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
17-Jan-2022	A	A1	Stable	Maintain	-
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 (the Company) in the auto parts industry. With a presence of up to four decades in the automotive industry, the Company has established a considerable forte in the domestic market along with a committed client base. Post June-20, the auto sector has started to regain its momentum; currently it is growing at a considerable pace. Increase in discount rate is a concerning factor for auto financing however, momentum is continuing especially in self-financial vehicles purchases. 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 Limited 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 in Mar-21 is pivotal; it provided the 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. This is crucial. 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 and completion of the new ventures remain crucial. The sustained uptick in recent topline and size of gross profit is essential, 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 Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Automotive Parts(Oct-21)
Rating Analysts	Wajahat Arjumand Ansari | wajahat.ansari@pacra.com | +92-42-35869504

Profile

Legal Structure 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.

Background Commencing 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 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 55% of the company's total shares. whereas the general public has a shareholding of 34%.

Stability The company owns three subsidiaries, Specialized Auto parts Industries (Private) Limited, Multiple Auto parts Industries (Private) Limited and Hi-Tech Alloy Wheels Limited. The first two companies manufacture various products for Loads Limited as per requirement of respective clients, whereas, Hi-Tech Alloy Wheels Limited has not yet started its commercial production. It is expected to start its production by the end of next calendar year.

Business Acumen 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.

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 Sep-21 was PKR 10.7bln.

Governance

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

Members' Profile The board is comprised of three Non-Executive Directors including the Chairman. Two independent directors along with two executive directors complete the composition 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 four non-executive directors and is chaired by an independent director. The HR Committee includes five members, also chaired by an independent director – Ms. Rozina Muzammil.

Financial Transparency The Company's auditor, KPMG Taseer Hadi & Co, issued an unqualified review opinion on the financial statements for the year ended Jun-21.

Management

Organizational Structure The company has a lean organizational 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 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.

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

Business Risk

Industry Dynamics Pakistan's Automotive Parts industry is fairly fragmented with a large number of players. There are over 2,000 auto parts vendors in Pakistan, out of which ~400 vendors belong to the Tier-1 category and are suppliers for the OEM market. Demand in the local Automotive Parts industry emanates from three sources: Original Equipment Manufacturers (OEMs); Replacement Market; Export Market. The remaining demand of the OEM segment is met through imports. During FY21, Pakistan imported auto parts and accessories worth USD~405mln (PKR~64,397mln). Major import destinations include Thailand, Japan, China and Indonesia. During FY21, imports of Automotive parts stood at USD~405mln (PKR~64bln) as compared to USD~263mln (PKR~42bln) in FY20. This rise in imports by ~55% in PKR terms and ~54% in USD terms has come cumulative of rupee devaluation against dollar and growth in demand pie. Considering the base effect of FY20, the growth is largely attributable to the dilution of impacts of the COVID -19 pandemic and the related resumption of operations.

Relative Position Loads Limited has a strong positioning and presence in the market. The majority of its sales consist of exhaust system sales which are Loads' primary product where it dominates with nearly 100 percent market share with all the auto players.

Revenues During 1QFY22, the company recorded a revenue of PKR 3.4bln (FY21: PKR 4.7bln; FY20: PKR 2.8bln; 1QFY21: PKR 0.92bln), posted growth of ~42% for the period under review. This growth is primarily attributed to the ~76% growth in sales of Exhaust Systems from three major customers including Toyota, Honda & Pak Suzuki. Exhaust Systems contributes ~62% to the sales reported in the period under review.

Margins Reported margins remained submissive during 1QFY22 as compared to corresponding period owing to a sharp increase in raw material costs, continued devaluation in exchange rate & indirect costs). Gross margins stood at 9.9% during 1QFY22 (FY21: 8.4%; FY20: 7.1%; 1QFY21: 12.5%). Similarly, the trend trickled down in the operating margins (1QFY22: 6.1%; FY21: 4.5%; FY20: 0.2%).

Sustainability For locally 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 the 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 commencement of commercial production of Alloy Wheels is expected to further boost its market footprint.

Financial Risk

Working Capital The Gross Working Capital days (3MFY22: 116days; FY21: 138, FY20:244) and Net Working Capital days (3MFY22: 99days, FY21: 130days; FY20: 225days) expressed decrease on a YoY basis mainly due to a decline in average inventory days outstanding. Current ratio in 3MFY22 is decreasing up to 3.8x in comparison to the corresponding period of 4.7x. The decline is mainly due to a sharp increase in trade payables by PKR 457mln (3MFY21: PKR 127mln).

