The Pakistan Credit Rating Agency Limited

Rating Report

Secure Logistics Group Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
14-May-2024	A+	A1	Stable	Upgrade	-
14-Oct-2023	A	A2	Stable	Maintain	-
15-Oct-2022	A	A2	Stable	Maintain	-
15-Oct-2021	A	A2	Stable	Upgrade	-
03-Apr-2021	A-	A2	Stable	Maintain	-
03-Apr-2020	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Secure Logistics Group Limited (“SLG or the Company”) is an integrated logistic group with synergetic business lines of Logistics, Asset Tracking and Security Services. Recently, the Company successfully concluded its Initial Public Offering (“IPO”) and achieved a listed status on Pakistan Stock Exchange (“PSX”). The primary purpose of IPO was (i)substantial deleveraging of the Balance Sheet through repayment of the debt (ii) expansion in distribution segment by addition of new Vehicles (iii) Investment in IT infrastructure along with the development of B2B third-party marketplace (iv) expansion of logistic services to the Regional markets through the TIR license, that would strategically position the company to capitalize on emerging opportunities within the region (v) establishment of sophisticated multiple warehousing facilities across the major logistical hubs / Special Economic Zones (SEZs) of the country. During IQCY24, the Company also acquired ~75% stake in Sky Guard (Pvt) Ltd, (a security service provider company to enhance operations of security-related services in Gilgit Baltistan and Azad Jammu & Kashmir. Sponsors of SLG have a clear vision about its future growth plans and intends to place SLG as a tech enabled 3 PL player with regional coverage. SLG’s value proposition is also enhanced by its holding company structure and the formidable ownership arrangement which includes prominent local and international investors, its value proposition, and sustainable business fundamentals, all underpinned by well-established repute and relative market position. The Board of SLG is compliant with the code of corporate governance and comprised of highly skilled individuals with extensive yet diverse experience and independent oversight roles, whereas the operations of the company are managed by skilled professionals and complemented by robust internal control systems seamlessly integrated throughout the group. During CY23 the Company’s top line grew by ~25% mainly due to price inflation and an increase in capacity utilization, however, GP margins showed dilution and stood at ~23% (CY22 ~29%). The logistic industry of the country is highly fragmented with a dominating large unorganized/informal segment, it also faces challenges due to soaring inflation, rupee devaluation, and high policy rates. On the flip side, there exists a notably sluggish pace of technology adoption, hindering the infusion of innovation and efficiency. However, the planned enhancements to existing road infrastructure and the establishment of new SEZs under CPEC projects are poised to serve as opportunities for the logistics industry. Financial risk profile of the Company is considered good with comfortable coverages, cashflows, and working capital cycle. Capital structure is moderately leveraged as of CY23, but the post-IPO substantial portion of borrowings have been paid off, and all future expansion would be funded by internally generated cashflows.

The ratings are dependent upon the improvement in business profile and successful implementation of business strategy. A prudent financial performance in line with the financial projections, an effective liquidity profile, and maintaining financial discipline shall remain imperative.

Disclosure

Name of Rated Entity	Secure Logistics Group 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-24)
Related Research	Sector Study | Trucks & Buses(Dec-23)
Rating Analysts	Kanwal Ejaz | kanwal.ejaz@pacra.com | +92-42-35869504

Profile

Legal Structure Secure Logistics Group Limited (SLG or the Company) obtained listed status on the Pakistan Stock Exchange (PSX) on April 22, 2024. Prior to this, SLG was operating as a Private Limited Company (previously known as Asia Capital Partners (Pvt) Limited) which was established in 2013. The Company also serves as a group holding entity. Presently, it oversees two wholly owned subsidiaries: (a) FIST Security (Pvt) Limited, which delivers security solutions through its network of armed guards and vehicles, and (b) Logi Serve (Pvt) Limited, established in December 2021, focusing on software and application development, data processing, and offers training and consultancy services. Logi Serve holds a license from the Special Technology Zones Authority (STZA). Furthermore, SLG recently acquired a significant equity stake in Sky Guards, a licensed security services provider, aiming to expand its operations in Gilgit-Baltistan and Azad Jammu & Kashmir.

