



The Pakistan Credit Rating Agency Limited

Rating Report

Samad Rubber Works (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-Nov-2023	BBB+	A2	Positive	Maintain	-
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 & marketing of Apparel, Unicellular Foams, Contact-Based Adhesives, followed by the supply of rubber/non-rubber & specialty fabric items to Pakistan Armed Forces, and outerwear products. The ratings reflect SRW's deep-rooted presence in local rubber & adhesive industry underpinned by the foundation stone for Samad Group – a known brand for industrial & consumer adhesives, retaining reasonable share. 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 significant 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 minor share in the 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 cumulative growth of ~34.1% in FY23 on back of better prices and more volume in core business segments; apparel sales contributed the highest, followed by foam, adhesives, defense, and a minimal portion from outerwear items. During first quarter of FY24, SRW locked revenue at PKR 2.52bln, whereas profitability matrix is aligned with topline improvement. Going forward, the management is diligently working on further enhancing its margins by improving operational efficiency across different SBUs, especially in puffer and apparel segments. Financial risk profile is demonstrated by efficient working capital management, healthy coverages, and comfortable cash flows. SRW's capital structure is low leveraged, mainly encompassed STBs. Currently, SRW doesn't intend to any major capital investment / expansion initiatives and for that matter acquiring long-term debt. However, 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 SRW's position in its respective business niches and consistent growth amid changing 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(Jul-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Chemical(Jul-23)
Rating Analysts	Iqra Toqeer iqra.toqeer@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 outerwear 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, & Outerwear products.

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, 2022. Audit for FY23 is at its finalization stage.

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 Outerwear products 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 outerwear 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 Outerwear 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, Pakistan's textile exports were valued at \$16.5bln compared to \$19.33bln, reflecting a dip of 15% YoY. Value-added products such as knitwear, bedwear, towels, and ready-made garments witnessed a decline of 13% YoY. 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 manufacturers 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, the Company derives its revenues from the manufacturing & sale of Apparel products, followed by Foam, Adhesives, Defense / Military products, and Outerwear items. During FY22, the Company's topline clocked at ~PKR 6,553mln (FY21: ~PKR 4,004mln) registering CAGR of 63.7%. As per management accounts, the Company recorded a revenue of ~PKR 8,790mln registering growth of ~34.1% at end Jun-23.

Margins In FY22, the Company's gross margin decreased to ~15.2% (FY21: ~16.8%) on back of proportionate increase in the prices of materials consumed. Similarly, net profit margin decreased in FY22 and stood at ~2.9% (FY21: ~4.7%). At end Jun-23, gross and net margin improved to ~17.4% and ~5.6%, 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 and trade receivables for which the Company relies on internal cash flow generations and STBs. During FY22, SRW's gross working capital days decreased to ~112 (FY21: ~136days). Resultantly, net capital cycle also reduced to ~87 days (FY21: ~99 days). In FY23, gross and net capital cycle stood at ~103 & ~77 days, respectively.

Coverages In FY22, SRW's free cash flows from operations (FCFO) improved and marked at PKR 465mln (FY21: PKR 319mln) on account of better PBIT. As end Jun-23, FCFO majorly increased to PKR 870mln. In FY22, interest coverage ratio reduced to 5.4x (FY21: 9.4x) whereas core-debt coverage ratio remained stagnant at 2.2x (FY21: 2.2x). In FY23, interest & core-coverage ratios stood at 5.6x & 4.2x, respectively.

Capitalization In FY22, SRW recorded a low leveraged capital structure of ~30.6% (FY21: ~25.1%). Leveraging ratio improved and stood at ~19.8% in FY23 with total debt reduced to PKR 789mln. Major portion of Company's debt book is comprised of short-term borrowings to serve working capital requirements.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Samad Rubber Works (Private) Limited Chemicals	Jun-23 12M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	2,419	1,785	1,587	1,578
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	4,213	3,737	3,158	2,782
a Inventories	1,373	1,350	890	774
b Trade Receivables	1,288	966	811	512
5 Total Assets	6,631	5,522	4,745	4,360
6 Current Liabilities	978	638	487	544
a Trade Payables	740	507	380	427
7 Borrowings	789	1,238	838	585
8 Related Party Exposure	278	178	178	178
9 Non-Current Liabilities	265	250	202	203
10 Net Assets	4,322	3,218	3,039	2,850
11 Shareholders' Equity	4,322	3,218	3,039	2,850
B INCOME STATEMENT				
1 Sales	8,790	6,553	4,004	3,264
a Cost of Good Sold	(7,259)	(5,557)	(3,334)	(2,609)
2 Gross Profit	1,531	996	671	655
a Operating Expenses	(849)	(687)	(429)	(477)
3 Operating Profit	683	308	242	177
a Non Operating Income or (Expense)	99	52	(2)	74
4 Profit or (Loss) before Interest and Tax	781	360	240	251
a Total Finance Cost	(209)	(102)	(52)	(77)
b Taxation	(83)	(67)	(1)	(3)
6 Net Income Or (Loss)	489	191	187	170
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	870	339	295	232
b Net Cash from Operating Activities before Working Capital Changes	674	246	240	156
c Changes in Working Capital	(25)	(756)	(620)	(288)
1 Net Cash provided by Operating Activities	648	(510)	(380)	(132)
2 Net Cash (Used in) or Available From Investing Activities	50	(150)	(32)	(196)
3 Net Cash (Used in) or Available From Financing Activities	(471)	317	255	189
4 Net Cash generated or (Used) during the period	228	(342)	(156)	(139)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	34.1%	63.7%	22.7%	-3.2%
b Gross Profit Margin	17.4%	15.2%	16.8%	20.1%
c Net Profit Margin	5.6%	2.9%	4.7%	5.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	9.6%	-6.4%	-8.1%	-1.7%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh	13.0%	6.1%	6.4%	6.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	103	112	136	129
b Net Working Capital (Average Days)	77	87	99	90
c Current Ratio (Current Assets / Current Liabilities)	4.3	5.9	6.5	5.1
3 Coverages				
a EBITDA / Finance Cost	6.0	7.4	10.2	9.0
b FCFO / Finance Cost+CMLTB+Excess STB	4.2	2.2	2.2	4.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.6	1.3	1.2	1.3
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	19.8%	30.6%	25.1%	21.1%
b Interest or Markup Payable (Days)	61.7	87.7	73.9	79.6
c Entity Average Borrowing Rate	12.1%	5.2%	3.5%	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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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

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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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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).
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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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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)
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- (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)

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