The Pakistan Credit Rating Agency Limited

Rating Report

Ibrahim Fibres Limited

Report Contents

Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-Feb-2024	AA	A1+	Stable	Maintain	-
08-Feb-2023	AA	A1+	Stable	Maintain	-
08-Feb-2022	AA	A1+	Stable	Maintain	-
08-Feb-2021	AA	A1+	Stable	Maintain	-
08-Feb-2020	AA	A1+	Stable	Upgrade	-
09-Aug-2019	AA-	A1+	Stable	Maintain	-
08-Feb-2019	AA-	A1+	Stable	Maintain	-
10-Aug-2018	AA-	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Ibrahim Fibres Limited (‘IFL’ or ‘the Company’) is principally involved in the manufacturing & sale of Polyester Staple Fibres (PSF) and Yarn. The ratings reflect IFL’s long-standing presence, underscoring a commitment to innovation and technological excellence. The company's state-of-the-art equipment facilitates the production of high-quality fibers, while its consolidated operations, comprising Polyester Plants and Textile Spinning Plants, are fortified by in-house power generation plants utilizing HFO, Gas, and Coal. The company boasts a combined annual capacity of 390,600 tons of PSF and 240,192 spindles for spun yarn, solidifying its position as a major player in Pakistan’s textile industry. IFL reigns supreme in Pakistan’s PSF market, boasting a commanding (68%) share, followed by Lucky Core Industries (27%) and Rupali Polyester (5%). Globally, the Asia-Pacific region is viewed as principal market for polyester demand on account of expansion in textile sector. Pakistan’s PSF industry has shown growth over the period owing to build up consumption of polyester throughout the textile chain like spinning, weaving, dyeing, composite, etc. Amidst Pakistan’s ever-shifting economic landscape, the PSF sector charts its course, navigating challenges like reduced demand influenced by high inflation, rising interest rates, swollen energy & raw material costs. Industry remained under pressure due to slow off-take in downstream markets resulting from the global economic situation amidst monetary tightening. A significant challenge confronting the local PSF industry is the presence of competitively priced imported PSF in the local market. This is putting pressure on the margins of local manufacturers and leading to a reduction in their capacity utilization. During the year, the company recorded historic sales at the end of Dec’23 amounting to ~PKR 119bln, reflecting a growth of ~4% mainly due to price inflation. Moreover, the company’s margins showed dilutions at all levels. To combat these challenges, IFL stays committed to continuously striving for cost efficiency, through BMR, process automation and prudent CAPEX in the latest technology. IFL steadfastly upholds its loyalty to its customers, ensuring timely price adjustments to navigate market fluctuations and sustain mutually beneficial partnerships. The expansion shall be undertaken with predominantly internally generated cash flows. The financial risk profile of the Company is demonstrated strong, powered by robust cash flows and healthy coverages. IFL’s capital structure is considered low-leveraged; short-term borrowings to serve its working capital requirements and long-term borrowings for CAPEX. The ratings further incorporate the Company's prime association with the Ibrahim Group, which has demonstrated strong sustenance.

The ratings are dependent on the Company’s ability to sustain its position in the local PSF industry, coupled with topline growth and increase in profitability amid challenging economic conditions. Optimal utilization of its capacities enhancement and resulting improvement in margins will remain important.

Disclosure	
Name of Rated Entity	Ibrahim Fibres Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Polyester(Feb-23)
Rating Analysts	Sohail Ahmed Qureshi | sohail.ahmed@pacra.com | +92-42-35869504

Profile

Legal Structure Ibrahim Fibres Limited was incorporated as a Public Limited Company in 1986. It is registered on PSX having a free float of ~5.0% as of the end of Jan'24.

Background The Company was expanded by establishing additional spinning mills and a power generation company, all of which were merged into one entity, Ibrahim Fibres Limited in 2000.

