

Universal Leather (Pvt.) Limited

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

May 5, 2015

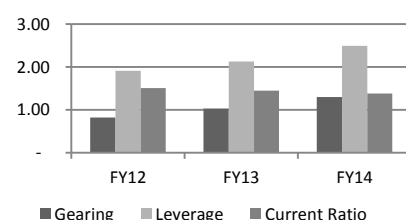
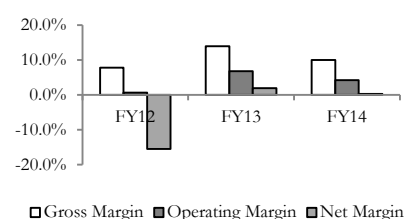
Analysts: Talha Iqbal
 Mohammad Aarsal Ayub

Rating Rationale

Category	Latest	Previous
Entity	BBB+/A-3 May 4, '15	BBB+/A-3 April 9, '14
Outlook	Stable May 4, '15	Stable April 9, '14

Leather industry in Pakistan is an export-oriented industry contributing ~5.4% of the total export earnings and ~5% of the GDP. During FY14, leather exports grew by 11% to US\$ 1,275m vis-à-vis US\$ 1,145m in the preceding year. However, the industry is presently facing a number of challenges including slowdown in the Eurozone, which is a major export destination for Pakistan's leather industry. In addition to this, steep decline in Euro/PKR parity subsequent to year-end 2014 (15.6% from end-June 2014 to end-Feb 2015) is likely to place pressure on margins. The impact of these developments is evident in the export figures of 1HFY15 that feature both a quantitative and value decrease in leather exports. Some relief may be expected in terms of the cost of doing business, in view of the recent decline in interest rates and oil prices.

Key Financial Trends



Universal Leather (Pvt.) Limited (ULPL) is involved in the process of leather tanning and deals primarily in cow and buffalo leather. ULPL is a Mima Group company that has six other companies under the umbrella and has presence in leather and textile industry. Shareholding is vested with family members who are represented on the company's Board of Directors while also holding key management positions.

Given the favorable demand for cow leather, ULPL's turnover witnessed healthy growth in FY14. ULPL's gross turnover, comprising almost entirely of export sales, increased by 46% (FY13: 14%) in FY14, which was achieved on the back of higher sales of cow leather while buffalo leather sales declined. Major exports of company are targeted towards Eurozone, with sales in Germany, Spain & Austria representing almost two-thirds of the company's gross sales. Client wise concentration in sales is on the higher side with top ten clients generating around four-fifth of total sales. In an effort to achieve geographical & client-wise diversification, the management actively participates in international trade fairs and exhibitions. During 1HFY15, sales were about 22% lower than the corresponding period last year on account of depreciation in Euro in as well as a decline in quantity sold.

Gross margins witnessed a significant decline to 10% in FY14 on account of a 44% increase in prices of cow hides. Resultantly, gross profit was only slightly higher in absolute terms despite the sizeable increase in sales. However, profitability of the company was lower in FY14 vis-à-vis FY13 on account of higher expenses. Margins remained under pressure in 1HFY15 due to Euro depreciation; however, management expects pressure on margins to be mitigated in view of recent dip in the cost of hides. Profitability is also projected to be favorably impacted in view of the recent decline in interest rates and oil prices.

(Rs. in Million)	FY12	FY13	FY14
Net Sales	1,021	1,156	1,694
Net Profit	(158.3)	22.0	4.3
Equity	600.0	622.0	626.4
Total Debt	336.0	447.5	574.5
Debt Leverage (x)	1.9	2.1	2.5
FFO	(36.6)	38.9	21.0
FFO/Total Debt (%)	-	8.7%	3.7%
ROAA(%)	-	1.5%	0.3%

Borrowing requirements, entirely short term, have increased on a timeline basis on account of increase in prices of raw material and turnover. Resultantly, leverage indicators have trended upwards and sizeable finance cost has created a drag on earnings. 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.

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 FY14 were audited by M. Yousuf Adil Saleem & Co [JCR-VIS]