



The Pakistan Credit Rating Agency Limited



SECURITY AGENCY GRADING




SECURITY & MANAGEMENT SERVICES (PVT.) LIMITED

	NEW [DEC-16]	PREVIOUS [DEC-15]
Grading	SG2	SG2
Action	Maintain	Initial

REPORT CONTENTS
1. GRADING ANALYSES SNAPSHOT
2. FINANCIAL INFORMATION
3. SUPPLEMENTARY DISCLOSURE

DECEMBER 2016

SECURITY AGENCY	GRADING (UPDATE)	DATE	DEFINITION	GRADING SCALE	
Security & Management Services (Pvt.) Limited (SMS)		Dec-16	Ability to provide protection services as per terms of contract is considered Strong , while meeting or exceeding security services industry standards and best practices.	SG1	Very Strong
				SG2	Strong
				SG3	Good
				SG4	Adequate
				SG5	Weak
<small>(+) may be appended to a grading (except SG5)</small>					

SMS PROFILE	
Founded	1987
Major business lines	<ul style="list-style-type: none"> ▪ Manned Guarding ▪ Specialized Security Services
Security guards	Around 6,500
Ownership	Ikram ul-Majeed Sehgal and family
COO	Col (Retd) Ashiq Hussain Malik
Geographic license	Federal / All provinces

FINANCIAL SNAPSHOT (PKR in mln)		
	FY16*	FY15
Assets	845	719
Equity	265	352
Debt	100	100
Revenue	1,847	1,416
Net Profit	(28)	91
Gross Margin	10%	18%
FCFO /Gross Interest (x)	(0.7)	19

* Management Accounts

PROFILE & OWNERSHIP

- Manned guarding company, part of PATHFINDER, an integrated security services Group.
- Consolidation of services at group level. All manned guarding business offered through SMS since 01, Jan-16.
- First and only security company in Pakistan to be awarded ISO 18788:2015, ISO 9001:2015 and ANSI/ASIS PSC-1:2012 certification by MSS Global, UK.
- Mr. Ikram ul-Majeed Sehgal's extensive expertise in security industry; succession plan in place.

GOVERNANCE

- No independent representation on Board.
- Delegation of operational activities to management, Mr. Ikram ul-Majeed Sehgal (Chairman Pathfinder Group) and son Mr. Zarrar Sehgal, monitor group business at strategic level.

MANAGEMENT

- Structural changes in management owing to group reorganisation.
- Col (Retd) Ashiq Hussain Malik - Group Executive director - now COO SMS.
- Competent and experienced personnel, extensive management committee structure.
- Hierarchical organizational structure with multiple reporting lines.

INFRASTRUCTURE ADEQUACY

- Purpose built and fully-equipped regional offices, control rooms and training facilities; policies & procedures in place.
- Automation and leveraging technology solutions in inventory handling, guard records and monitoring needed.
- Dedicated resources for high-end contracts.

GUARDS PROFILE

- Extensive hiring and verification processes; majority of guard force is civilian.
- Guards confirmation based on training and test results.
- 15-day induction training and 2 day refresher courses held annually.
- Better remuneration and benefits than peers; Low guard turnover rate.
- Stricter criteria for high-end contracts.

FINANCIAL SUSTAINABILITY

- Diversified client base. Expected benefits from consolidation of business lagging and yet to be realized.
- Strong competition and increased operational cost resulting in lower margins.
- Moderately leveraged; the company needs to improve coverages. A formal policy on Inter-group borrowing to strengthen financial profile of the company.

RATIONALE

SMS is one of the largest manned guarding security company in Pakistan and part of PATHFINDER, an integrated security services Group. The company has a diversified customer base and also provides premiere guarding services to high profile and sensitive clients through dedicated resources. SMS has developed extensive infrastructure to support its operations with proper policies and procedures in place. SMS became the first and only company in Pakistan to attain certification from MSS Global UK.

Subsequent to restructuring at group level, all manned guarding business is now with SMS. The company is better placed among its peers, with regards to quality of services. The margins in manned-guarding business remain under pressure. The overall financial profile of the company is stressed due to losses incurred. It is critical for the company to improve its revenues and profitability by leveraging group synergies and retaining high-end contracts.

INDUSTRY SNAPSHOT

- Fragmented industry, with over 400 companies; 217 registered with APSAA
- Labor intensive industry, with around 200,000 individuals employed.
- Weak security situation and influx of foreign investment beneficial for industry prospects.
- Low margins in manned guarding due to intense competition on pricing. Smaller players now encroaching on high end market.
- Switch to technology based solutions, a threat to industry. Large integrated players may benefit by strengthening technological framework.

**Security & Management Services (Pvt.) Limited**

	30-Jun-16	30-Jun-15	30-Jun-14
	Annual	Annual	Annual
BALANCE SHEET			
Non-Current Assets	161	169	227
Current Assets	684	550	465
Trade Receivables	97	76	175
Due from Associates	430	329	211
Others	157	145	78
Total Assets	845	719	692
Debt	100	100	24
Short-term	-	-	-
Long-term (Incl. Current Maturity of long-term debt)	100	100	24
Other Liabilities	480	267	407
Shareholder's Equity	265	352	261
Total Liabilities & Equity	845	719	692

INCOME STATEMENT

Turnover	1,847	1,416	1,477
Gross Profit	175	254	243
Net Income	(28)	91	55
EBITDA	17	148	112
FCFO	(11)	137	105

RATIO ANALYSIS

Performance			
Turnover Growth	30.4%	-4.1%	13.0%
Gross Margin	9.5%	17.9%	16.4%
Net Margin	-1.5%	6.4%	3.7%
Leverage (Total Debt/Total Debt+Equity)	27.4%	22.1%	8.5%
Coverages			
Interest Coverage (FCFO/Gross Interest)	-0.7	18.9	23.2
Debt Coverage (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	-0.5	9.4	3.7

30-Jun-16 numbers based on Management Accounts



Name of Entity
Sector
Type of Relationship

Security & Management Services (Pvt.) Limited
Security Industry
Solicited

Purpose of Grading

Independent Assessment

Grading History

Dissemination Date	Long Term	Action
14-Dec-15	SG2	Initial

Grading Methodology
Sector Study

Security Agency Grading Methodology
Security Industry - Viewpoint | Dec 16

Grading Analyst

Rehan Alam Khan
rehan.alam@pacra.com
(92-42-35869504)

Grading Scale

	Ability to provide protection services as per terms of contract is considered very strong, while exceeding security services industry standards and best practices
	Ability to provide protection services as per terms of contract is considered strong, while meeting or exceeding security services industry standards and best practices
	Ability to provide protection services as per terms of contract is considered good, while meeting security services industry standards and best practices
	Ability to provide protection services as per terms of contract is considered adequate, while meeting majority of security industry standards and best practices
	Ability to provide protection services as per terms of contract are considered weak, while being below security industry standards and best practice
<i>(+) may be appended to a grading (other than SG5) to elaborate relative standing</i>	

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Reporting of Misconduct

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer of any unethical practice or misconduct by other employees of the company that came to his/her knowledge. The Compliance Officer reports to BoD and SECP.

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