The Pakistan Credit Rating Agency Limited

Rating Report

H. Nizam Din & Sons (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
13-May-2023	A-	A2	Stable	Upgrade	-
13-May-2022	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating reflects H. Nizam Din & Sons (Private) Limited's (Nizam or "the Company") reputable brand name, strong presence and long-established business history. Based upon the knowledge legacy and skills inherited from canvas tents/shelters manufacturing and exports, the Company was able to transform itself into a leading global supplier of humanitarian relief products i.e. Canvas/PVC tents, canvas fabric, relief blankets and etc. The company owns a modern and state-of-the-art plant & machinery, and processes are vertically integrated thus contributing towards cost control and operational efficiencies. There are a few local companies that are registered as approved vendors of United Nations and global donor agencies for relief items (tents/blankets) and Nizam is one of them. Relief business industry is correlated with needs & demands where predictability of orders creates challenges. Currently, the demand for disaster relief and management has been rising due to global increase in natural disasters associated with the climate change and ongoing regional conflicts i.e., Russia – Ukraine war. During the period under review, the local devastating flood also created a huge demand for relief items. The resources of the company were aligned to serve the demand amicably. Considering the fact topline of the company depicted a massive growth in local sales, on the other side export demand is also following a rising trend as depicted by future financial projections of the company which is a good sign. The product slate of the company is well diversified between relief and non-relief products which provide resilience in revenue streams. The board of the Company is family oriented where sponsors are close family members and thus indicates room for improvement. For future stability of business sponsoring shareholders have well-defined governing principles and constitutions to which they need to adhere. The operations of the companies are governed by a qualified team of professionals, and a sound system of internal controls is implemented across the organization. Financial profile of the Company is considered good with comfortable coverage, cash flows, and working capital cycle. Capital structure is leveraged and borrowings are mainly comprised of short-term borrowings for working capital management.

The ratings are dependent on sustainable growth in top-line and bottom-line with upheld margins, and market share while retaining sufficient cash flows and coverages. However, adherence to maintaining its debt metrics at an adequate level is a prerequisite.

Disclosure

Name of Rated Entity	H. Nizam Din & Sons (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Relief(Jan-23)
Rating Analysts	Sohail Ahmed Qureshi | sohail.ahmed@pacra.com | +92-42-35869504

Profile

Legal Structure H. Nizam Din & Sons (Pvt.) Ltd (Company) was incorporated as Private Ltd Company, under the Companies Ordinance. 1984 on March 31, 1975. The Company's registered office and a manufacturing unit situated at D/64 S.1.T.E. Karachi, whereas the other unit situated at 34km Ferozepur Road Lahore, Pakistan.

Background H. Nizam Din & Sons (Pvt.) Ltd. established in 1869. Mr. Faiz Ahmad, father of Mr. Naveed Ahmad flourished it further and expanded its operations of rental tents and event catering, which further evolve and become corporatize in 1975 as a private limited company by the family members. Presently Mr. Naveed Ahmad and his three sons; Mr. Ali Ahmad, Mr. Usman Ahmad and Mr. Saad Ahmad and one of his cousin Mr. Bashir Ahmad (deceased) are the shareholders of the company. Now H. Nizam Din and Sons Pvt. Ltd is in hands of 5th generation.

Operations The principal activities of the company are to manufacture and export of canvas and processed fabric, tents made of Cotton Canvas / PVC, bags, Canvas / denim made ups/ garments, work wear.

Ownership

Ownership Structure The company is majorly owned by Mr. Naveed Ahmad, its shareholding is divided between Mr. Naveed Ahmad (~72%), an equal proportion of ~9% between Mr. Ali Ahmad, Mr. Usman Ahmad, Mr. Saad Ahmad respectively, and Mr. Bashir Ahmed holds ~1%. However, formal succession planning is in process.

Stability The Company’s operations are majorly met by Mr. Naveed Ahmad. He is associated with the company since 1976. He is a seasoned business man with diversified knowledge and expertise.

Business Acumen This is a business which is established over a hundred years ago and Mr. Naveed Ahmad and his ancestors have versatile hands-on experience in it. The owners have extensive experience in the fabric industry. They are one of the top manufacturers of relief products in Pakistan

Financial Strength The company has strong exposure in the relief items business as well as diversification is also achieved through a wholly-owned subsidiary; Nizam Energy deals in solar power projects. Group revenue as of June 22 is ~14bln.

Governance

Board Structure The board comprises four members with a diversified range of experiences. All of them are close family members and there are not any independent directors on the board. The board is currently chaired by Mr. Naveed Ahmad.

Members’ Profile Mr. Ali Ahmad is the Chief Executive Officer and possesses more than 20 years of business experience. All other members are professionally qualified with extensive professional experience and a diversified skill mix.

