The Pakistan Credit Rating Agency Limited

Rating Report

Loads Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
06-Feb-2021	A	A1	Stable	Maintain	-
06-Feb-2020	A	A1	Stable	Maintain	-
31-Aug-2019	A	A1	Stable	Maintain	-
01-Mar-2019	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect the niche industry positioning of Loads Limited 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. Post June-20, the auto sector has started to regain its momentum; currently it is growing at a considerable pace. Decline in discount rate is also a major contributing factor in growth, enabling auto financing and savings on borrowings. The company employs its specific business model i.e., working through subsidiaries catering to the current product suite, Multiple Auto parts Industries (Private) Limited, Specialized Auto parts Industries (Private) Limited and Hi-Tech Alloy Wheels Limited. Loads has an admirable market share (~95%) in the sales of exhaust system, strength in this segment emanates from exclusive agreements signed with the leading OEM’s (Suzuki, Toyota and Honda) in the country and technical collaborations with international players. The other prominent products include metal sheet components and radiators.

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 but there are certain challenges on the way like COVID-19 and rupee devaluation has interrupted the momentum but management is committed to resolve all issues including arrangement of remaining portion of requisite funding. The recent right issue of PKR 1,000mln is pivotal; it will inject much needed liquidity to pay off liabilities and supplement working capital needs. The IPO of Hi-Tech or strategic partnership could be resorted to for further advancement on Alloy Wheels Plant completion. The company is engaging new automotive players emerging in the industry to increase its business volumes, focus remains to augment business and financial profile of Loads Limited.

The ratings are dependent on the management's ability to sustain the financial risk profile while embarking into the new business venture. Maintaining market share in all segments remain crucial. The sustained uptick in recent topline and size of gross profit is crucial, while buffering cash flow position from internal and external income. Timely and seamless COD, followed by envisaged pattern of sale, at the new project is important.

Disclosure	
Name of Rated Entity	Loads 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 | Automotive Parts(Oct-20)
Rating Analysts	Harris Ghaffar | harris.ghaffar@pacra.com | +92-42-35869504

Automotive Parts

Profile

Legal Structure Loads Limited was established in 1979 as a private limited company. The Company was converted into public limited company in 1994 and offered its shares to the general public and was listed on Pakistan Stock Exchange in 2016.

Background Commencing from the transport business, the company started the production of auto parts in 1983 after the arrival of Pak Suzuki in the country.

Operations Loads Limited manufactures radiators, exhaust systems, and sheet metal components for cars, buses, trucks and tractors. The clientele for the company comprises of 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

Ownership Structure The sponsor, Syed Shahid Ali along with Treet Corporation holds 54% of the company's total shares. whereas the general public has a shareholding of 35%.

Stability The company owns three subsidiaries, Specialized Auto parts Industries (Private) Limited, Multiple Auto parts Industries (Private) Limited and Hi-Tech Alloy Wheels Limited. 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 it's commercial production. It expected to start its production in September-2021.

Business Acumen A part of Ali Group, Treet Corporation is a vast conglomerate dealing in soap, razor blades and motorcycles. The group has extended it's footprints into production of batteries (for UPS and automobile sector) as well as the pharmaceutical sector.

Financial Strength 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. The revenue of Treet Corporation Limited in FY-18 was PKR 9.4bln and in FY-19 it is PKR 12bln showing a growth of 13% on year-on-year basis. And a revenue of PKR 1.9bln at Sep-2020

Governance

Board Structure Loads Limited has a seven-member board of directors.

Members' Profile The board is comprised of three Non-Executive Directors including the Chairman . Two independent along with two executive directors complete the quantum of the board. Two Executive members include the CEO Mr. Munir K. Bana and the CFO Mr. Shamim A. Siddiqui.

Board Effectiveness There are two sub-committees of the board i.e. Audit and HR Remuneration Committee. The audit committee comprises of four non-executive directors which conducted four meetings . The HR Committee includes five members and it conducted one meeting during the aforementioned time period.

