved ~27% and stood at ~PKR 335mln (FY22: 263mln), owing to reduced amount of tax paid. Interest coverage ratio majorly declined to 1x (FY22: 1.8x) whereas, liquid cover remained negative at 1.4x (FY22: 3.2x). As of 1QFY24, FCFO reduced ~43% and stood at ~PKR 90mln (1QFY23: ~PKR 158mln). Interest coverage ratio declined to 0.7x (1QFY23: 1.4x), liquid cover remained negative at 1x (1QFY23: 1.7x).

Capitalization As of FY23, leveraging ratio stood at ~46% (FY22: ~41%), owing to ~31% reduced equity. Equity stood at ~PKR 2.9bln (FY22: ~PKR 4.3bln) due to unappropriated loss. Total borrowings reduced ~15% and stood at ~PKR 2.5bln (FY22: ~PKR 3bln). As of 1QFY24, the Company followed the similar trend and leveraging ratio stood at 46.7% (1QFY23: 39.7%). Equity decreased ~30% and stood at ~PKR 2.9bln (1QFY23: ~PKR 4.2bln). Total borrowings stood at ~PKR 2.5bln (1QFY23: ~PKR 2.8bln).

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Financial Summary

Loads Limited Automotive Parts	Sep-23 3M	Jun-23 12M	Sep-22 3M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET					
1 Non-Current Assets	1,421	1,348	567	584	572
2 Investments	1	1	1	1	1
3 Related Party Exposure	3,295	2,963	4,657	4,561	1,611
4 Current Assets	2,139	2,176	3,202	3,095	4,837
a Inventories	*828*	*1,054*	*1,783*	*1,619*	*1,387*
b Trade Receivables	*540*	*425*	*629*	*909*	*476*
5 Total Assets	6,856	6,487	8,427	8,241	7,021
6 Current Liabilities	1,242	900	1,306	875	355
a Trade Payables	*218*	*339*	*757*	*482*	*159*
7 Borrowings	2,093	2,312	2,807	2,867	2,305
8 Related Party Exposure	529	277	17	161	226
9 Non-Current Liabilities	27	29	39	38	6
10 Net Assets	2,966	2,970	4,257	4,300	4,129
11 Shareholders' Equity	2,966	2,970	4,257	4,300	4,128
B INCOME STATEMENT					
1 Sales	849	4,494	1,334	7,792	4,717
a Cost of Good Sold	*(692)*	*(3,761)*	*(1,173)*	*(6,981)*	*(4,320)*
2 Gross Profit	157	733	161	811	397
a Operating Expenses	(47)	(260)	(68)	(259)	(184)
3 Operating Profit	110	473	92	552	214
a Non Operating Income or (Expense)	*36*	*(1,694)*	*117*	*232*	*184*
4 Profit or (Loss) before Interest and Tax	146	(1,221)	209	784	397
a Total Finance Cost	*(190)*	*(551)*	*(167)*	*(313)*	*(224)*
b Taxation	*35*	*517*	*(53)*	*(204)*	*(51)*
6 Net Income Or (Loss)	(9)	(1,256)	(11)	267	123
C CASH FLOW STATEMENT					
a Free Cash Flows from Operations (FCFO)	*90*	*335*	*158*	*263*	*202*
b Net Cash from Operating Activities before Working Capital Changes	*(103)*	*(152)*	*44*	*(27)*	*(57)*
c Changes in Working Capital	*115*	*548*	*148*	*(296)*	*196*
1 Net Cash provided by Operating Activities	12	395	192	(323)	139
2 Net Cash (Used in) or Available From Investing Activities	(42)	(208)	-	154	(56)
3 Net Cash (Used in) or Available From Financing Activities	206	(130)	(70)	173	(106)
4 Net Cash generated or (Used) during the period	175	58	122	4	(23)
D RATIO ANALYSIS					
1 Performance					
a Sales Growth (for the period)	-24.4%	-42.3%	-31.5%	65.2%	69.8%
b Gross Profit Margin	18.5%	16.3%	12.0%	10.4%	8.4%
c Net Profit Margin	-1.0%	-27.9%	-0.9%	3.4%	2.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales	24.1%	19.6%	22.9%	-0.4%	8.4%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/*	-1.1%	-34.5%	-1.1%	6.3%	3.6%
2 Working Capital Management					
a Gross Working Capital (Average Days)	153	163	169	103	138
b Net Working Capital (Average Days)	123	130	127	88	130
c Current Ratio (Current Assets / Current Liabilities)	1.7	2.4	2.5	3.5	13.6
3 Coverages					
a EBITDA / Finance Cost	0.7	1.0	1.4	1.8	1.4
b FCFO / Finance Cost+CMLTB+Excess STB	0.2	0.3	0.5	0.4	0.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-4.3	-6.5	-46.8	-19.1	-36.8
4 Capital Structure					
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	46.7%	46.4%	39.7%	41.2%	37.8%
b Interest or Markup Payable (Days)	49.0	73.1	60.0	64.1	61.9
c Entity Average Borrowing Rate	29.0%	19.8%	22.9%	11.0%	9.0%

Credit Rating

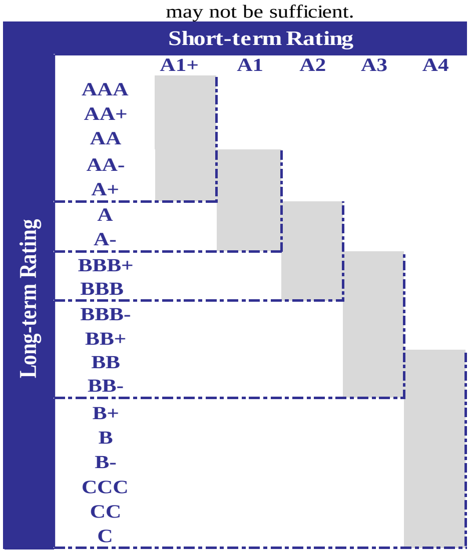
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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