Board Effectiveness The board met many times in FY22 with the majority of members present in the meeting. The board has established an organized structure and hierarchy which includes CFO, COO for Karachi and Lahore units, Head of processing, Manager export, Manager Commercial, Manager Procurement, Manager Utilities and maintenance, and Manager Administration .

Financial Transparency Baker Tilly Mehmood Idrees Qamar Chartered Accountants are the external auditors of the Company. They gave an unqualified opinion on the company’s financial statements for the year ending June 30, 2022. The firm is QCR rated and it comes in the A category of SBP.

Management

Organizational Structure The Company has established a well-defined management structure divided into functional departments with clear lines of responsibilities.

Management Team The company has a team of diversified seasoned professionals. Mr. Sajid Mehmood the COO Karachi unit has a versatile experience. of 25+ years. Mr Tahir Mumtaz the COO Lahore unit with 28+ years of experience, Mr. Rehan Umer Soomar is a Chartered Accountant with more than 22 years of professional experience. All other team members are seasoned professionals operating under the supervision of the respective COO.

Effectiveness The Company has established an Audit Committee, HR committee, and IT committee to coordinate its operations, which comprises senior management. The company has also developed the Capex Steering Committee to evaluate and ensure the economic use of company capital. This committee meets once a month. The other departments are purchase, finance, and credit which handle monthly targets.

MIS The Company has implemented Oracle EBS (ERP) to generate reports and manage the flow of information. It is capable of generating customized MIS/dashboard reports for the board and top management. The management maintains strong controls through the ERP.

Control Environment The management has a strong control environment within the Company supplemented by a robust quality control system for its manufacturing processes. Additionally, the company also has an internal audit department reporting to the CEO and BOD; which produces quarterly reports to ensure compliance with company policies and provide assurance on data integrity.

Business Risk

Industry Dynamics During FY22, Pakistan’s tents, canvas, and tarpaulin exports stood at PKR~19,709mln, increasing ~14% from PKR~17,728mln in FY21, largely due to higher exchange rate albeit reduced exports in quantitative terms (~35,155MT in FY22 compared to ~40,220MT in FY21). While there are many Pakistani firms on the United Nations’ list of registered vendors, there are only three manufacturers of relief items such as tents, tarpaulin, and mosquito nets, namely, H. Nizam Din & Sons (PVT) Limited, Paramount Tarpaulin Industries, and Zahra Tents Industries (PVT) Limited. The sector is represented by the Pakistan Canvas and Tents Manufacturers & Exporters Association (PCTMEA). Source: Pakistan Economic Survey, PCTMEA, PBS.

Relative Position H. Nizam Din & Sons (Pvt.) Ltd is one of the top 3 manufacturers of Relief products. Major competitors are Paramount Tarpaulin Industries and Zahra Tents Industries (PVT) Limited. Whereas in the garments division, there are numerous competitors in the industry.

Revenues During 1HFY23, the Company's top-line increased by ~155% and stood at PKR 10,537 mln (FY22:8,241mln; FY21: PKR 6,594mln). The Company's top line is well diversified as it is involved in the manufacturing and exports of canvas, tents/ PVC tents, bags, and denim made-up/garments.

Margins In IHFY23, Company's gross margin has reached ~14.7% (FY22: ~16.5% , FY21: ~18.0%) as a result of cost inflation. Meanwhile, the operating margin increased to ~9% (FY22: ~6%). However, Admin, Marketing & Selling expenses have been reduced and caused improvement in operating margin. (1HFY23: 9%, FY22:6.0% FY21:8.2%). The Company’s finance cost recorded in IHFY23 to PKR ~164mln (FY22: PKR ~153mln, FY21: PKR ~103mln). The Company’s net profit in IHFY23 clocked in at PKR ~430mln (FY22: PKR ~268mln FY21: PKR ~358mln).

Sustainability H.Nizam Din & Son’s management has provided realistic forecasts that reflect their strategy and demonstrate the feasibility of their approach. The company intends to continue investing in capital expenditure to improve manufacturing efficiency and enhance its e-commerce capabilities, to cater to the growing online market. They have a focus on long-term planning and sustainability. The company is taking action to remain competitive and adapt to changing market conditions.

Financial Risk

Working Capital In IHFY23, Company's inventory days reached ~51 days (FY22: ~85 days, FY21: ~61 days) as the Company’s working cycle is well maintained to cater to upcoming demand needs. Meanwhile, in IHFY23, trade receivable days has reached to ~37 days (FY22: ~35days, FY21: ~28days). Gross working capital days reached to ~88 days (FY22: ~120 days, FY21: ~89days). The trade payable days during IHFY23 were clocked at ~44 days (FY22: ~73 days, FY21: ~71 days). Resultantly, the net working capital days clocked in at 43 days (FY22: ~47 days; FY21:18days).

Coverages The company’s FCFO reached PKR 802mln during IHFY23 (FY22: PKR 549mln, FY21: PKR 563mln). The interest coverage ratio clocked at 7.6x (FY22: 5.6x, FY 21:10.3)). Furthermore, the debt coverage ratio reached 4.2x (FY22: 2.3x, FY21: 2.9x) due to improved profitability or successful business growth.