Operations Ibrahim Fibres is primarily engaged in the production and marketing of Polyester Staple Fibre (PSF) and blended yarns with manufacturing facilities located at Shahkot near Faisalabad. The Company's total capacity currently stands at ~390,600 TPA of polyester while spinning presently comprises ~240,192 spindles.

Ownership

Ownership Structure Ibrahim Group continues to hold majority stake (~91.63%) in Ibrahim Fibres. This is held through the Group holding company, Ibrahim Holdings (Private) Limited.

Stability Ibrahim Group established Ibrahim Holdings (Pvt.) Limited for the purposes of succession planning and managing investments in subsidiary and associated companies, including Allied Bank Limited. This bodes well for sustainability of the Company, going forward.

Business Acumen The sponsors of the Company have over five decades of experience in textile sector and professional experience relating to banking, finance and power sectors.

Financial Strength The net worth of Ibrahim Group is considered very strong. The sponsors have shown willingness and ability to support the business as demonstrated in the past through an interest free loan to support operations. Ibrahim Group holds majority (~90%) ownership of Allied Bank of Pakistan.

Governance

Board Structure The control of the Company vests in a seven-member Board of Directors chaired by Mr. Sheikh Mukhtar Ahmed. Remaining members comprise four Ibrahim Group affiliates and two independent directors.

Members' Profile Mr. Sheikh Mukhtar – Chairman of Ibrahim Fibres and Ibrahim Group – has over 62 years of experience in establishing and successfully managing various industrial and financial companies. He also serves on the Boards of other Group companies. All Board members have significant industry related as well as diversified experience and they have been associated with the Company for a reasonably long period of time.

Board Effectiveness To ensure proper oversight, two committees are in place: Audit and Human Resource. Attendance of members in the meetings remains strong. Furthermore, the Board arranges Directors' Training Program for directors during the year which is expected to equip the board members in fulfilling their role in an effective manner.

Financial Transparency The Company's external auditor, M/s. Yousuf Adil - Chartered Accountants, provided an unqualified audit opinion on the Company's financial statements for the period ended December 31st, 2022. The Company's financial reporting year has changed from fiscal to calendar period. The audit for CY23 is yet to be finalized.

Management

Organizational Structure Ibrahim Fibres has a well-tiered, functionally departmentalized structure which is segregated for polyester units, spinning plants, and power generation plants.

Management Team Mr. Naeem Mukhtar is the CEO of the Company with over 37 years of experience of finance and industrial manufacturing. He is also the CEO of Ibrahim Holdings (Pvt.) Limited and Director in other Group companies. Most of the senior management has been associated with Ibrahim Fibres for a very long time.

Effectiveness Meetings are conducted by the senior management on a need basis for discussion and decision-making purposes.

MIS The Company has established well-integrated systematic processes and deployed Oracle as the ERP solution. This produces comprehensive MIS reporting.

Control Environment Ibrahim Fibres has an internal auditory function in place to ensure impartial oversight. There is a well-trained quality control department. The Company is ISO 9002 certified.

Business Risk

Industry Dynamics Global demand for PSF is favourable with research projected estimate Polyester Staple Fiber (PSF) market size to reach USD 3024.3 million by 2026. The basic raw materials for PSF include Pure Terephthalic Acid (PTA) and Mono Ethylene Glycol (MEG). Being derivatives of crude oil, their prices fluctuate accordingly, thereby making PSF a price volatile product. This reflects that margin are significantly dependent on the international prices and exchange rate fluctuation. Furthermore, over 80% of the world's production of PSF takes place in China, India and Southeast Asian countries, who are also the major exporters of the product. Almost ~39% of the industry's financing comprises LTFF/TERF and Export Finance Schemes, which are offered at subsidized rates. Over ~70% of the Polyester Staple Fiber (PSF) is supplied to the textile value chain, i.e., the spinning sector.

Relative Position Pakistan's PSF industry is dominated by three main players: Ibrahim Fibres, Lucky Core Industries Limited, and Rupali Polyester. Of these, Ibrahim Fibres maintains the lion's share of the market (68%).