Background The Company commenced the logistic operation through its subsidiary, SecurLog (Pvt) Ltd and vehicle tracking business through another subsidiary, SecurTrack (Pvt) Ltd. Following up on a Restructuring in 2017, both subsidiary companies were amalgamated into SLG.

Operations The Company acts as a leading integrated logistics, assets monitoring & tracking, and security services player with a unique set of horizontal synergies. SLG provides IT-enabled logistics and vehicle fleet management solutions to leading corporates, financial institutions, insurance, and leasing companies.

Ownership

Ownership Structure Post IPO, the Sponsoring family cumulatively owns ~48% shareholding, Mr. Pervaiz Khan ~18.37%, Mr. Gulraiz Khan ~7.79%, Ms. Mahnoor Afzal ~12.3%, Mr. Saad Afzal ~6% and Ms. Afshan Nasir ~3% respectively. Other shareholders comprise KBP Limited Pakistan ~16.9%, Karandaaz Pakistan ~ 16.6%, and the general public owning about 18.2%

Stability Mr. Gulraiz Khan, Chief Executive Officer, has been associated with the company since inception and was joined by Mr. Pervaiz Khan during 2013. The shareholding structure has remained stable since then. Recently post listing SLG has restructured its shareholding pattern and locked this structure for the next three years through a mutually agreed term agreement.

Business Acumen The Company has established itself as a growth-oriented logistic player with a focus on Long-haul and Distribution segments. It has a country-wide footprint and serves a wide variety of clients under the long-term contracted B2B model. SLG’s BoD has transformed SLG from a traditional to a tech-based logistics operation. Consequently, the Company, through its fully owned subsidiary, Logi Serve (Pvt) Ltd (“LogiServe”) will be ensuing amalgamation of LogiServe into SLG and the planned tech pivot from traditional to tech-enabled logistics through a contracted B2B Marketplace.

Financial Strength The Sponsor Shareholders are not involved in any other business except for the ones owned by SLG. Equity investment by foreign-owned entities has bolstered SLG’s standing.

Governance

Board Structure The SLG board comprises seven members, consisting of two executive directors, three non-executive directors, and two independent directors.

Members’ Profile The Members of the BoD have a good mix of skills and extensive experiences across diverse industries. Mr. Pervaiz Khan, Executive Director has 39 years of diversified experience in public and private sectors: Investment Banking and Energy industries. He has served as CEO, Uch Power I and II (Pvt.) Ltd. In addition, he was the Country Delegate Pakistan for GDF Suez (the Group Holding Company) and a member of International Power's Asia Excom. He has been a member of several Board of Directors: Privatization Commission, PSO, Government Power Holdings (Pvt.) Ltd, and the Ambassador Program (for Pakistan) of Columbia Business School. Mr. Gulraiz Khan has been managing SLG’s businesses since inception. He holds Master in Defense Management Studies, NDU, Pakistan; Masters in Strategy from Command & General Staff College, Fort Leavenworh, USA; & MBA from London Business School.

Board Effectiveness The Board comprises of professionals from varying backgrounds with each Member contributing as per his/her area of expertise.

Financial Transparency Current auditors RSM Avais Hyder Liaqat Nauman Chartered Accountants have expressed an unqualified audit report on Company's' financial statements as of CY23. The company has also established internal audit function.

Management

Organizational Structure The Company is organized around the Business Lines and Support Functions. All operational activities are managed by Mr. Gulraiz Khan, whereas Pervaiz Khan is responsible for the Support Functions of Accounts & Finance, HR, Administration & Procurement, Legal & Contracts and IT.

