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 |
|---|---|---|---|---|---|
| 31-Aug-2019 | A | A1 | Stable | Maintain | - |
| 01-Mar-2019 | A | A1 | Stable | Initial | - |

**Rating Rationale and Key Rating Drivers**

The ratings reflect the strong industry positioning of Loads Limited in its respective niche. With a presence of up to four decades in the automotive industry, the company has established a formidable forte in the domestic market along with a committed client base. The company employs its specific business model i.e. working through subsidiaries catering to the current product suite, Multiple Autoparts Industries (Private) Limited and Specialized Autoparts Industries (Private) Limited. Loads Limited has nurtured its relationship over the years with the OEMs, providing comfort to the ratings.The company has an admirable market share (~95%) in the sales of exhaust system, strength in this segment emanates from exclusive agreements signed with the leading OEM's (Suzuki, Toyota and Honda) in the country and technical collaborations with international players. The company is gearing towards further diversification and venturing into manufacturing of Alloy Wheels. A new subsidiary, Hi-tech Alloy Wheels Limited, has been formed for the upcoming project. Commercial production is expected towards the end of the year. The company intends to go for an IPO to partially finance the new project. Loads Limited has witnessed reduction in the coverages and has seen a surge in financing costs. Short term borrowings have inflated, an outcome of its need to fund its initiatives. The company intends to engage new automotive players emerging in the industry to increase its business volumes.

The ratings are dependent on the management's ability to sustain the financial risk profile while embarking into the new business venture. Maintaining market share in all segments remain crucial. The sustained uptick in recent topline and size of gross profit is crucial, while buffering cash flow coverages.

**Disclosure**

| | |
|---|---|
| **Name of Rated Entity** | Loads Limited |
| **Type of Relationship** | Solicited |
| **Purpose of the Rating** | Entity Rating |
| **Applicable Criteria** | PACRA_Methodology_Corporate_FY19(Jun-19),PACRA_Crtieria_LT ST Relationship_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19) |
| **Related Research** | Sector Study \| Auto and Allied \| Trucks & Buses(Dec-18) |
| **Rating Analysts** | Faraan Taimoor \| faraan.taimoor@pacra.com \| +92-42-35869504 |

## Profile

**Legal Structure** Loads Limited was established in 1979 as a private limited company. The Company was converted into public limited company in 1994 and offered its shares to the general public and was listed on Pakistan Stock Exchange in 2016.

**Background** Commencing from the transport business, the company started the production of autoparts in 1983 after the arrival of Pak Suzuki in the country.

**Operations** Loads Limited manufactures radiators, exhaust systems, and sheet metal components for cars, buses, trucks and tractors. The clientele for the company comprises of prominent national and multinational companies engaged in the production of motorcycles, cars and heavy vehicles. Loads Limited has three subsidiaries and four plants located in Karachi.

## Ownership

**Ownership Structure** Chairman of Loads Limited, Syed Shahid Ali Shah holds 41.5% of the company's total shares. The sponsors, Treet Corporation Limited, has a share of 12.5% whereas the general public has a shareholding of 34%.The shareholding of Treet Corporation is 12.5%.

**Stability** The company owns three subsidiaries, Specialized Autoparts Industries (Private) Limited, Multiple Autoparts Industries (Private) Limited and Hi-Tech Alloy Wheels Limited. First two companies manufacture separate products for Loads Limited as per requirement of respective clients whereas, Hi-Tech Alloy Wheels Limited has not yet started it's commercial production.

**Business Acumen** A part of Ali Group, Treet Corporation is a vast conglomerate dealing in soap, razor blades and motorcycles. The group has extended it’s footprints into production of batteries (for UPS and automobile sector) as well as the pharmaceutical sector.

**Financial Strength** Treet Corporation has diversified their business significantly over the years. This diversification has been the key force behind revenue growth providing the group considerable financial strength.

## Governance

**Board Structure** Loads Limited has a nine-member board of directors.

**Members’ Profile** The board is comprised of four Non-Executive Directors including the Chairman and The Vice Chairman. Three independent along with two executive directors complete the quantum of the board. Two Executive members include the CEO Mr. Munir K. Bana and the CFO Mr. Shamim A. Siddiqui.

**Board Effectiveness** There are two sub-committees of the board i.e. Audit and HR Remuneration Committee. The audit committee comprises of four non-executive directors which conducted four meetings . The HR Remuneration Committee includes six members and it conducted one meeting during the aforementioned time period.

**Financial Transparency** The company’s auditor, KPMG Taseer Hadi & Co, issued an unqualified audit report in the latest financial statements.

## Management

**Organizational Structure** The company has a lean organisational structure with all departments reporting to the CEO.

**Management Team** The management team has demonstrated commitment to the company, contributing positive energies for the betterment of the organisation. The company operates independently without any input from the sponsor company.