Revenues Ibrahim Fibres' topline is majorly driven by PSF segment, with spinning segment playing a supporting role. During CY22, the Company's topline clocked at PKR 115,581mln. However, in 9MCY23 company's net sales stood at PKR 90,863mln, reflecting a growth of ~5% mainly due to the price inflation. The trend is much likely to continue as Polyester has now become the most dominant man-made fabric.

Margins During the period 9MCY23, the Company's gross margins declined and stood at ~9.5% (CY22: ~11.7%). This translated into operating margins as well and recorded at ~7.1% in 9MCY23 (CY22: ~9.5%). The company's net profit margin also declined to 2% in 9MCY23 (CY22: 4.6%) due to high finance cost.

Sustainability Ibrahim Fibres is running at almost full capacity. Furthermore, global oil prices have taken a hit, specifically in 2022 which had an impact on the prices of PTA, MEG and ultimately PSF. IFL's management is planning expansions in PSF, Yarn and Filament Yarn Plant with additional capacity of 200,000 MTs/annum, installation of 100,000 spindles, and installation of 35,000 MTs/annum, respectively.

Financial Risk

Working Capital The company's working capital needs are driven from its inventory requirements of PTA, MEG, cotton, and viscose through a mix of internal generation and short-term borrowings. The sales are predominantly cash-based, and historically, the net working capital cycle remained short. During 9MCY23, there has been an increase in the net working capital days stood at 88 days (CY22:85 days)

Coverages During the 9MCY23, the company's FCFO stood at PKR 7,391mln (CY22: PKR 11,751mln). However, in 9MCY23 the interest coverage ratio declined and clocked in at 9.7x (CY22:26.0) and the core coverage ratio also declined to 7.8x (CY22: 20.8x).

Capitalization IFL's capital structure is considered low-leveraged. Short-term debt constitutes >70% of the total debt book. During CY22 the leverage ratio stood at 19.9% with short-term borrowings constituting more than 50% whereas it further increased to 24.0% in 9MCY23 mainly consisting of short-term borrowings.

