



The Pakistan Credit Rating Agency Limited

Rating Report

Sefam (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-May-2021	A-	A2	Positive	Maintain	-
21-May-2020	A-	A2	Stable	Maintain	YES
21-Nov-2019	A-	A2	Stable	Maintain	-
22-May-2019	A-	A2	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect Sefam (Pvt.) Limited's reputable image as one of the leading players in the clothing/home textile retail industry with several established brands. The Company operates a complete range of clothing brands targeting various segments of the retail market. The major portion of the Company's raw material is sourced from group companies, which allows efficient supply chain management while ensuring quality. Ratings positively take in to account the track record and presence of experienced & professional management team which possesses considerable experience in the retail business. With Bullish Sector dynamics, the Company has managed to sustain growth in revenues and margins in the retail market. Moreover, the Company has resorted to online sales, which constitute a small part of its overall revenues. Considering the gradual recovery in operations backed by the lifting of the lockdown, profitability is expected to increase in FY21. Liquidity profile of the Company is considered strong with manageable working capital cycle and sufficient cash flows to meet outstanding obligations. The capital structure remains low leveraged with strong coverages and efficient management of working capital.

The positive outlook signifies the sustained revenue and profitability along with the other improved financial parameters. Moreover, the comfort can also be drawn from the business risk profile backed by the healthy market position of the Company's various brands as well as benefits from the strong financial position of the sponsors.

The ratings are dependent on sustaining business performance amidst prevailing tough conditions. Maintaining strong financial profile amidst lower revenues is critical. The Company's ability to improve the governance framework by hiring better financial auditors will remain important.

Disclosure

Name of Rated Entity	Sefam (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-20),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria Rating Modifier(Jun-20)
Related Research	Sector Study Composite(Nov-20)
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Profile

Legal Structure Sefam (Private) Limited (Sefam) was incorporated in Pakistan in January, 1989, as a private limited Company.

Background Sefam was co-founded by Mr. Hamid Zaman and Ms. Seema Aziz and is an associated concern of Sarena and Ali Group of Industries. Sefam started out with its flagship brand, Bareezé, 30 years ago. It has now expanded to a family of 10 brands. Well-known brands owned by the Company include Bareezé, Minnie Minors, Leisure Club, Bareezé Home Expressions, Chinyere, Kayseria, among others, as well as a franchise of 'The Entertainer', which is the UK's largest independent toy retailer.

Operations The Company currently operates with 12 stitching units spread across Lahore and a total of 349 shops spread across the country. Only a couple of brands (Bareezé and Chinyere) have dedicated stitching and warehouse units, whereas, majority of the units are shared between brands. Additionally, the Company operates 6 Entertainer branches across Pakistan.

Ownership

Ownership Structure Sefam is wholly owned by the children of late Mr. J.A. Zaman. Ms. Seema Aziz and Mr. Hamid Zaman hold 41.67% of the Company, each, while Mr. Tariq Zaman and Ms. Ambreen Zaman hold the remaining 16.66%, equally.

Stability While no written agreement between the sponsors currently exists, the Group is moving towards consolidation and formalization of Group structure in line with the current management structure.

Business Acumen The sponsor Group holds extensive experience and expertise in the textile and retail industry. They are viewed as the pioneers of introducing the concept of brands in Pakistan. Apart from the textile industry, the Group has also diversified into corporate farming, energy etc, through small scale ventures.

Financial Strength The net worth of the Group is considered strong and the sponsors have shown willingness and ability to support the Company in the past through various director loans.

Governance

Board Structure Sefam's Board of Directors comprises six members, four from the sponsoring family and two independent members. The Company effectively has two boards in place, one is a 'family board' which only comprises members of the sponsor family while the other is the 'extended board', which includes the external members. The family board discusses matters pertaining to operations and future strategy, whereas, the extended board meets for strategic planning.

Members' Profile Representatives from the sponsor family include Mr. Hamid Zaman and Ms. Seema Aziz, and their sons, Mr. Mustafa Zaman and Mr. Ali Zain all of whom have been part of the Company for a significant period of time. The external members are seasoned professionals with experience in diversified sectors.

Board Effectiveness Frequency of board meetings vary across both the Boards. However, there is no fixed number of meetings that are to be held in a year. Meetings are conducted when deemed fit without documentation of minutes.

