The Pakistan Credit Rating Agency Limited

Rating Report

Loads Limited | ICP-1 | Dec-22

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Jan-2023	A	A1	Stable	Initial	-
27-Sep-2022	A	A1	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The assigned ratings of Loads Limited reflect the niche industry positioning in the auto parts industry. With a long-lived 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. Pakistan’s automotive & allied industry witnessed a dip owing to economic instability, persistent inflationary pressures and policy rates hikes. The rising input costs of imported raw materials suppressed the profitability of all players in the automotive segment. The Company employs its specific business model i.e., working through subsidiaries catering to current product suite. Loads Limited has segment concentration risk with 3W accessories contributing majority to total sales. Though, the Company has a long association with reputed OEMs, the revenue base remains concentrated with top two customers contributing to ~81% to its operating revenue and a single customer contributing to ~54% in FY22. The high dependence on one of the OEMs exposes the Company to fluctuation in 3W sales and profitability dependent on the key customer's growth plans. Moreover, Loads Limited is gearing towards further diversification and is in the process of completing Alloy Wheels plant under Hi-Tech Alloy Wheels Limited. The ramp-up of operations and the ability to derive the envisaged benefits will remain crucial from the credit perspective.
On the financial profile side, the Company is managing its leveraging on average within ~40% since Jun'19. However, in order to meet the working capital requirements, the Company has issued 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 upon the company’s ability to sustain its healthy business profile amidst strong competition, herein, effective and prudent management of financial risk indicators remains important. Moreover, upholding of governance framework is vital.

Disclosure

Name of Rated Entity	Loads Limited | ICP-1 | Dec-22
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-22)
Rating Analysts	Muhammad Atif Chaudhry | Atif.Chaudhry@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. The clientele for the company comprises prominent national and multinational companies engaged in the production of motorcycles, cars and heavy vehicles. Loads Limited manufactures radiators, exhaust systems, and sheet metal components for cars, buses, trucks and tractors. Loads Limited has four manufacturing plants located in Karachi.

Ownership Syed Shahid Ali (37.67%) and M/s Treet Corporation (12.49%) are the major shareholders of the Company. While rest of the (49.84%) shareholding is spread in general public, FIs, individuals and others. Over the years the management control the Company remains unchanged and expected to remain stable. 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, comprises three non-executive, two executive and two independent members. There are two subcommittees of the board i.e. Audit and HR Remuneration Committee. The Audit Committee comprises two independent directors and two non-executive directors and is chaired by an independent director. The HR Committee includes five members, also chaired by an independent director. 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. The other board members also have diversified experience. The board meets on a quarterly basis to discuss all strategic and financial matters. The minutes of the meetings are formally documented. The Company's External Auditor, M/s KPMG Taseer Hadi & Co, issued an unqualified opinion on the financial statements for the year ended Jun-22. In order to enhance the operational efficiency and control, the Company has established an internal audit department.

Management The company has a lean organizational structure with all departments heads reporting to the CEO. Coherent reporting lines have been established in order to enhance operational efficiency. There is a management committee in place. 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. The committee meets on monthly basis to discuss all strategic and financial matters. The minutes of the meetings are formally documented. 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 IS0-14001 and IS0-9001, demonstrating its emphasis on producing high-quality products.

Business Risk The YoY growth rate of the industry, however, was sluggish owing to factors like policy rate hikes and massive rupee depreciation against the greenback. Import sector, which commands a sizeable market share in both the OEM and replacement markets, presents fierce competition to the sector. Due to its reliance on imported raw materials, the industry is also at risk from exchange rate fluctuation. Loads Limited has a strong positioning and presence in the market. The majority of its sales consists of exhaust system sales which are Loads' primary product where it dominates with nearly 100% market share with major OEMs. As revenue of the Company derives from the sales of auto industry. During 3MFY23, the auto industry witnessed a muted demand and multiple economic challenges. In addition to that major OEMs has closed its operations during the period. Hence, the Company's revenue registered a significant decrease of ~20% to ~PKR 1,334mln as compared to ~PKR 1,672mln in the same period last year. This decline is primarily attributed to the sales of radiators decreased by ~36% amounting to PKR 136mln during 1QFY23 (1QFY22: PKR 214mln). During FY22, overall sales of the Company posted a growth of ~65% YoY to ~PKR 7,792mln as compared to ~PKR 4,717mln during FY21. During 3MFY23, the Company's gross profit witnessed a decrease and reported to PKR 161mln as compared to PKR 165mln in 3MFY22. This is majorly owing to increased raw material cost coupled with high manufacturing cost. The same trend is reflected in operating profit of the Company which was reduced to PKR 92mln (3MFY22: PKR 106mln). The bottom line was supported with an increase of other income (3MFY23: PKR 120mln; 3MFY22: PKR 60mln). However, it was exhausted by the significant charge of finance cost (3MFY23: 167mln; 3MFY22: 90mln). Hence, the Company reported a net loss of PKR 11mln during 3MFY23 as compared to a profit of PKR 52mln in same period last year. During FY22, Company's operating profit registered a growth of ~114% to PKR 852mln as compared to PKR 398mln in FY21. The Company achieved stellar results with the highest ever operating profit during FY22 due to the massive increase in the revenue that includes the scrap sales amounting to PKR 298mln during FY22 (FY21: PKR 131mln). 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.

