

Universal Leather (Pvt.) Limited

Chairman: Mr. S. M. Saleem; Chief Executive: Mr. Shakil Ahmed

April 25, 2014

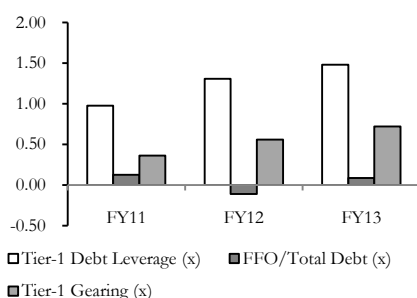
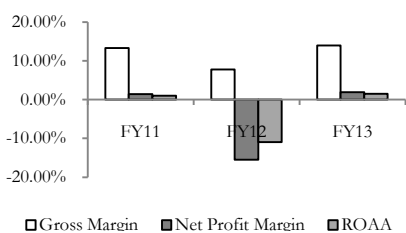
Analysts: Amir Shafique
Muniba Khan

Rating Rationale

| Category | Latest | Previous |
|----------------|-----------------|-----------------|
| Entity | BBB+/A-3 | BBB+/A-3 |
| | April 09, '14 | April 08, '13 |
| Outlook | Stable | Stable |
| | April 09, '14 | April 08, '13 |

Leather is the fourth largest export sector of the country; contributing 4.9% to total exports. While Pakistan is endowed with a large animal population, the leather industry has not been able to realize its full potential. Almost half of the country's exports comprise tanned leather, with less focus on value added product segments. In recent years, the industry has been facing supply side shifts with respect to raw material as rising prices have impacted the animal purchasing pattern of consumers. The Economic Coordination Committee (ECC) has banned export of live animals from October 1, 2013 onwards. It is likely that these developments may help in restricting the price increase in foreseeable future. However, illegal trade with neighboring countries remains an issue.

Key Financial Trends



Universal Leather (Pvt.) Limited (ULPL) is engaged in processing of cow / buffalo hides into leather which is then further used by other companies for value addition. With rising international prices, the company was able to generate higher revenue and in turn post higher margins. However, given the sector in which the company operates and lack of product differentiation, margins remain subject to volatility. ULPL meets its raw material requirements from the local market only; as per management, availability of raw material as per desired size specifications results in lesser wastage.

In line with the industry trend, customers of the company are also located mostly in European countries. Customer relationship is usually established through ULPL's active participation in international trade fairs and exhibitions. It is through these events that the company is exploring geographical diversification of its customer base. In view of these efforts, the management anticipates to achieve improved sales and margins, going forward.

During FY13, the company continued to maintain high inventory levels in line with the order received from clients. If this pattern of orders persists, the company's working capital requirements are likely to increase in the coming years. This may exert some pressure on the bottom line. The company utilizes short term borrowings for working capital requirements. There is no long term debt on books. Moreover, investments are strategic in nature and there is minimal amount of liquid assets carried on balance sheet. The borrowings and trade payables balance is however well matched by stock-in-trade and trade debts.

There are currently ten members on the board with shareholding vested with the sponsoring family members. Key management positions are also held by family members. ULPL has implemented an Oracle based ERP system. The system covers all financial and operating activities.

| (Rs. in Million) | FY11 | FY12 | FY13 |
|---------------------------------|--------|---------|--------|
| Net Sales | 1091.5 | 1021.0 | 1156.2 |
| Net Profit | 15.2 | (158.3) | 22.0 |
| Equity | 758.3 | 600.0 | 622.0 |
| Total Debt | 276.0 | 336.0 | 447.5 |
| Tier-1 Debt Leverage (x) | 1.0 | 1.3 | 1.5 |
| FFO | 34.7 | (36.6) | 38.9 |
| FFO/Total Debt (%) | 12.6% | (10.9)% | 8.7% |
| ROAA(%) | 1.0% | (11.0)% | 1.5% |

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 FY13 were audited by M. Yousuf Adil Saleem & Co JCR-VIS

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

| Rating Date | Medium to Long Term | Outlook | Short Term | Rating Action |
|-----------------------------------|---------------------|---------|------------|---------------|
| <u>RATING TYPE: Entity</u> | | | | |
| 09-Apr-14 | BBB+ | Stable | A-3 | Reaffirmed |
| 08-Apr-13 | BBB+ | Stable | A-3 | Reaffirmed |
| 13-Feb-12 | BBB+ | Stable | A-3 | Reaffirmed |
| 24-Dec-10 | BBB+ | Stable | A-3 | Reaffirmed |