Financial Transparency M/s Arshad Raheem & Co. Chartered Accountants, who are not rated by the SBP but are QCR rated by ICAP, are the external auditors of the Company. Auditors have provided an unqualified opinion for the period ended 30th June 2020.

Management

Organizational Structure The organizational structure of the Company is well-defined and is based on different brands. Management of the brands is split between three individuals, namely, Mr. Hamid Zaman, Ms. Seema Aziz and, Mr. Ali Zain. All individuals report to the Board of Directors. Brands have independent and dedicated teams which are divided into various departments reporting to the relevant head.

Management Team Both Mr. Hamid Zaman and Ms. Seema Aziz are Managing Directors of the Company. While Mr. Hamid Zaman looks more after the strategic aspect of the business, Ms. Seema Aziz is actively involved in managing some of the brands that the group owns. They are assisted by a professional management team.

Effectiveness The Company does not have any formal management committees in place. Meetings among management are called when deemed fit and are participated in by relevant department heads without documentation of minutes.

MIS The Company relies on a combination of in-house developed, external and ready to use softwares for MIS. Sefam deploys SAP ECC 6 as its Enterprise Resource and Planning (ERP) system with three modules currently implemented. A major portion of the modules deployed have been developed in-house and are regularly updated.

Control Environment The Company invests heavily in research and development to come up with innovative designs and prints to capture the market. Quality is maintained through strict control measures in place. Additionally, the Company has in place in-house developed softwares which track production, customer feedback/complaints and worker efficiency.

Business Risk

Industry Dynamics The country's textile group exports have witnessed 9.1% growth during 9MFY21 and remained at \$11.4bln compared to \$10.4bln during the same period last year. Textile group exports have witnessed an increase of 9.9% in Mar'21 (\$1.35bln) as compared to Feb'21(\$1.2bln). Whereas it has registered a growth of 30.4% on YoY basis (Mar'21: \$1.3bln; Mar'20: \$1.03bln). COVID-19 pandemic and related lock down imposed by the governments around the globe in FY20 had its ramifications however Pakistani textile exports have been seen rebounding in 6MFY21. Most of the segments recorded incline in prices (USD terms) which is positive. The export outlook is likely to remain stable in the medium term as textile units have been operating at optimized capacity levels.

Relative Position Sefam is among the pioneers of textile retailing brands in Pakistan and is among the top retailing companies in the country, particularly in eastern ladies wear. The Company largely caters to the quality conscious female buyer and has little competition in this niche.

Revenues Despite many economic challenges, the sales revenue of Sefam for the period under review has been increased by 11.3% from PKR 7,530mln to PKR 8,380mln as compared to the corresponding period. Sefam's revenues are derived predominantly from local sales (~99%). Moreover, 60.8% of the total revenue is concentrated towards two brands namely: Bareeze (34.5%) and Minnie Minors (26.3%). As per the 9MFY21 provisional financials, the company has achieved revenue of PKR 14,185mln (9MFY20: 11,168mln), grew by 27.0%. Considering the gradual recovery in operations backed by the lifting of the lockdown.

Margins Gross margin of the company inched up YoY (6MFY21: 48.6%, 6MFY20: 45.1%), due to operational efficiency achieved through BMR. The same reflected in improved operating margin (6MFY21: 17.4, 6MFY20: 8.2%), wherein selling and marketing expenses constitute the bulk of its operating expenses, a trait inherent to the retail industry. Despite a heavy finance cost of PKR 262mln, net profit of the Company amounted to PKR 793mln (6MFY20: 311mln; 6MFY19: 316mln) while net margin of the Company significantly increased to 9.5% (6MFY20: 4.1; 6MFY19: 4.7%).

Sustainability The Company regularly undertakes BMR for value-addition to enhance its operational efficiency. However, the Company hasn't any plan to incur any major CAPEX going forward. Moreover, the company has suffered due to the pandemic situation in the country and the management has moved its focus on digital by making its existing shops to online shopping portal.

Financial Risk

Working Capital Sefam's working capital needs mainly emanate from the need to maintain high stocks of finished inventory in order to meet consumer demand at its shops. During 6MFY21, the operations of the company has remained efficiently managed and aligned with the company's strategy. Net working capital days stood at 190 days (FY20: 210 days; FY19: 177 days), as finished goods inventory was quite high to meet retail demand. However, the Company maintains a strong borrowing cushion at trade assets level 74.0% (FY20: 69.7%; FY19: 68.8%) which can be utilized to borrow if the need arises.