Financial Transparency The company's auditor, KPMG Taseer Hadi & Co, issued an unqualified audit report in the latest financial statements.

Management

Organizational Structure The company has a lean organisational structure with all departments reporting to the CEO.

Management Team The management team has demonstrated commitment to the company, contributing positive energies for the betterment of the organization.

Effectiveness There is a management committee in place and the company has in house internal audit function.

MIS Loads Limited deploys SAP system with the ability to generate reports on daily, weekly and monthly basis besides other comprehensive data. The company has modernized it's existed facilities and installed hi-tech machinery in order to comply with the rising demand and introduce greater efficiency.

Control Environment The company has obtained quality certifications ISO-14001 and ISO-9001, demonstrating it's emphasis on producing high quality products.

Business Risk

Industry Dynamics The automobile sector has started to gain its lost momentum. Pakistan's domestic auto parts and accessories industry has an approximate size of USD~2,920mln (PKR~460bln) in FY20 as compared to USD~3,056mln(PKR~417bln)inFY19. Remaining demand of the OEM segment is met through imports. During FY20, Pakistan imported auto parts and accessories worth USD~263mln(PKR~41,594mln). Major import destinations include Thailand, Japan, China and Indonesia. The positive growth trend post June-2020, bodes well for the industry amidst new entrants.

Relative Position Loads Limited has a strong positioning and presence in the market. Majority of it's sales consist of exhaust system sales which is Loads' primary product where it dominates with nearly 100 percent market share with all the auto players. Another major product of the company is radiator; made from brass and copper. The company has moved this niche product to selected Original Equipment Manufacturers (OEMs) and tractor manufacturers as the industry has moved into aluminum radiators. Loads Limited has entered the spare parts market, whereby running automobiles can purchase their radiator replacements. The third product group manufactured by Loads Limited are sheet metal components. The company aims to venture into alloy wheels and has purchased a plant from Australia and Korea currently being installed in Karachi. This move will allow Loads Limited to become the first player to manufacture Alloy Wheels in the country. Which is expected to be completed in near future.

Revenues During FY20, the company recorded a revenue of PKR 3.3bln (FY19: PKR 6.7bln) . Overall sales have declined by 21 percent. It is pertinent to mention that cars sales of three OEMs Honda, Toyota and Suzuki declined drastically during COVID-19. As at 6MFY21, Loads recorded sales of PKR 2bln a growth of 19%.

Margins Gross margins at FY20 stood at 7.1% (FY19: 9.1%) due to decline in COGS. Furthermore, the company increased it's CAPEX by installing new machinery while modernizing the existing plant and investing in Alloy Wheel project. However, the company's operating profit margins is 0.2% at 3MFY21.

Sustainability 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 started soon.

Financial Risk

Working Capital The Gross Working Capital days(FY20:244, FY19:193) and Net Working Capital days(FY20: 225, FY19: 176) increase highly YOY basis. Current ratio in FY20 is decreasing up to 5.2x in comparison of FY19 having current ratio of 5.9x. Decline is mainly due to decrease in current assets.

Coverages Free Cash Flow from operations of the company stands at PKR 44mln in FY20 (FY19: PKR 363mln) due to loss before tax. The Company has FCFO of PKR 66mln during 3MFY21. The interest coverage ratio of the company decreased to 0.1x (FY19: 1.8x) as interest cost of the company increased.

Capitalization The company has short term financing facility from various banks predominately JS Bank Limited. Equity of the company stood at PKR~2.8bln. Recently, company has increase its Authorized Capital to PKR 4bln. Company has further announced right issue of PKR 1bln which will beef up the equity of the Company up to ~ PKR 3.8bln.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