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Ibrahim Fibres Limited	Sep-23	Jun-23	Dec-22	Sep-22	Jun-22
Polyester	9M	6M	12M	9M	6M
A BALANCE SHEET					
1 Non-Current Assets	40,101	40,512	38,873	39,522	40,294
2 Investments	-	-	13	13	5,595
3 Related Party Exposure	-	-	-	0	0
4 Current Assets	55,384	47,098	44,190	43,038	32,702
a Inventories	*31,524*	*25,059*	*26,126*	*23,878*	*16,298*
b Trade Receivables	*1,505*	*2,524*	*1,992*	*2,481*	*1,772*
5 Total Assets	95,485	87,609	83,077	82,573	78,591
6 Current Liabilities	13,728	10,037	8,427	12,586	13,171
a Trade Payables	*1,821*	*1,009*	*1,051*	*1,050*	*1,196*
7 Borrowings	17,729	13,835	13,536	7,951	4,077
8 Related Party Exposure	-	-	-	-	-
9 Non-Current Liabilities	7,758	7,526	6,663	6,377	6,328
10 Net Assets	56,270	56,212	54,450	55,659	55,016
11 Shareholders' Equity	56,270	56,212	54,450	55,659	55,016
B INCOME STATEMENT					
1 Sales	90,863	60,112	115,581	91,297	64,121
a Cost of Good Sold	*(82,205)*	*(53,417)*	*(102,078)*	*(77,656)*	*(52,022)*
2 Gross Profit	8,658	6,696	13,503	13,640	12,099
a Operating Expenses	(2,195)	(1,451)	(2,533)	(1,824)	(1,132)
3 Operating Profit	6,463	5,244	10,970	11,817	10,967
a Non Operating Income or (Expense)	*(342)*	*(306)*	*(384)*	*(505)*	*(572)*
4 Profit or (Loss) before Interest and Tax	6,120	4,939	10,586	11,312	10,395
a Total Finance Cost	*(1,067)*	*(570)*	*(635)*	*(208)*	*(130)*
b Taxation	*(3,233)*	*(2,607)*	*(4,641)*	*(4,657)*	*(4,463)*
6 Net Income Or (Loss)	1,820	1,761	5,311	6,447	5,803
C CASH FLOW STATEMENT					
a Free Cash Flows from Operations (FCFO)	*7,391*	*5,801*	*11,751*	*12,207*	*11,352*
b Net Cash from Operating Activities before Working Capital Changes	*6,601*	*5,115*	*11,435*	*11,945*	*11,128*
c Changes in Working Capital	*(6,755)*	*(1,985)*	*(12,760)*	*(8,021)*	*2,199*
1 Net Cash provided by Operating Activities	(154)	3,130	(1,324)	3,924	13,327
2 Net Cash (Used in) or Available From Investing Activities	(4,054)	(3,420)	(2,508)	(2,171)	(7,521)
3 Net Cash (Used in) or Available From Financing Activities	4,191	298	(9,123)	(1,747)	(5,619)
4 Net Cash generated or (Used) during the period	(18)	9	(12,955)	6	187
D RATIO ANALYSIS					
1 Performance					
a Sales Growth (for the period)	4.8%	4.0%	37.2%	44.5%	52.2%
b Gross Profit Margin	9.5%	11.1%	11.7%	14.9%	18.9%
c Net Profit Margin	2.0%	2.9%	4.6%	7.1%	9.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	0.7%	6.3%	-0.9%	4.6%	21.1%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	4.4%	6.4%	9.8%	15.4%	21.1%
2 Working Capital Management					
a Gross Working Capital (Average Days)	92	85	89	79	51
b Net Working Capital (Average Days)	88	81	85	76	48
c Current Ratio (Current Assets / Current Liabilities)	4.0	4.7	5.2	3.4	2.5
3 Coverages					
a EBITDA / Finance Cost	9.7	13.7	26.0	82.2	113.8
b FCFO / Finance Cost+CMLTB+Excess STB	6.1	8.8	14.3	35.9	65.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.6	0.5	0.3	0.2	0.2
4 Capital Structure					
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	24.0%	19.8%	19.9%	12.5%	6.9%
b Interest or Markup Payable (Days)	202.7	145.4	277.2	115.9	53.5
c Entity Average Borrowing Rate	10.7%	11.2%	7.8%	4.5%	5.7%

Credit Rating

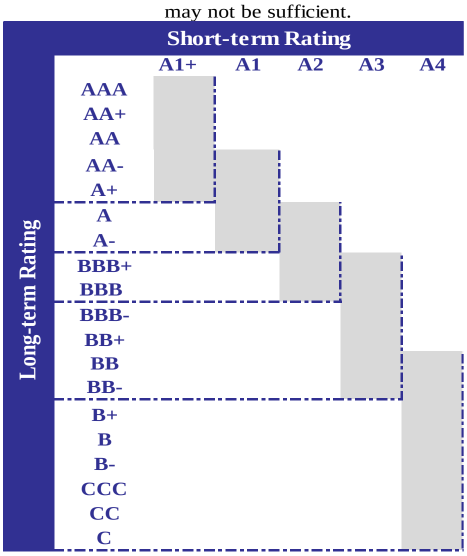
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** 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.
A+ A A-	**High credit quality.** 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.
BBB+ BBB BBB-	**Good credit quality.** 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.
BB+ BB BB-	**Moderate risk.** 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+ B B-	**High credit risk.** 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.
CCC CC C	**Very high credit risk.** 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.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) 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'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. 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 rating outlook of the respective opinion.

Suspension 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.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument;| Chapter III | 17-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)
Proprietary Information