The Pakistan Credit Rating Agency Limited

Rating Report

Loads Limited | ICP-1 | TBI

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Sep-2022	A	A1	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The ratings reflect the niche industry positioning of Loads Limited ("Loads" or the "Company") in the auto parts industry. With a presence of up to four decades in the automotive industry, the Company has established a considerable 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. Loads Limited has an admirable market share (~95%) in the sales of the exhaust system, strength in this segment emanates from exclusive agreements signed with the leading OEMs in the country and technical collaborations with international players. Loads Limited is gearing towards further diversification and is in the process of completing an Alloy Wheels plant under Hi-Tech Alloy Wheels Limited. The plant completion is advancing however, certain challenges like rupee devaluation have interrupted the momentum but management is committed to resolving all issues including an arrangement of the remaining portion of requisite funding.
On the financial profile side, the Company is managing its leveraging on average within ~42% since Jun'19. However, in order to meet the working capital requirements, the Company is going to issue Islamic Commercial paper (ICP) amounting PKR 500mln. Despite being unsecured, the structure of the ICP is designed in such a way that for timely payment of principal and rentals at maturity, an issuing & paying account (IPA) would be maintained with IP Agent (Bank Islami). To ensure the timely funding of IPA, the Company will issue irrevocable standing instructions to Habib Metro Bank to entrap the throughput of sales to Indus Motor (One of the major customers of Loads) maintained with the Bank and divert the cash receipts to the IPA.

The ratings are dependent on the management's ability to sustain the financial risk profile while embarking into the new business venture. Timely repayment and compliance with instruction letter and term sheet covenants would remain critical.

Disclosure	
Name of Rated Entity	Loads Limited | ICP-1 | TBI
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Debt Instrument Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Automotive Parts(Oct-21)
Rating Analysts	Madiha Sohail | madiha.sohail@pacra.com | +92-42-35869504

Issuer Profile

Profile Loads Limited was established in 1979 as a private limited company. The Company was converted into a public limited company in 1994 by offering shares to the general public and got listed on Pakistan Stock Exchange back in 2016. Commencing the transport business, the company started the production of auto parts in 1983 after the arrival of Pak Suzuki in the country. Loads Limited manufactures radiators, exhaust systems, and sheet metal components for cars, buses, trucks and tractors. The clientele for the company comprises 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 The sponsor, Syed Shahid Ali along with Treet Corporation holds 55% of the company's total shares. whereas the general public has a shareholding of 34%. The company owns three subsidiaries, Specialized Auto parts Industries (Private) Limited, Multiple Auto parts Industries (Private) Limited and Hi-Tech Alloy Wheels Limited. The first two companies manufacture various products for Loads Limited as per requirement of respective clients, whereas, Hi-Tech Alloy Wheels Limited has not yet started its commercial production. A part of Ali Group, Treet Corporation is a vast conglomerate dealing in soap, razor blades and motorcycles. The group has extended its footprints into the production of batteries (for UPS and automobile sector) as well as the pharmaceutical sector. Treet Corporation has diversified its product range significantly over the years. This diversification has been the key force behind revenue growth providing the group considerable financial strength.

Governance Loads Limited has a seven-member board of directors including two independent directors, two non-executive members and three executive members. The Chairman is a not a non-executive member. Syed Shahid Ali, the Chairman, has a Master's degree in Economics from University of Punjab, a Graduate Diploma in Development Economics from Oxford University and a Graduate Diploma in Management Sciences from University of Manchester. He has been Chairman of Loads Limited since 2005 and is currently CEO of Treet Group of companies. He is also Director on the Boards of various public companies including Packages Limited, IGI Insurance Limited, Ali Automobiles Limited etc. He has been actively involved in social & cultural activities and is Chairman of the Governing Boards of several hospitals and philanthropic organizations including Gulab Devi Hospital and Liaquat National Hospital. There are two sub-committees of the board i.e. Audit and HR Remuneration Committee. The Audit Committee comprises four non-executive directors and is chaired by an independent director. The HR Committee includes five members, also chaired by an independent director — Ms. Rozina Muzammil. The Company's external auditor, KPMG Taseer Hadi & Co, issued an unqualified review opinion on the financial statements for the year ended Jun-21.