**Effectiveness** There is a management committee in place and the company has inhouse internal audit function.

**MIS** Loads Limited deploys SAP system with the ability to generate reports on daily, weekly and monthly basis besides other comprehensive data. The company has modernised it's 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 ISO-14001 and ISO-9001, demonstrating it’s emphasis on producing high quality products.

## Business Risk

**Industry Dynamics** The automobile sector continued to maintain its growth momentum. This is on account of strong demand due to new model vehicles which keep the pace of growth The auto part market is currently occupied by Chinese imported spare parts . The local auto parts players can find space as they manufacture the original components that can be used in the locally assembled vehicles.

**Relative Position** Loads Limited has a strong positioning and presence in the market. Majority of it’s sales are made up of exhaust system sales which is Loads' primary product where it dominates with nearly 100 percent market share with all the auto players. The company has exclusive agreements with the big three OEM's emerging as a monopoly. Another major product of the company is radiator; made from brass and copper. The company has moved this niche product to selected Original Equipment Manufacturers (OEMs) and tractor manufacturers as the industry has moved into aluminium radiators. Loads Limited has entered the spare parts market, whereby running automobiles can purchase their radiator replacements. The third product group manufactured by Loads Limited are sheet metal components. The company aims to venture into alloy wheels and has purchased a plant currently being installed in Karachi. This move will allow Loads Limited to become the first player to manufacture Alloy Wheels in the country.

**Revenues** During 9MFY19, the company recorded a revenue of PKR 4.5bln up from PKR 3.4bln in the corresponding period. Overall sales grew by 24 percent. The company's revenues remained strong (sales for exhaust systems even as tractor and truck volumes have critically declined during the nine months. It is pertinent to mention that cars, which are more localized, have led to a positive growth for the company. Upward price adjustments also helped escalate revenues for Load Limited.

**Margins** Gross margins remained stagnant at 9% despite a healthy growth in revenue (24%) . The increasing revenue was offset by increase in raw material cost mainly due to the increase in depreciation cost. Furthermore,the company increased it's CAPEX installing new machinery while modernising the existing. However, the company's profit before tax (PBT) margins witnessed a slight rise to 7.3% (9MFY18: 6.6%).The company’s bottom line as at 9MFY19 amounted to PKR 96mln (9MFY18: PKR 122mln).

**Sustainability** The demand in the spare parts market is stable as the automobile industry continues to witness a slow growth. 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. The company’s entry into alloy wheels segment will further expand the revenue streams as it will aim to decrease the country’s reliance on imported alloy wheels. In this scenario, Loads can position itself as a market leader for major components.

## Financial Risk

**Working Capital** Company’s relies on both internal cash flows as well as short term borrowings for it's working capital requirement . The short term borrowing has increased due to the commissioning of the alloy wheel plant. Net working capital days of the company remained stable at 108 days at 9MFY19 (9MFY18: 88 days). Furthermore, Loads Limited has been able to maintain a healthy current ratio of 7x.

**Coverages** Free Cash Flow from operations of the company remained steady at PKR 191mln in 9MFY19 (9MFY18: PKR 186 mln). The interest coverage ratio of the company decreased to 1.2x as interest cost of the company increased. This borrowing cost may further go up as interest rates climb.

**Capitalization** The company has short term financing facility from various banks predominately JS Bank Limited. Equity of the company stood at PKR~3.1bln. Loads Limited underwent an Initial Public Offering (IPO) in 2016 for the expansion and modernisation of the company's production facilities while also easing working capital requirements. The IPO generated PKR 1.7 bln.

Auto & Allied
Financials (Summary) in PKR mln
The Pakistan Credit Rating Agency Limited