Management Team Gulraiz Khan is employed as the Chief Executive Officer and Mr. Pervaiz Khan is the Executive Director, Support Functions. They are supported by a tiered management structure comprising three levels - senior, middle, and junior. The overall management team is suitably qualified and well-experienced. It has demonstrated commitment, dedication and endeavored hard for Company’s growth.

Effectiveness SLG has a robust control environment organized around operational SOPs; financial approvals matrix; MIS reporting packages; policies covering all functions such as HR, Administration & Procurement and IT; and insurance coverage of all assets. The Company is in the process to further strengthen the control environment through the implementation of ERP (SAP B1), appointment of internal auditors and updating of all Manuals.

MIS The Company follows a substantial reporting package with weekly, bi-monthly, monthly, and quarterly MIS reports generated and presented by all Businesses and Support Functions. The implementation of ERP (SAP B1) will also help to improve the MIS substantially

Control Environment SLG maintains a robust control environment documented through various manuals and stand-alone SOPs

Business Risk

Industry Dynamics Pakistan’s logistics industry, comprising around 307,702 registered commercial vehicles, experiences sluggish growth due to significant capital expenditure requirements, operational hurdles, and a lack of technology adoption. The anticipated benefits from the China-Pakistan Economic Corridor (CPEC) have not yet materialized fully. However, with the completion of key CPEC-related infrastructure projects like the Sukkur-Hyderabad motorway and Industrial Parks/Special Economic Zones (SEZs), coupled with China’s vision to transport 300-400 million tons of cargo annually through CPEC routes by 2030, the Logistics Industry of Pakistan is expected to experience exponential growth.

Relative Position SLG is the only PSX-listed company, which operates in organasied sector of logistics, vehicle fleet management, asset tracking, and security services. The company is also in the transition from traditional logistics practices to tech pivot. The sector is fragmented and divided into an unorganized sector of ~80% and an organized ~20%. The 20% of the organized sector is further divided between major players such as National Logistics Cell (“NLC”), SLG, Bashir Siddiq Logistics (“BSL”), Allied Logistics Services, DHL, TCS, etc. Based on its clients’ portfolio, the Company has established itself well in dry containerized and bulk cargo segments.

Revenues During CY23, Company's revenue has been increased due to better pricing strategy and recorded a revenue of PKR ~1,796mln as compared to PKR ~1,432mln in CY22. The Company has long-term contracts with large scale manufacturing corporate clients in the food, cement, steel and packaging sectors.

Margins Gross margins reached ~23% in CY23 (CY22: ~29%). The operating margin was recorded at ~18% as of CY23 while the net profit margin was stood at ~21% after including the profits of subsidiaries: Net profit during CY23 PKR ~369mln (CY22: PKR ~291mln).

Sustainability SLG has raised capital of PKR ~1.1bn through pre & post IPO proceeds, these will be primarily utilized in deleveraging through debt pre-payment, addition in distribution vehicles, and upgradation of existing fleets, investment in technology & I.T infrastructure and HR capacity building. The company is pursuing a comprehensive and well-defined business plan with realistic assumptions and growth targets

Financial Risk

Working Capital Net working capital days of the Company were recorded at ~47 days as of CY23 (CY22: 30days). Current ratio stands at 4.6x. The Company has running finance facilities from major banks in the country.

Coverages Free Cash Flow from operations of the Company stood at PKR ~497mln in CY23 (CY22: 469mln). The Company's interest coverage ratio has reached to 2.5x times in CY23 (CY22: ~3.9x).