Capitalization The capital structure of the Company is moderately leveraged. During IHFY23, the Company’s leveraging increased to ~43.3% (FY22: ~39.6%, FY21: ~31.4%). Short-term borrowings in IHFY23 constitute ~87.6% of the Company’s total borrowings (FY22: ~85.7%, FY21: ~81.2%)

Financial Summary
PKR mln

The Pakistan Credit Rating Agency Limited

H.NIZAM DIN & SON'S	Dec-22	Jun-22	Jun-21	Jun-20
Relief	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	3,053	2,999	2,824	1,931
2 Investments	-	-	-	-
3 Related Party Exposure	691	758	654	692
4 Current Assets	8,069	5,467	3,293	2,566
a Inventories	*3,176*	*2,672*	*1,157*	*1,036*
b Trade Receivables	*3,331*	*946*	*632*	*380*
5 Total Assets	11,813	9,225	6,771	5,189
6 Current Liabilities	4,548	3,123	1,788	1,984
a Trade Payables	*2,968*	*2,149*	*1,146*	*1,422*
7 Borrowings	3,075	2,361	1,533	965
8 Related Party Exposure	5	7	5	13
9 Non-Current Liabilities	153	132	101	158
10 Net Assets	4,030	3,602	3,344	2,069
11 Shareholders' Equity	4,030	3,602	3,344	2,069
B INCOME STATEMENT				
1 Sales	10,537	8,241	6,594	5,167
a Cost of Good Sold	*(8,982)*	*(6,884)*	*(5,407)*	*(4,222)*
2 Gross Profit	1,554	1,357	1,187	945
a Operating Expenses	(609)	(861)	(645)	(615)
3 Operating Profit	945	495	542	331
a Non Operating Income or (Expense)	*0*	*9*	*(15)*	*(9)*
4 Profit or (Loss) before Interest and Tax	945	504	527	322
a Total Finance Cost	*(164)*	*(153)*	*(103)*	*(128)*
b Taxation	*(351)*	*(83)*	*(66)*	*(52)*
6 Net Income Or (Loss)	430	268	358	142
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*802*	*549*	*563*	*410*
b Net Cash from Operating Activities before Working Capital	*727*	*437*	*493*	*294*
c Changes in Working Capital	*(1,463)*	*(740)*	*(1,068)*	*(2)*
1 Net Cash provided by Operating Activities	(736)	(303)	(575)	293
2 Net Cash (Used in) or Available From Investing Activities	(122)	(336)	(97)	(113)
3 Net Cash (Used in) or Available From Financing Activities	714	855	560	(75)
4 Net Cash generated or (Used) during the period	(144)	216	(112)	105
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	155.7%	25.0%	27.6%	33.8%
b Gross Profit Margin	14.7%	16.5%	18.0%	18.3%
c Net Profit Margin	4.1%	3.3%	5.4%	2.8%
d Cash Conversion Efficiency (FCFO adjusted for Working C	-6.3%	-2.3%	-7.6%	7.9%
*e Return on Equity [Net Profit Margin * Asset Turnover * (T*	22.6%	7.7%	13.2%	8.1%
2 Working Capital Management				
a Gross Working Capital (Average Days)	88	120	89	86
b Net Working Capital (Average Days)	43	47	18	1
c Current Ratio (Current Assets / Current Liabilities)	1.8	1.8	1.8	1.3
3 Coverages				
a EBITDA / Finance Cost	7.6	5.6	10.3	4.6
b FCFO / Finance Cost+CMLTB+Excess STB	4.2	2.3	2.9	1.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	0.3	0.8	0.6	1.3
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equit	43.3%	39.6%	31.4%	31.8%
b Interest or Markup Payable (Days)	67.0	108.5	113.0	65.6
c Entity Average Borrowing Rate	10.0%	5.6%	5.1%	10.6%

Credit Rating

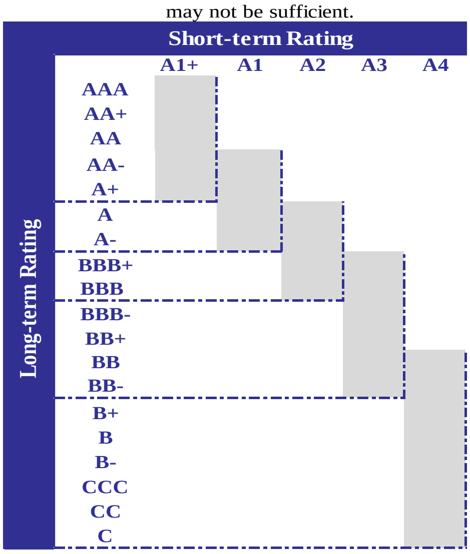
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

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

Short-term Rating

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
Proprietary Information