*PKR mln*

Loads Limited
Listed Public Limited

| 1 BALANCE SHEET | Mar-19 | Jun-18 | Jun-17 | Jun-16 |
|---|---|---|---|---|
| | 9M | 12M | 12M | 12M |
| **a Non-Current Assets** | **619** | **631** | **546** | **479** |
| **b Investments (Incl. Associates)** | **1,548** | **1,587** | **1,207** | **713** |
| Equity Instruments | 1,546 | 1,534 | 937 | 670 |
| **Related Party Exposure** | 708 | 519 | 13 | - |
| **c Current Assets** | **2,586** | **2,616** | **2,128** | **1,829** |
| Inventory | 1,566 | 1,663 | 1,182 | 1,107 |
| Trade Receivables | 384 | 351 | 224 | 214 |
| Others | 636 | 603 | 722 | 508 |
| **d Total Assets** | **5,461** | **5,353** | **3,894** | **3,021** |
| | | | | |
| **e Debt/Borrowings** | **1,866** | **1,454** | **42** | **1,099** |
| Short-Term | 1,857 | 1,440 | 28 | 1,083 |
| Long-Term (Incl. Current Maturity of Long-Term Debt) | 9 | 14 | 13 | 16 |
| Related Party Exposure | 14 | 477 | 398 | 291 |
| Other Short-Term Liabilities | 384 | 311 | 258 | 140 |
| Other Long-Term Liabilities | 50 | 54 | 54 | 55 |
| **f Shareholder's Equity** | **3,146** | **3,057** | **3,143** | **1,436** |
| **g Total Liabilities & Equity** | **5,461** | **5,353** | **3,894** | **3,021** |
| | | | | |
| **2 INCOME STATEMENT** | | | | |
| **a Turnover** | **4,536** | **4,890** | **4,405** | **4,036** |
| **b Gross Profit** | 408 | 373 | 442 | 440 |
| c Net Other Income | 41 | 3 | 6 | (8) |
| d Financial Charges | (176) | (70) | (62) | (100) |
| **e Net Income** | **96** | **80** | **230** | **99** |
| | | | | |
| **3 CASH FLOW STATEMENT** | | | | |
| a Free Cash Flow from Operations (FCFO) | 191 | 214 | 286 | 289 |
| b Total Cashflows (TCF) | 191 | 214 | 286 | 289 |
| c Net Cash changes in Working Capital | (205) | (660) | 114 | (368) |
| d Net Cash from Operating Activities | (15) | (446) | 401 | (80) |
| e Net Cash from InvestingActivities | (31) | (1,023) | (583) | (181) |
| f Net Cash from Financing Activities | (378) | (149) | 1,446 | 155 |
| g Net Cash generated during the period | (423) | (1,618) | 1,264 | (106) |
| | | | | |
| **4 RATIO ANALYSIS** | | | | |
| **a Performance** | | | | |
| Turnover Growth | 24% | 11% | 9% | 21% |
| Gross Margin | 9% | 8% | 10% | 11% |
| Net Margin | 2% | 2% | 5% | 2% |
| ROE | 4% | 3% | 10% | 7% |
| **b Coverages** | | | | |
| Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+U | 1.1 | 2.7 | 4.0 | 2.6 |
| Interest Coverage (X) (FCFO/Gross Interest) | 1.2 | 3.3 | 4.9 | 3.1 |
| Debt Payback (Years) (Total Debt (excluding Covered Short T | 0.2 | 3.2 | 1.8 | 1.5 |
| **c Capital Structure (Total Debt/Total Debt+Equity)** | | | | |
| Net Cash Cycle (Inventory Days + Receivable Days - Payable D | 108 | 115 | 105 | 110 |
| **d Capital Structure** (Total Debt/Total Debt+Equity) | 37% | 39% | 12% | 49% |

# Rating Scale | Corporate

2019

## Credit Rating Scale & Definitions

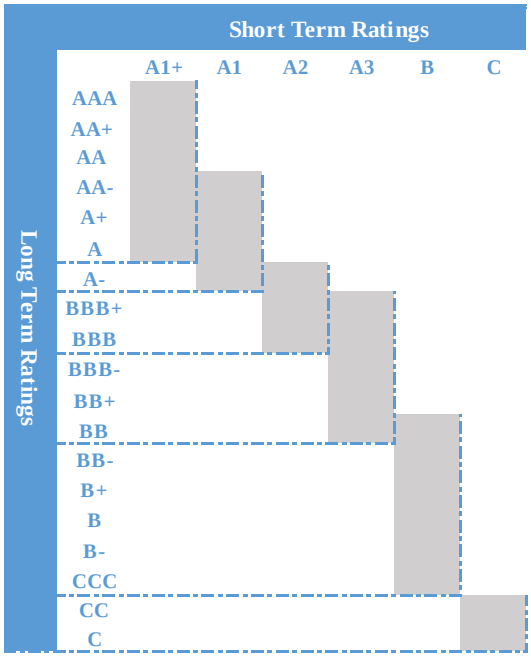
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

### Long Term Ratings

| | |
|---|---|
| AAA | **Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments |
| AA+<br>AA<br>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+<br>A<br>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+<br>BBB<br>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+<br>BB<br>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+<br>B<br>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<br>CC<br>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 Ratings

| | |
|---|---|
| A1+ | The highest capacity for timely repayment. |
| A1 | A strong capacity for timely repayment. |
| A2 | A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions. |
| A3 | An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions. |
| B | The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. |
| C | An inadequate capacity to ensure timely repayment. |




**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 surveill the opinion due to lack of requisite information.

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

**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.
(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 | 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)
**Proprietary Information**