Management The company has a lean organizational structure with all departments reporting to the CEO. Coherent reporting lines have been established in order to enhance operational efficiency. The management team has demonstrated commitment to the company, contributing positive energies for the betterment of the organization. The CEO, Mr. Munir K. Bana simultaneously serves as a director on the Board. He has an overall experience of more than 46 years. There is a management committee in place and the company has an house internal audit function. Loads Limited 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. The company has obtained quality certifications ISO-14001 and ISO-9001, demonstrating its emphasis on producing high-quality products.

Business Risk The domestic industry has tremendously developed during the last few years mainly by investing huge capital but also with the help of agreements with world renowned equipment makers for technology transfer, which include hundreds of components such as bumpers, radiators, mufflers, batteries, tires, wheels, and air-conditioners. The local industry is expected to show unprecedented growth in the forthcoming years due to increasing demand. Loads Limited has a strong positioning and presence in the market. The majority of its sales consist of exhaust system sales which are Loads' primary product where it dominates with nearly 100 percent market share with all the auto players. During 9MFY22, the Company recorded a revenue of PKR 5,739mln (FY21: PKR 4,717mln, FY20: PKR 2,779mln). This growth is primarily attributed to a significant growth in sales of Exhaust Systems from three major customers including Toyota, Honda & Pak Suzuki. Exhaust Systems. Profit Before Taxation (PBT) is currently at PKR 355mln, (FY21: PKR 174mln, FY20: PKR -195mln). Similarly, the net income also followed an increasing trajectory during 9MFY22 clocking in at PKR 252mln(FY21: PKR 124mln, FY20: PKR -137mln). Although the cost of goods sold, operating expenses and finance cost have also escalated, the increase has been offset by the significant jump in revenues. 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. The commercial production of Alloy Wheels is expected to be launched by the end of 2022.

Financial Risk The net working capital days experienced a decline from 130 days in FY21 to 91 days in 9MFY22. primarily because of a decrease in days of inventory. The current ratio, however, has undergone a dip from 6.3x in FY21 to 3.2x in 9MFY22 due to a significant increase in current liabilities, which rose from PKR 355mln in FY21 to PKR 1012mln in 9MFY22. The increase in current liabilities can be attributed to surging trade payables and advances from customers. The Company has maintained its EBITDA / Finance Cost ratio over the years. During 9MFY22, the ratio clocked in at 1.5x after experiencing an increase from 1.4x in FY21. Liquid cover has turned negative and clocked in at (6.2) during 9MFY22 (FY21: -5.3). The ratio has followed an unstable trend over different quarters. The company has short term financing facility that carries rates ranging from 1 month KIBOR plus 1% to 3month KIBOR plus 1.5%, arranged from various banks predominately JS Bank Limited. Equity of the company stood at PKR 4.316bln at the end of 9MFY22(FY21: PKR 4.128bln). The company has issued the right shares of PKR 1bln during March-21.

Instrument Rating Considerations

About The Instrument Loads Limited is in the process of issuing privately placed, unsecured Islamic Commercial Paper (ICP) up to PKR 500mln (plus a green shoe option of up to 40% of the base issue size) to finance the company’s working capital requirements. The tenor of ICP will be up to 6 months and will be carrying a profit rate of 6MK+200bps. Rental payment and principal will be realized at the time of maturity. The instrument would be unsecured.

Relative Seniority/Subordination Of Instrument

Credit Enhancement The instrument is unsecured.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