Financial Risk The average Net Working Capital days for 1QFY23 inched up to 127 (1QFY22: 99days) mainly due to increase in average inventory days outstanding owing to the slump in demand being witnessed in automobile industry. During the period, the Company stretched its trade payables to manage its liquidity. Current ratio further decreased to 2.5x in comparison to the corresponding period of 3.8x during 1QFY23. The average Gross Working Capital days for FY22 stood at 105 (FY21: 138days) and Net Working Capital days for FY22 reported at 88 (FY21: 130 days) expressed decrease on YoY basis mainly due to decline in average inventory days outstanding. Free Cash Flow from operations of the Company stood at PKR 158mln as at end-Sep23 (end-Sep22: PKR 20mln) owing to sharp decrease in profitability. The interest coverage ratio of the Company recorded at 1.5x (end-Jun22: 1.8x). Liquid cover has turned negative and clocked in at -2.9x during FY22, (end-Sep23: -1.7x; end- Jun22: -3.2x). The Company has a leveraged capital structure as its debt-to-equity ratio stood at 39.7% (FY22: 41.2%) as at end-Sep23. Shareholders' Equity of the Company stood at PKR 4,257mln (end-Jun22: PKR 4,300mln). Short term borrowings of the Company arose by 77.6% during 1QFY23 from 66.5% in the corresponding period.

Instrument Rating Considerations

About The Instrument Loads Limited has issued a privately placed, unsecured Islamic Commercial Paper (ICP) of PKR 500mln to finance the company's working capital requirements. The instrument has a tenor of 6 months and 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

Loads Limited Automative Part	Sep-22 3M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	567	584	572	609
2 Investments	1	1	1	1
3 Related Party Exposure	4,657	4,561	4,197	3,027
4 Current Assets	3,202	3,095	2,251	2,109
a Inventories	*1,783*	*1,619*	*1,387*	*1,381*
b Trade Receivables	*629*	*909*	*476*	*329*
5 Total Assets	8,427	8,241	7,021	5,745
6 Current Liabilities	1,306	875	355	388
a Trade Payables	*757*	*482*	*159*	*55*
7 Borrowings	2,807	2,867	2,305	2,516
8 Related Party Exposure	17	161	226	62
9 Non-Current Liabilities	39	38	6	18
10 Net Assets	4,257	4,300	4,129	2,762
11 Shareholders' Equity	4,257	4,300	4,128	2,762
B INCOME STATEMENT				
1 Sales	1,334	7,792	4,717	2,779
a Cost of Good Sold	*(1,173)*	*(6,981)*	*(4,320)*	*(2,581)*
2 Gross Profit	161	811	397	198
a Operating Expenses	(68)	(259)	(183)	(192)
3 Operating Profit	92	552	214	6
a Non Operating Income or (Expense)	*117*	*232*	*184*	*146*
4 Profit or (Loss) before Interest and Tax	209	784	398	152
a Total Finance Cost	*(167)*	*(313)*	*(224)*	*(347)*
b Taxation	*(53)*	*(204)*	*(51)*	*57*
6 Net Income Or (Loss)	(11)	267	123	(137)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*158*	*263*	*202*	*44*
b Net Cash from Operating Activities before Working Capital Changes	*(76)*	*(30)*	*(56)*	*(262)*
c Changes in Working Capital	*148*	*(296)*	*196*	*566*
1 Net Cash provided by Operating Activities	72	(326)	140	305
2 Net Cash (Used in) or Available From Investing Activities	-	154	(56)	(11)
3 Net Cash (Used in) or Available From Financing Activities	(70)	173	(106)	(265)
4 Net Cash generated or (Used) during the period	2	1	(22)	29
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-31.5%	65.2%	69.8%	-51.3%
b Gross Profit Margin	12.0%	10.4%	8.4%	7.1%
c Net Profit Margin	-0.9%	3.4%	2.6%	-4.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	22.9%	-0.4%	8.4%	22.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sl*	-1.1%	6.3%	3.6%	-4.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	169	103	138	244
b Net Working Capital (Average Days)	127	88	130	225
c Current Ratio (Current Assets / Current Liabilities)	2.5	3.5	6.3	5.4
3 Coverages				
a EBITDA / Finance Cost	1.4	1.8	1.4	0.3
b FCFO / Finance Cost+CMLTB+Excess STB	0.5	0.4	0.5	0.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-46.8	-19.1	-37.3	-2.8
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	39.7%	41.2%	37.8%	48.1%
b Interest or Markup Payable (Days)	60.0	64.1	61.9	85.2
c Entity Average Borrowing Rate	22.9%	11.0%	9.0%	16.7%

Credit Rating

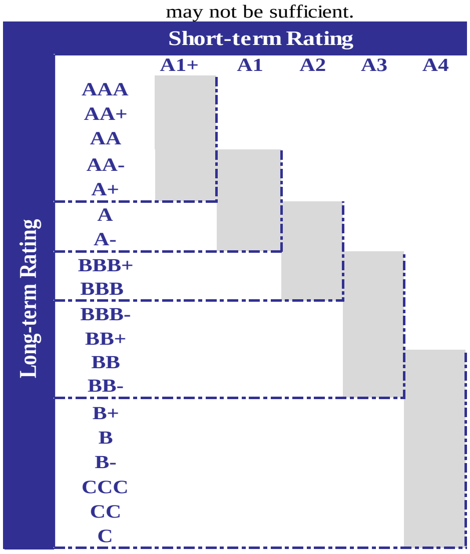
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

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

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

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

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

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 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

Regulatory and Supplementary Disclosure

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

Name of Issuer	Loads Limited
Issue Date	06-Dec-22
Maturity	06-Jun-23
Profit Rate	6M KIBOR + 2%

Loads Limited | ICP-1 | Redemption Schedule

Sr.	Due Date Principal	Opening Principal	6M Kibor	Markup/Profit Rate (6MK + 2%)	Markup/Profit Payment	Principal Payment	Total	Principal Outstanding
		PKR (mln)			PKR (mln)			
Issue Date	06-Dec-22	500			-	-	-	500
1	06-Jun-23	500	16.97%	18.97%	47	500	547	-
					47	**500**	**547**	