Coverages During 6MFY21, cash flows (FCFO) of the Company dropped to PKR 1,840mln (FY20: PKR 2,335mln; FY19: PKR 749mln). Coverages showed improvement in 6MFY21 owing to strong profitability. Resultantly, debt-service coverage for 6MFY21 improved to 7.1x (FY20: 4.0x; FY19: 6.9x) while core debt coverage was 2.1x (FY20: 1.6x; FY19: 3.2x); considered strong.

Capitalization Sefam has a adequately low leveraged capital structure with total debt of PKR 6,776mln in 6MFY21 (FY20: 6,780mln; FY19: PKR 1,825mln), comprising a short-term financing of 23.1% (FY20: 28.4%) to meet working capital needs. Borrowings also include a lease liability of PKR 3,427mln (FY20: PKR 3,769mln; PKR 64mln) and a loan from directors amounting PKR 362mln. The Company's leveraging ratio currently stands at 40.4% (FY20: 42.3%; FY19: 19.0%).



Sefam (Pvt.) Limited Textile Composite	Dec-20 6M	Jun-20 12M	Jun-19 12M	Jun-18 12M
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A BALANCE SHEET

1 Non-Current Assets	5,903	6,297	2,121	1,975
2 Investments	-	-	-	-
3 Related Party Exposure	1,990	428	326	380
4 Current Assets	11,653	12,111	10,715	10,162
<i>a Inventories</i>	9,264	9,498	8,006	8,657
<i>b Trade Receivables</i>	245	370	347	45
5 Total Assets	19,547	18,836	13,161	12,518
6 Current Liabilities	1,606	1,756	1,584	1,504
<i>a Trade Payables</i>	849	1,096	1,005	966
7 Borrowings	6,776	6,780	1,825	2,121
8 Related Party Exposure	362	347	320	60
9 Non-Current Liabilities	270	213	314	298
10 Net Assets	10,532	9,740	9,118	8,535
11 Shareholders' Equity	10,532	9,740	9,118	8,755

B INCOME STATEMENT

1 Sales	8,380	14,025	15,539	12,846
<i>a Cost of Good Sold</i>	(4,311)	(7,234)	(9,318)	(7,435)
2 Gross Profit	4,069	6,790	6,221	5,411
<i>a Operating Expenses</i>	(2,615)	(5,229)	(5,021)	(4,430)
3 Operating Profit	1,455	1,562	1,200	980
<i>a Non Operating Income or (Expense)</i>	(36)	(5)	(28)	(33)
4 Profit or (Loss) before Interest and Tax	1,419	1,557	1,171	948
<i>a Total Finance Cost</i>	(262)	(592)	(174)	(96)
<i>b Taxation</i>	(365)	(230)	(532)	(263)
6 Net Income Or (Loss)	793	735	466	589

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	1,840	2,335	749	901
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	1,565	1,809	586	816
<i>c Changes in Working Capital</i>	(120)	(1,491)	712	(834)
1 Net Cash provided by Operating Activities	1,445	318	1,298	(17)
2 Net Cash (Used in) or Available From Investing Activities	(1,607)	(317)	(268)	(316)
3 Net Cash (Used in) or Available From Financing Activities	(60)	(63)	(215)	427
4 Net Cash generated or (Used) during the period	(222)	(62)	815	93

D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	19.5%	-9.7%	21.0%	17.3%
<i>b Gross Profit Margin</i>	48.6%	48.4%	40.0%	42.1%
<i>c Net Profit Margin</i>	9.5%	5.2%	3.0%	4.6%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	20.5%	6.0%	9.4%	0.5%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	15.6%	7.8%	5.2%	10.2%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	211	237	200	153
<i>b Net Working Capital (Average Days)</i>	190	210	177	126
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	7.3	6.9	6.8	6.8
3 Coverages				
<i>a EBITDA / Finance Cost</i>	8.0	4.7	8.7	13.8
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.1	1.6	3.2	6.3
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	1.7	2.9	0.8	0.2
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	40.4%	42.3%	19.0%	19.9%
<i>b Interest or Markup Payable (Days)</i>	63.2	64.4	80.8	0.0
<i>c Entity Average Borrowing Rate</i>	9.8%	17.9%	7.3%	4.7%

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.

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+	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	
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	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.
CC	
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):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk 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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- (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.
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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)

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- (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)

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