Capitalization During CY23, the Company’s leverage stood at ~32% (CY22 ~35%). The short-term borrowing of the Company stood at PKR ~1,011mln as of CY23 (CY22: PKR ~906mln). Short-term borrowings constitute ~74% of the total borrowings.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

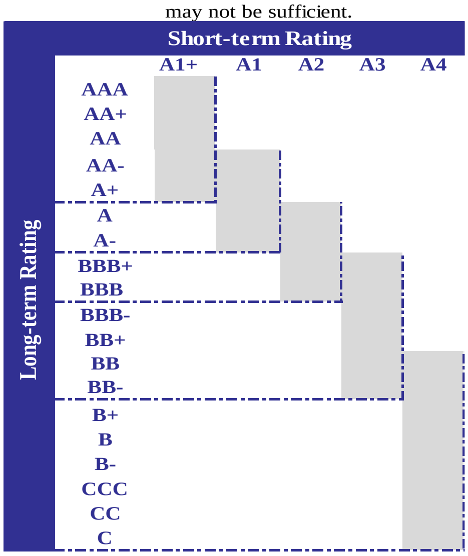
Secure Logistics Group (Pvt.) Limited Logistics	Dec-23 12M	Dec-22 12M	Dec-21 12M	Dec-20 12M
A BALANCE SHEET				
1 Non-Current Assets	3,337	3,195	3,107	2,893
2 Investments	-	-	-	-
3 Related Party Exposure	544	267	198	152
4 Current Assets	962	810	565	337
a Inventories	-	-	-	-
b Trade Receivables	*328*	*186*	*145*	*70*
5 Total Assets	4,842	4,272	3,871	3,382
6 Current Liabilities	210	111	174	204
a Trade Payables	*13*	*35*	*63*	*67*
7 Borrowings	1,113	1,067	981	832
8 Related Party Exposure	506	372	267	178
9 Non-Current Liabilities	120	199	217	309
10 Net Assets	2,893	2,524	2,232	1,860
11 Shareholders' Equity	2,893	2,524	2,232	1,860
B INCOME STATEMENT				
1 Sales	1,796	1,432	1,350	1,017
a Cost of Good Sold	*(1,388)*	*(1,019)*	*(911)*	*(684)*
2 Gross Profit	408	414	439	333
a Operating Expenses	(88)	(101)	(81)	(93)
3 Operating Profit	320	312	358	239
a Non Operating Income or (Expense)	*223*	*55*	*57*	*106*
4 Profit or (Loss) before Interest and Tax	543	367	415	345
a Total Finance Cost	*(196)*	*(122)*	*(79)*	*(89)*
b Taxation	*22*	*45*	*35*	*(27)*
6 Net Income Or (Loss)	369	291	372	229
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*497*	*469*	*518*	*362*
b Net Cash from Operating Activities before Working Capital Changes	*334*	*397*	*474*	*282*
c Changes in Working Capital	*13*	*(333)*	*(260)*	*(14)*
1 Net Cash provided by Operating Activities	348	64	214	268
2 Net Cash (Used in) or Available From Investing Activities	(388)	(274)	(386)	(1,031)
3 Net Cash (Used in) or Available From Financing Activities	(145)	(195)	153	737
4 Net Cash generated or (Used) during the period	(185)	(405)	(19)	(26)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	25.4%	6.1%	32.8%	8.2%
b Gross Profit Margin	22.7%	28.9%	32.5%	32.7%
c Net Profit Margin	20.6%	20.3%	27.5%	22.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	28.4%	9.5%	19.2%	34.2%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	13.6%	12.2%	18.2%	16.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	52	42	29	40
b Net Working Capital (Average Days)	47	30	12	-13
c Current Ratio (Current Assets / Current Liabilities)	4.6	7.3	3.2	1.7
3 Coverages				
a EBITDA / Finance Cost	2.6	4.0	7.8	7.6
b FCFO / Finance Cost+CMLTB+Excess STB	0.9	1.0	2.2	2.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.0	1.8	2.0	2.3
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	32.1%	34.5%	33.1%	30.9%
b Interest or Markup Payable (Days)	82.9	113.9	79.2	215.0
c Entity Average Borrowing Rate	14.5%	10.3%	7.1%	5.7%

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 | 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)
Proprietary Information