



The Pakistan Credit Rating Agency Limited

## ENTITY RATINGS REPORT

### H. SHEIKH NOOR UD DIN & SONS

ENTITY	RATING	OUTLOOK	ACTION	DATE
H. Sheikh Noor Ud Din & Sons	Long Term: A- Short Term: A2	Stable	Initial	29 <sup>th</sup> January 2018

#### RATING RATIONALE

H. Sheikh Noor Ud Din & Sons (HSNDS), manufacturing arm of NRS International, is primarily engaged in manufacture of relief items and health items for international donor agencies. The ratings incorporate company's long term association with international donor agencies such as UNHCR, UNESCO, Red Cross, and others. The company manufactures Long Lasting Insecticidal Nets (LLIN) under brand name DawaPlus®. Approved by World health Organization, it is the second most used LLIN with over 28% market share in the world. LLIN represents over 60% share of revenues of the company. The company's long term contracts along with strong margins provide comfort to sustainable healthy profitability. To cater the volatile needs of the relief industry, HSNDS has to maintain higher inventory levels which in turn give rise to higher capital needs. In FY17, increased working capital needs caused the short term borrowings to rise, impacting overall financial profile of the company. However, this remains strong.

Prudent management of working capital, while keeping efficient inventory levels to manage relief industry needs will be important. Meanwhile, strengthening of governance framework and financial transparency for better oversight of strategic affairs is considered essential. Adherence to agreed upon financial matrices (Short term borrowing to Net working capital <70%, cash debt coverages of above 2.5x) will remain critical.

#### Report Contents

1. Rating Analyses
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H. SHEIKH NOOR UD DIN & SONS PROFILE	
<b>Incorporated</b>	1979
<b>Major business lines</b>	<ul style="list-style-type: none"> <li>▪ Relief Items like Tents, Tarpuline, Plastic Sheets, Solar Lights</li> <li>▪ Long Lasting Insecticidal Nets</li> </ul>
<b>Legal status</b>	Private Limited
<b>Location</b>	Lahore

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> <li>▪ Relief Industry comprises provision of relief related items to needy caused by volatile and unpredictable natural events or by unequal distribution of wealth due to failing economic system of the world or due to man-made crisis like war or industrial accidents.</li> <li>▪ Relief needs are determined by mainly two types of needs. (i) Crisis based needs – needs caused by calamities etc. and (ii) Needs to eradicate or eliminate diseases etc.</li> </ul>

OWNERSHIP	GOOD
<ul style="list-style-type: none"> <li>▪ H. Sheikh Noor-ud-Din &amp; Sons Pvt. Ltd. (HSNDS) was incorporated in 1979 as a private limited company. Principal operations of HSNDS comprise production and sale of humanitarian relief items, multi-purpose tents, insecticidal nets and solar solutions.</li> <li>▪ H. Sheikh Noor Ud Din &amp; Sons, manufacturing arm of the NRS international is equally owned by four brothers of Sarwar Family.</li> <li>▪ NRS International, is engaged in provision of products for global humanitarian, public health and development sectors. The company has subsidiaries namely, NRS Relief, Tana Netting. NRS relief handles relief items related business whereas Tana Netting manages health related business of the group.</li> </ul>	

GOVERNANCE	NEEDS IMPROVEMENT
<ul style="list-style-type: none"> <li>▪ The board is dominated by the sponsors. All four brothers are on the board. The board does not have any independent director.</li> <li>▪ Mr. Farhan Sarwar, has over 2 decades of experience in working in relief industry.</li> <li>▪ For effective oversight of the company matters, the board needs to induct independent directors and hire better auditors to improve financial transparency. The board intends to improve its governance going forward by hiring better auditors.</li> </ul>	

MANAGEMENT	GOOD
<ul style="list-style-type: none"> <li>▪ HSNDS has a broad organizational structure. The company's structure is mainly divided into four divisions. Three divisions operate in Pakistan whereas one division operate in Dubai.</li> <li>▪ The four divisions are 1) Share Services, 2) Sales &amp; Marketing Services, 3) Supply Chain Services and 4) Business Services. All four divisions are mainly headed by four brothers who own the company.</li> <li>▪ Mr. Farhan Sarwar- CEO HSNDS is also the chairman of the company. The company does not follow code of corporate governance rules not being a listed company.</li> <li>▪ Mr. Farhan is assisted by an able professional team.</li> </ul>	

SYSTEM & CONTROLS	GOOD
<ul style="list-style-type: none"> <li>▪ HSNDS maintains good IT infrastructure and related controls. The company has installed an effective Enterprise Resource Planning Software – SAP in its facilities.</li> <li>▪ The company maintains a comprehensive MIS reporting system for the management to keep track of activities. The company's MIS comprises range of reports including cash position, receivable position, payable position, production, inventory status reports, and segment wise profit &amp; loss statement.</li> <li>▪ The company has achieved international certifications which include ISO 9001, ISO – 14000 and SE 8000 certified.</li> </ul>	

BUSINESS RISK	GOOD
<ul style="list-style-type: none"> <li>▪ HSNDS's product portfolio included products related to refugee and disaster relief camps across the world, as well as allied products which may be used for other purposes.</li> <li>▪ The company's sales mix remains dominated by TANA Netting segment (~58%), which encompasses production of long lasting insecticidal nets (LLINs) – nets treated with insecticide to repel mosquitoes and prevent malaria.</li> <li>▪ During FY17, HSNDS has experienced high growth in topline (FY17: PKR ~20bln, FY16: PKR ~15bln, FY15: PKR ~15bln), which was led by high sales of plastic sheets and tents – combined increase of PKR ~4bln. Increase in tents sales was led by extra ordinary demand by refugee camps in Turkey.</li> <li>▪ Despite increase in financing cost due to increased revenue, the company's net profit improved amounting to PKR 1,302mln as against PKR 948mln in the comparative period. Profitability remained strong in 1QFY18 with net profit of PKR 312mln.</li> </ul>	

FINANCIAL RISK	ADEQUATE
<ul style="list-style-type: none"> <li>▪ HSNDS's working capital requirements are a function of its inventory and receivables, for which the company relies on a mix of internal generation and short term borrowings (STBs).</li> <li>▪ Cash Cycle days increased on the back of increased gross working capital days though declining in first quarter (1QFY18: 95days, FY17: 125days FY16: 99days).</li> <li>▪ Increase in short term borrowing and resultantly increased finance cost (1QFY18: 111mln FY17: 466mln, FY16: 236mln), lead to declining though strong coverages (1QFY18: 4.7x, FY17: 5.0x, FY16: 6.0x). HSNDS's lower reliance on long term debt means the company has strong debt coverages (1QFY18: 3x, FY17: 3.2x, FY16: 2.7x).</li> <li>▪ Increase in short term borrowings (1QFY18: 6,131mln, FY17: 5,854mln, FY16: 2,789mln) due to increased inventory requirements lead to increased leveraging (1QFY18: 44% FY17: 44%, FY16: 35%).</li> </ul>	



PKR mln

**H. Sheikh Noor-ud-Din & Sons Pvt. Ltd.**

Balance Sheet	30-Sep-17 3M	30-Jun-17 FY17	30-Jun-16 FY16	30-Jun-15 FY15
<b>Non-Current Assets</b>	<b>6,808</b>	<b>6,384</b>	<b>5,779</b>	<b>4,701</b>
<b>Investments (incl. Associates)</b>	-	-	-	-
Equity	-	-	-	-
Debt Securities (incl. income funds)	-	-	-	-
<b>Current Assets</b>	<b>8,949</b>	<b>9,690</b>	<b>6,957</b>	<b>4,899</b>
Inventory	3,352	3,375	2,786	2,006
Trade Receivables	2,272	3,016	2,898	2,009
Others	3,325	3,299	1,273	884
<b>Total Assets</b>	<b>15,757</b>	<b>16,074</b>	<b>12,736</b>	<b>9,601</b>
<b>Debt/Borrowings</b>	<b>6,399</b>	<b>6,131</b>	<b>3,354</b>	<b>1,688</b>
Short-Term	6,131	5,854	2,789	1,502
Long-Term (incl. Current Maturity of Long-Term Debt)	268	277	565	186
Other Short-Term Liabilities	1,183	2,084	2,849	2,229
Other Long-Term Liabilities	27	23	-	99
<b>Shareholder's Equity</b>	<b>8,148</b>	<b>7,836</b>	<b>6,534</b>	<b>5,585</b>
<b>Total Liabilities &amp; Equity</b>	<b>15,757</b>	<b>16,074</b>	<b>12,736</b>	<b>9,601</b>

**INCOME STATEMENT**

<b>Turnover</b>	<b>4,612</b>	<b>19,838</b>	<b>15,263</b>	<b>14,898</b>
Gross Profit	773	3,244	2,438	2,112
Other Income	(16)	(77)	(55)	(31)
Financial Charges	(111)	(466)	(236)	(198)
<b>Net Income</b>	<b>312</b>	<b>1,302</b>	<b>948</b>	<b>912</b>

**Cash Flow Statement**

Free Cash Flows from Operations (FCFO)	432	2,059	1,417	1,224
Net Cash changes in Working Capital	(199)	(3,394)	(1,476)	(438)
Net Cash from Operating Activities	121	(1,769)	(296)	582
Net Cash from Investing Activities	(468)	(900)	(1,309)	(785)
Net Cash from Financing Activities	269	2,679	1,666	209
Net Cash generated during the period	(79)	10	61	7

**Ratio Analysis**

<b>Performance</b>				
Turnover Growth (v.s same period last year)	31.9%	30.0%	2.5%	N/A
Gross Margin	16.8%	16.4%	16.0%	14.2%
Net Margin	6.8%	6.6%	6.2%	6.1%
ROE	30.6%	18.1%	15.7%	32.6%
<b>Liquidity</b>				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	95	125	99	85
<b>Leveraging</b> (Total Debt/Total Debt+Equity)*	44.0%	43.9%	34.6%	25.2%

\*Total Debt = Long-Term Debt + Short-Term Debt

## CREDIT RATING SCALE & DEFINITIONS

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 RATINGS		SHORT TERM RATINGS
<b>AAA</b>  <b>AA+</b> <b>AA</b> <b>AA-</b>  <b>A+</b> <b>A</b> <b>A-</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.  <b>Very high credit quality.</b> 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.  <b>High credit quality.</b> 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.	<b>A1+:</b> The highest capacity for timely repayment.  <b>A1:</b> A strong capacity for timely repayment.  <b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.  <b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.  <b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> 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.	<b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> 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>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> 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>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> 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.	<b>C:</b> An inadequate capacity to ensure timely repayment.
<b>D</b>	Obligations are currently in default.	

<b>Outlook (Stable, Positive, Negative, Developing)</b> 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’.	<b>Rating Watch</b> Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. 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 Outlook of the respective opinion.	<b>Suspension</b> 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.	<b>Withdrawn</b> A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information
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<b>Name of Rated Entity</b>	H. Sheikh Noor Ud Din & Sons	
<b>Sector</b>	Social Work	
<b>Type of Relationship</b>	Solicited	
<b>Purpose of the Rating</b>	Independent Risk Assessment	
<b>Related Criteria and Research</b>		
Rating Methodology	Corporate Rating Methodology	
<b>Rating Analysts</b>	Muhammad Hassan <a href="mailto:muhammad.hassan@pacra.com">muhammad.hassan@pacra.com</a> (92-42-35869504)	Amara Gondal <a href="mailto:Amara.gondal@pacra.com">Amara.gondal@pacra.com</a> (92-42-35869504)
<a href="#">Rating Team Statement</a>	<b>Rating Procedure</b> Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.	
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