The Pakistan Credit Rating Agency Limited

Rating Report

Samad Rubber Works (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Nov-2022	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Samad Rubber Works (Pvt.) Limited ('SRW' or 'the Company') is primarily engaged in the manufacturing and marketing of Apparel (woven garments in Denim & Twill and Outerwear), Unicellular Foams, Contact-Based Adhesives, followed by the supply of rubber/non-rubber & specialty fabric items to Pakistan Armed Forces, and technical textile products (stitched, inflatables, & fabricated). The ratings reflect SRW's deep-rooted presence in local rubber and adhesive industry underpinned by the foundation stone for Samad Group – a known brand for industrial and consumer adhesives, retaining cumulative segment share of around ~25%. With its longstanding history, SRW has built itself as an acclaimed player through channeling innovative products to defense/military. The Company is a compliant supplier of unicellular closed-cell foams to sporting industry, explicitly capturing ~90% market share by supporting Football manufacturing in Pakistan. As an affirmation of multi-brand strategy under its umbrella, the Company further entered into complete cut-to-pack denim woven garments, maintaining less than ~2% share in country's total apparel exports in the face of direct competition from textile giants. Industries in Pakistan undergo considerable production cost pressures amidst high international energy prices and currency devaluation, thus challenging overall growth. Subsequently, for the Company, most of the materials for diversified business units are not procured locally having a direct impact on margins, partially offset by the ability to pass on price hike to customers. Further, the Company's strategic business unit of apparel is export-oriented and gets benefited in line with exchange rate volatility and rising international demand of fashion garments. As per management report, SRW's revenues witnessed a significant growth of ~63% at end Jun-22 on back of better prices and more volume in core business segments; apparel sales contributed the highest, followed by foam, adhesives, defense, & a minimal portion from technical textile. Profitability matrix of SRW is aligned with topline improvement. With precise manufacturing facilities and implementation of sophisticated MIS, SRW has led to achieve operational efficiency. Financial risk profile of the Company is demonstrated by efficient working capital management, healthy coverages, and comfortable cash flows. SRW's capital structure is low leveraged, mainly encompassed STBs. Going forward, the execution of good governance practices coupled with formal controlling structure shall be required to ensure compliance at all levels and smooth running of business units.

The ratings are dependent on sustenance of Company's position in its respective business niches and consistent growth under challenging environment. With revenue growth, profit margins and prudent financial performance shall remain imperative.

Disclosure

Name of Rated Entity	Samad Rubber Works (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Chemical(Jul-22)
Rating Analysts	Sohail Ahmed Qureshi | sohail.ahmed@pacra.com | +92-42-35869504

Profile

Legal Structure Samad Rubber Works (Pvt.) Limited ('SRW' or 'the Company') is a private limited entity incorporated in 1962 under the Companies Act, 1913 (now the Companies Act, 2017). The Company's registered office is located at Plot 409 Ferozepur Rd, Lahore.

Background Mr. Abdus Samad (Late) laid the foundation of Samad Group of Industries back in 1948. He incorporated Pakistan Rubber Industries and started production of industrial and commercial rubber hoses. By 1950s, the group initiated largest latex foam mattress manufacturing unit in Pakistan. In 1958, it established shoe manufacturing unit in collaboration with an Austrian firm. Following a split in the family business, Mr. Abdus Samad launched adhesive business under brand name SAMAD BOND in 1965. During 1970s-1990s, the Company developed high-performance military products for Pakistan Armed Forces. During 2000s, the Company started production and sale of Technical Textile products. In 2009, the Company introduced Samad Apparel. Lately, during 2020, the Company introduced a new segment of Samad Outerwear and PPEs.

Operations The Company is primarily involved in the manufacturing & sale of polymer based and textile products. Over the years, the Samad Group has built different Strategic Business Units (SBUs) through introducing multiple products under each umbrella - Apparel, Foam, Adhesives, Defense, & Technical Textile.

Ownership

Ownership Structure SRW is exclusively owned by the sponsoring family (~100%) where, the ownership of the Company resides with Mr. Abdul Sami (~60%) and Mr. Fazal Haq (~40%).

Stability The Company's ownership structure seems stable as no major change in the shareholding structure is expected in near future. ~100% stake rests with sponsoring family. However, defined and streamlined shareholding pattern among family members along with formal line of succession can add strength.

Business Acumen The Sponsoring Family, Samad Group of Industries, is considered to have strong business acumen. The group has been operating in Pakistan for more than 70 years and expanded its presence by venturing into different strategic businesses units.

Financial Strength Samad Bond, Samad Foam, and Samad Apparel being the prominent SBUs maintain adequate financial profile with substantial access to diversified markets. This indicates Sponsors' ability to provide support, is considered good, if need arises

Governance

Board Structure The board comprises two members, including Mr. Fazal Haq – Chairman and Mr. Abdul Sami – Chief Executive Officer. There are no independent directors on the board. The Company's board is dominated by the sponsoring family, raising concern on lack of challenge posed on the management, thus hampering effective governance.