00-Jan-00	Sep-20	Jun-20	Jun-19	Jun-18
##	3M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	570	609	616	631
2 Investments	1	1	27	66
3 Related Party Exposure	3,211	3,027	2,277	2,039
4 Current Assets	1,887	2,109	2,518	2,616
a Inventories	*1,057*	*1,381*	*1,405*	*1,663*
b Trade Receivables	*389*	*329*	*602*	*351*
5 Total Assets	5,668	5,745	5,439	5,353
6 Current Liabilities	417	404	427	311
a Trade Payables	*127*	*55*	*239*	*186*
7 Borrowings	2,369	2,516	2,086	1,454
8 Related Party Exposure	55	62	14	477
9 Non-Current Liabilities	2	2	45	54
10 Net Assets	2,825	2,762	2,867	3,057
11 Shareholders' Equity	2,824	2,762	2,867	3,057
B INCOME STATEMENT				
1 Sales	916	2,779	5,710	4,890
a Cost of Good Sold	*(802)*	*(2,581)*	*(5,191)*	*(4,516)*
2 Gross Profit	114	198	519	373
a Operating Expenses	(0)	(192)	(185)	(175)
3 Operating Profit	114	6	334	198
a Non Operating Income or (Expense)	-	*146*	*(2)*	*(2)*
4 Profit or (Loss) before Interest and Tax	114	152	333	196
a Total Finance Cost	*(59)*	*(347)*	*(200)*	*(70)*
b Taxation	*(41)*	*57*	*(92)*	*(46)*
6 Net Income Or (Loss)	14	(137)	41	80
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*66*	*44*	*363*	*214*
b Net Cash from Operating Activities before Working Capital	*3*	*(262)*	*192*	*214*
c Changes in Working Capital	*138*	*566*	*(277)*	*(660)*
1 Net Cash provided by Operating Activities	142	305	(84)	(446)
2 Net Cash (Used in) or Available From Investing Activities	(5)	(11)	(197)	(1,023)
3 Net Cash (Used in) or Available From Financing Activities	(342)	(265)	276	1,263
4 Net Cash generated or (Used) during the period	(205)	29	(6)	(207)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	31.9%	-51.3%	16.8%	11.0%
b Gross Profit Margin	12.5%	7.1%	9.1%	7.6%
c Net Profit Margin	1.5%	-4.9%	0.7%	1.6%
d Cash Conversion Efficiency (FCFO adjusted for Working C	22.3%	22.0%	1.5%	-9.1%
*e Return on Equity [Net Profit Margin * Asset Turnover * (T*	1.9%	-5.1%	1.4%	3.0%
2 Working Capital Management				
a Gross Working Capital (Average Days)	157	244	130	128
b Net Working Capital (Average Days)	148	225	116	115
c Current Ratio (Current Assets / Current Liabilities)	4.5	5.2	5.9	8.4
3 Coverages				
a EBITDA / Finance Cost	1.7	0.3	1.9	3.5
b FCFO / Finance Cost+CMLTB+Excess STB	0.4	0.1	1.8	2.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	33.2	-2.9	0.0	3.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity	46.0%	48.1%	42.1%	38.6%
b Interest or Markup Payable (Days)	115.1	85.2	82.7	105.4
c Entity Average Borrowing Rate	10.0%	14.8%	9.9%	5.7%

Credit Rating

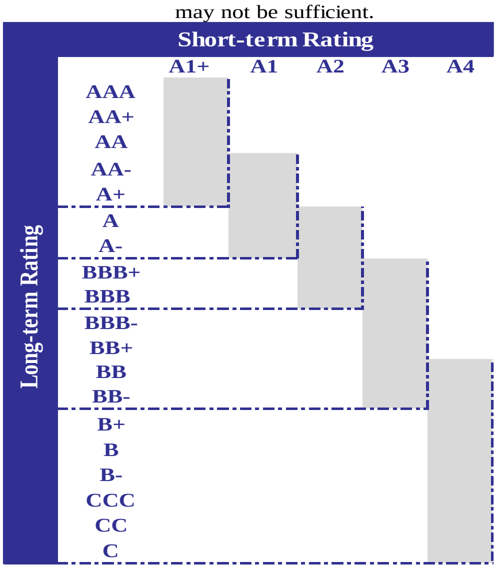
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

Entities
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

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

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.
(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

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent