RATING REPORT

Universal Leather (Private) Limited

REPORT DATE:
October 16, 2017

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Latest Rating**	**Previous Rating**
Entity	**BBB/A-3**	**BBB+/A-3**
Rating Date	*October 16,'17*	*May 20,'16*
Rating Outlook	Negative	Stable
Outlook Date	*October 16,'17*	*May 20,'16*

COMPANY INFORMATION	
Incorporated in 1968	**External auditors:** Deloitte Yousuf Adil Chartered Accountants
Private Limited Company	**Chairman of the Board:** Mr. S. M. Saleem
Key Shareholders (with stake 10% or more):	**Chief Executive Officer:** Mr. Shakil Ahmed
Mr. Farrukh Hussain Sheikh - 10.76%	
Mr. Shahid Hussain - 11.97%	
Mr. S.M. Saleem - 10.00%	
Mr. S.M. Naseem - 10.00%	
Mr. Daniyal Ahmed Sheikh-10.04%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria *http://www.jcrvis.com.pk/images/methodology.pdf*

Universal Leather Private Limited

OVERVIEW OF THE INSTITUTION

Incorporated in 1968 as a public listed company, ULPL was then converted into a private limited company in 2004. ULPL's primary business focus is leather tanning of bovine animals with facilities present in Karachi and Lahore. The financial statements for FY16 were audited by Deloitte Yousuf Adil Chartered Accountants.

RATING RATIONALE

Universal Leather (Private) Limited (ULPL) is a private limited company The company specializes in leather produced from cow/buffalo skins. ULPL is a part of the MIMA group which is a well-established name having five other entities under its management. Shareholding of the company is held by various family members. Current ratings of ULPL account for profile of sponsors who have extensive experience in the leather industry.

Key Rating Drivers:

Sales Mix: Financial profile of ULPL has weakened on a timeline basis, given the fall in trade of leather products globally. A large chunk of sales comprise exports; value of exports reduced by 40% during FY17. Decline in the same was on account of both prices and volumes. However, management plans to increase focus on local sales given the rise in demand locally. Similar to its associate, Europe continues to remain an important market for ULPL with expansions planned in the untapped countries, going forward. Proportion of exports to Europe increased during the year and represented around 93% (FY15: 83%) of total sales. Both client and country wise concentration in sales remains on the higher side. Concentration in sales is partly mitigated given the long-term association with most large clients.

Profitability: While prices of raw material have declined at a faster pace vis-à-vis dip in average selling prices, gross margins reduced on account of significant dip in volumetric sales during FY16. However, the management perceives raw material prices to gain momentum from this point forward and no further drop is anticipated. Decline in revenues translated into a sizeable loss before tax of Rs. 160.5m (FY14: Rs. 80.9) during FY16. Profitability is expected to remain under pressure given a consistent fall in selling prices and subdued demand of leather products. Hence, achieving projected sales volumes is considered important in terms of profitability.

Inventory: Inventory levels of the company are decreasing on a timeline basis (FY17: Rs. 615m; FY16: Rs. 891m; FY15: Rs. 1,264m). In line with the management's effort to reducing inventory levels, purchases (1HFY17: 74.1m; FY16: Rs. 260.9m; FY15: Rs. 867.8m, FY14: Rs. 1,177.2m) have been curtailed in the ongoing year. Going forward, the management aims to further sell down its stock-in-trade in order to repay its debt obligations; stock-in-trade represented 173% (FY16: Rs. 180%; FY15: 186%; FY14: 187%) of borrowings at end-FY17.

Liquidity: Liquidity profile of the company has weakened with negative cash flows & an increase in cash conversion cycle. Borrowings are utilized to fund inventory carried on the balance sheet and are entirely short term in nature. Short term borrowing amounted to Rs. 355.4m (FY16: Rs. 494.7m; FY15: Rs. 678.5m; FY14: Rs. 574.4m) at end-FY17. Given the stressful FFO and unfavorable cash conversion cycle, the company might make use of more debt in the future.

Capitalization: Consistent losses have resulted in equity attrition on timeline basis. Total equity (including loan from directors) reduced to Rs. 444.8m (FY15: Rs. 575.9m; FY14: Rs. 626.3m) on account of a significant loss incurred in FY16. Resultantly, gearing stood at 1.0x (FY15: 1.1x; FY14: 0.9x) at end-FY16. Adjusted for investment and loans in associated companies, debt leverage and gearing increased to 2.7x (FY15: 2.6x; FY14: 2.2x) and 1.3x (FY15: 1.4x; FY14: 1.1x), respectively at end-FY16. In order to keep the equity base sustainable, equity injection is considered necessary. This will improve the risk profile of the institution and will facilitate in improving liquidity profile, reducing leverage indicators and expanding borrowing capacity. As per management of the company, ULPL has injected Rs. 40m during FY17 through sale of property.

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix I

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Universal Leather Private Limited
Sector	Tanneries and Leather Products
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
Instrument Structure	N/A
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Rating History

Rating Date	Medium to Long Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY			
10/16/2017	BBB/A-3	Negative	Downgrade
05/20/2016	BBB+/A-3	Stable	Reaffirmed
05/04/2015	BBB+/A-3	Stable	Reaffirmed
04/09/2014	BBB+/A-3	Stable	Reaffirmed
04/08/2013	BBB+/A-3	Stable	Reaffirmed
02/13/2012	BBB+/A-3	Stable	Reaffirmed