Members' Profile Members involved in the business are experienced and carry related industry exposure of several years. Mr. Abdul Sami (CEO) holds 30+ years of experience in manufacturing of highly technical products for Pakistan Armed Forces and closed cell form items for sports and footwear industry. He is the key person behind the success of SRW leading with his visionary leadership.

Board Effectiveness There is as such no board committee. However, the board meetings are conducted on regular basis, attendance of members seem adequate, and minutes are recorded properly, boding well for overall governance structure.

Financial Transparency M/s. Viqar A. Khan & Co., Chartered Accountants, a QCR rated firm, is the external auditor of the Company. The auditors expressed an unqualified audit opinion on the financial statements for the year ended June 30th, 2021. Audit for financial period FY22 is under process.

Management

Organizational Structure A well-defined and multi-layered organizational structure exists in the Company. In the first tier; Chief Operating Officer, Chief Financial Officer, Head of Adhesives SBU, Head of Foam SBU, Head of Defense SBU, Head of Apparel SBU and Head of Technical Textile SBU are reporting directly to the CEO.

Management Team Mr. Abdul Sami, the CEO (MD), is associated with the Company since its inception. He is actively and substantially contributing towards the stability of Pakistan in the areas of adhesives, foam, apparel, defense, and technical textile business segments. He is supported by a team of experienced individuals equipped with relevant industry exposure. The other key members are Mr. Waqar-ul-Haq (Head Defense SBU), Ms. Hasna Sami (Head Foam SBU), Mr. Abdul Basit (Head Adhesives SBU), Ms, Izza Sami (Head Apparel SBU), Ms. Hajra Sami (Head Technical Textile SBU), Mr. Arshian Mahboob (CFO), Mr. Manzoor Hussain Nadeem (COO), and Mr. Muhammad Aslam (GM Production).

Effectiveness SRW is building up the business strengths and increasing its foot print across different cities of Pakistan and abroad with qualified team of professionals. Further, two management committees; i). Asset Procurement and ii). HR & Remuneration are in line to ensure effective management control.

MIS The Company is presently using SAP B1 for Hanna version 9.2 coupled with Microsoft Power BI version 2.102.845.0.

Control Environment SRW has outsourced its internal audit function to PKF F.R.A.N.T.S., Chartered Accountants to ensure compliance at all levels.

Business Risk

Industry Dynamics According to PBS, the value of textile & garment exports from Pakistan increased by 4.18% during the first two months of the new fiscal year 2022-23. Pakistan earned $3.056 billion as compared to $2.933 billion same period last year. Pakistan's adhesive industry is highly unorganized, comprised of multiple small sized players. Primarily, driving its demand from a wide range of sectors, impacting SRW's position in the market differently. It is well-recorded that Pakistan is one of the largest football manufactureres and suppliers in the world, thus triggering demand in local unicellular closed-cell foams industry.

Relative Position SRW is one of the leading names in the country's apparel exporters market, industrial & consumer adhesives segment, and unicellular closed-cell foams industry. It is pioneered import substitution of number of highly technical products. In foam sector, SRW is the largest supplier to Pakistan's Football Manufacturing Companies and captures around ~90% of share. On adhesives side, the Company collectively owns ~25% market share.

Revenues Primarily, SRW derives its revenues from the manufacturing & sale of Apparel products (~50.32%), followed by Foam (~22.16%), Adhesives (~17.70%), Defense / Military products (~9.54%), and Technical Textile items (~0.28%). During FY21, the Company's topline clocked at ~PKR 4,004mln (FY20: ~PKR 3,264mln) registering CAGR of 22.7%. As per management accounts, the Company recorded revenue of ~PKR 6,541mln registering significant growth of ~63.4% at end Jun-22.

Margins During FY21, the Company's gross margin decreased to ~16.8% (FY20: ~20.1%) on back of proportionate increase in the prices of materials consumed. Similarly, net margin of decreased in FY21 and stood at ~4.7% (FY20: ~5.2%). At end Jun-22, the Company's gross margin and net margin recorded at ~15.3% & ~3.2%, respectively.

Sustainability Since the market conditions are expected to improve with growth dependent on improvements in forward-linked industries and revival of current macroeconomic conditions, the Company has conducted analysis and lined up strategies accordingly to ensure the profitability of each business unit.

Financial Risk

Working Capital The Company's capital needs emanate from financing inventories & trade receivables for which the Company relies on internal cash flow generations and STBs. During FY21, SRW's gross working capital days increased to ~136 (FY20: ~129 days). Resultantly, net working capital cycle slightly increased to ~99 days (FY20: ~90 days, FY19: ~82 days). At end FY22, gross working capital cycle of the Company stood at ~112 days, however net working capital cycle stood at ~88 days.