Coverages Free Cash Flow from operations of the company stood at PKR 20mln in 3MFY22 (CY20: PKR 203mln; 3MFY21: PKR 66mln) owing to depressed profit before tax reported for the period. The interest coverage ratio of the company decreased to 0.2x (CY20: 0.9x; 3MFY21: 1.1x) as the interest cost of the company was reduced.

Capitalization The company has short term financing facility that carries rates ranging from 1month KIBOR plus 1% to 3month KIBOR plus 1.5%, arranged from various banks predominately JS Bank Limited. Equity of the company stood at PKR 4.14bln (CY20: PKR 4.12bln; 3MFY21: PKR 2.98bln). The company has issued the right shares of PKR 1bln during March-21.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Loads Limited Automative Part	Sep-21 3M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	556	572	609	616
2 Investments	2	1	1	27
3 Related Party Exposure	4,064	4,197	3,027	2,277
4 Current Assets	2,858	2,251	2,109	2,518
a Inventories	*1,634*	*1,387*	*1,381*	*1,405*
b Trade Receivables	*762*	*476*	*329*	*602*
5 Total Assets	7,480	7,021	5,745	5,439
6 Current Liabilities	754	355	388	427
a Trade Payables	*457*	*159*	*55*	*239*
7 Borrowings	2,392	2,305	2,516	2,086
8 Related Party Exposure	185	226	62	14
9 Non-Current Liabilities	5	6	18	45
10 Net Assets	4,144	4,129	2,762	2,867
11 Shareholders' Equity	4,144	4,128	2,762	2,867
B INCOME STATEMENT				
1 Sales	1,673	4,717	2,779	5,710
a Cost of Good Sold	*(1,507)*	*(4,320)*	*(2,581)*	*(5,191)*
2 Gross Profit	165	397	198	519
a Operating Expenses	(63)	(183)	(192)	(185)
3 Operating Profit	102	214	6	334
a Non Operating Income or (Expense)	*60*	*184*	*146*	*(2)*
4 Profit or (Loss) before Interest and Tax	163	398	152	333
a Total Finance Cost	*(90)*	*(224)*	*(347)*	*(200)*
b Taxation	*(21)*	*(51)*	*57*	*(92)*
6 Net Income Or (Loss)	52	124	(137)	41
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*20*	*203*	*44*	*363*
b Net Cash from Operating Activities before Working Capital Changes	*(19)*	*(57)*	*(262)*	*192*
c Changes in Working Capital	*(175)*	*196*	*566*	*(277)*
1 Net Cash provided by Operating Activities	(194)	139	305	(84)
2 Net Cash (Used in) or Available From Investing Activities	(5)	(56)	(11)	(197)
3 Net Cash (Used in) or Available From Financing Activities	110	135	(265)	276
4 Net Cash generated or (Used) during the period	(89)	219	29	(6)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	41.9%	69.8%	-51.3%	16.8%
b Gross Profit Margin	9.9%	8.4%	7.1%	9.1%
c Net Profit Margin	3.1%	2.6%	-4.9%	0.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-9.3%	8.5%	22.0%	1.5%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	5.0%	3.6%	-4.9%	1.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	116	138	244	128
b Net Working Capital (Average Days)	99	130	225	115
c Current Ratio (Current Assets / Current Liabilities)	3.8	6.3	5.4	5.9
3 Coverages				
a EBITDA / Finance Cost	1.3	1.4	0.3	1.9
b FCFO / Finance Cost+CMLTB+Excess STB	0.1	0.3	0.1	0.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-3.1	-53.6	-2.8	2.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	38.3%	37.8%	48.1%	42.1%
b Interest or Markup Payable (Days)	58.7	61.9	85.2	82.7
c Entity Average Borrowing Rate	14.7%	9.0%	15.3%	10.8%

Credit Rating

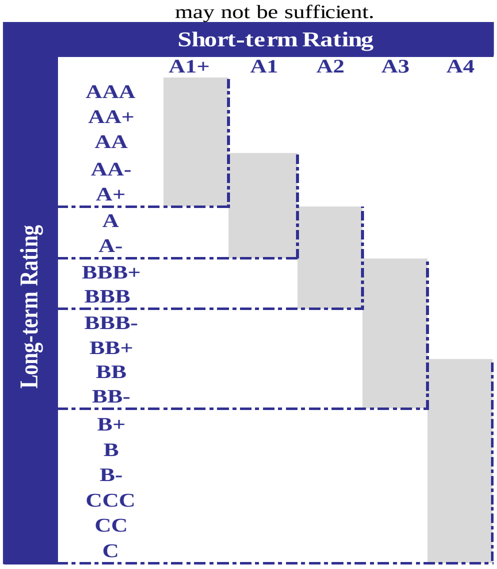
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

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

Short-term Rating

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



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

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

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

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

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

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

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

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

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

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