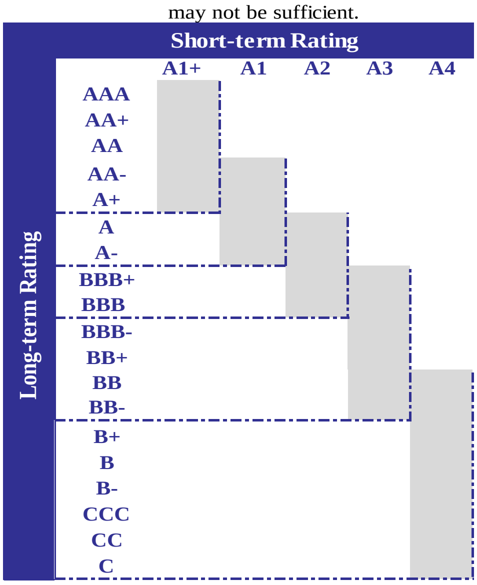
Loads Limited Automative Part	Mar-22 9M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	579	572	609	616
2 Investments	1	1	1	27
3 Related Party Exposure	4,487	4,197	3,027	2,277
4 Current Assets	3,258	2,251	2,109	2,518
a Inventories	*1,628*	*1,387*	*1,381*	*1,405*
b Trade Receivables	*1,068*	*476*	*329*	*602*
5 Total Assets	8,325	7,021	5,745	5,439
6 Current Liabilities	1,012	355	388	427
a Trade Payables	*599*	*159*	*55*	*239*
7 Borrowings	2,677	2,305	2,516	2,086
8 Related Party Exposure	300	226	62	14
9 Non-Current Liabilities	21	6	18	45
10 Net Assets	4,316	4,129	2,762	2,867
11 Shareholders' Equity	4,316	4,128	2,762	2,867
B INCOME STATEMENT				
1 Sales	5,739	4,717	2,779	5,710
a Cost of Good Sold	*(5,121)*	*(4,320)*	*(2,581)*	*(5,191)*
2 Gross Profit	618	397	198	519
a Operating Expenses	(225)	(183)	(192)	(185)
3 Operating Profit	392	214	6	334
a Non Operating Income or (Expense)	*229*	*184*	*146*	*(2)*
4 Profit or (Loss) before Interest and Tax	621	398	152	333
a Total Finance Cost	*(266)*	*(224)*	*(347)*	*(200)*
b Taxation	*(103)*	*(51)*	*57*	*(92)*
6 Net Income Or (Loss)	252	124	(137)	41
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*164*	*203*	*44*	*363*
b Net Cash from Operating Activities before Working Capital Changes	*(8)*	*(57)*	*(262)*	*192*
c Changes in Working Capital	*(191)*	*196*	*566*	*(277)*
1 Net Cash provided by Operating Activities	(199)	139	305	(84)
2 Net Cash (Used in) or Available From Investing Activities	198	(56)	(11)	(197)
3 Net Cash (Used in) or Available From Financing Activities	42	(106)	(265)	276
4 Net Cash generated or (Used) during the period	40	(23)	29	(6)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	62.2%	69.8%	-51.3%	16.8%
b Gross Profit Margin	10.8%	8.4%	7.1%	9.1%
c Net Profit Margin	4.4%	2.6%	-4.9%	0.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-0.5%	8.5%	22.0%	1.5%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	8.0%	3.6%	-4.9%	1.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	109	138	244	128
b Net Working Capital (Average Days)	91	130	225	115
c Current Ratio (Current Assets / Current Liabilities)	3.2	6.3	5.4	5.9
3 Coverages				
a EBITDA / Finance Cost	1.5	1.4	0.3	1.9
b FCFO / Finance Cost+CMLTB+Excess STB	0.2	0.3	0.1	0.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-8.4	-53.6	-2.8	2.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	40.7%	37.8%	48.1%	42.1%
b Interest or Markup Payable (Days)	79.4	61.9	85.2	82.7
c Entity Average Borrowing Rate	14.7%	9.8%	15.3%	10.8%

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

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

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(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)

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(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
Proprietary Information
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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security	Nature of Assets	Lead Advisor	Book Value of Assets (PKR mln)
Rated, Privately Placed Islamic Commercial Paper (ICP)	500mln	6 months	Unsecured	N/A	N/A	BankIslami	N/A

Name of Issuer	Loads Limited (Loads)
Issue Date	TBI
Maturity	TBI
Option	N/A

Due Date Principal*	Opening Principal	Principal Repayment*	Due Date Markup/ Profit*	Markup/Profit rate	6M Kibor Plus 200bps	Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln					PKR in mln		
Issuance								500
Sep-22	500			6M KIBOR + 2.00%	18%		-	500
Feb-23	500	500	Feb-23	6M KIBOR + 2.00%	18%	45	545	-
		500				**45**	**545**	