Coverages Interest coverage ratio of SRW remarkably improved to 9.4x in FY21 (FY20: 5.8x) whereas core-debt coverage ratio stood at 2.2x (FY20: 4.1x). With FCFO projected to lock at PKR 437mln in FY22, the Company's interest and core-coevarge ratios stand at 5.8x & 2.8x, respectively.

Capitalization In FY21, SRW recorded a low leveraged capital structure with a ratio of ~25.1% (FY20: ~21.1%, FY19: ~20.8%). The Company's borrowings increased to PKR 838mln in FY21 (FY20: PKR 585mln, FY19: PKR 465mln). Majority portion of the Company's debt is comprised of short-term borrowings from various commercial banks to meet working capital requirements. Leveraging ratio stood at ~28.7% in FY22 with total debt at PKR 1,131mln.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Samad Rubber Works (Pvt.) Limited	Jun-22	Jun-21	Jun-20	Jun-19
Chemicals	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	1,679	1,587	1,578	1,021
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	3,750	3,158	2,782	2,379
a Inventories	*1,337*	*890*	*774*	*402*
b Trade Receivables	*965*	*811*	*512*	*620*
5 Total Assets	5,429	4,745	4,360	3,401
6 Current Liabilities	670	487	544	387
a Trade Payables	*464*	*380*	*427*	*269*
7 Borrowings	1,131	838	585	465
8 Related Party Exposure	178	178	178	129
9 Non-Current Liabilities	200	202	203	162
10 Net Assets	3,250	3,039	2,850	2,257
11 Shareholders' Equity	3,250	3,039	2,850	2,257
B INCOME STATEMENT				
1 Sales	6,541	4,004	3,264	3,372
a Cost of Good Sold	*(5,539)*	*(3,334)*	*(2,609)*	*(2,653)*
2 Gross Profit	1,002	671	655	719
a Operating Expenses	(665)	(429)	(477)	(420)
3 Operating Profit	337	242	177	299
a Non Operating Income or (Expense)	*47*	*(2)*	*74*	*128*
4 Profit or (Loss) before Interest and Tax	384	240	251	427
a Total Finance Cost	*(98)*	*(52)*	*(77)*	*(54)*
b Taxation	*(74)*	*(1)*	*(3)*	*(5)*
6 Net Income Or (Loss)	211	187	170	368
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*331*	*295*	*232*	*383*
b Net Cash from Operating Activities before Working Capital Changes	*238*	*240*	*156*	*333*
c Changes in Working Capital	*(731)*	*(620)*	*(288)*	*(239)*
1 Net Cash provided by Operating Activities	(493)	(380)	(132)	94
2 Net Cash (Used in) or Available From Investing Activities	(126)	(32)	(196)	33
3 Net Cash (Used in) or Available From Financing Activities	290	255	189	40
4 Net Cash generated or (Used) during the period	(328)	(156)	(139)	167
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	63.4%	22.7%	-3.2%	0.0%
b Gross Profit Margin	15.3%	16.8%	20.1%	21.3%
c Net Profit Margin	3.2%	4.7%	5.2%	10.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-6.1%	-8.1%	-1.7%	4.3%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	6.7%	6.4%	6.7%	16.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	112	136	129	111
b Net Working Capital (Average Days)	88	99	90	82
c Current Ratio (Current Assets / Current Liabilities)	5.6	6.5	5.1	6.1
3 Coverages				
a EBITDA / Finance Cost	7.7	10.2	9.0	14.3
b FCFO / Finance Cost+CMLTB+Excess STB	2.8	2.2	4.1	10.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.0	1.2	1.3	0.4
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	28.7%	25.1%	21.1%	20.8%
b Interest or Markup Payable (Days)	77.4	73.9	79.6	75.3
c Entity Average Borrowing Rate	4.9%	3.5%	5.9%	5.9%

Credit Rating

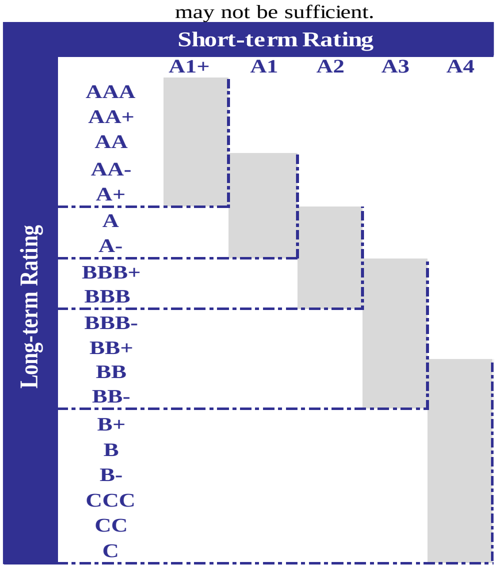
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

Entities
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk 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 | 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
(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent