



The Pakistan Credit Rating Agency Limited

IBRAHIM FIBRES LIMITED

| | NEW [DEC-16] | PREVIOUS [DEC-15] |
|----------------|-------------------------|------------------------------|
| Entity | | |
| Long Term | AA- | AA- |
| Short Term | A1+ | A1+ |
| Outlook | Stable | Stable |

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DECEMBER 2016

Profile & Ownership

- IFL, incorporated in 1986, is listed on PSX
- Manufactures wide variety of Polyester Staple Fibre (PSF) and blended yarn; Capacity: PSF: 390,600 tpa, Yarn: 137,856 spindles
- Largest PSF manufacturer in Pakistan (Market Share: ~62%)
- Majority (88%) owned by Ibrahim Group (IG). IG has presence in textile and financial industry

Governance & Management

- Seven members BoD comprises three directors from sponsoring family, two non-executive IG affiliates, and an independent member. One position is currently vacant
- Board members have significant industry related experience. However, inclusion of more independent members may improve governance framework
- The CEO – Mr. Mohammad Naeem Mukhtar – has been associated with the company since 1986 and carries diversified experience. He is also the Chairman of Allied Bank Limited (ABL)
- Well-tiered organization structure with an experienced management team

Operational Risk

- Sound operational infrastructure; mainly European technology
- Oracle is deployed as ERP solution; comprehensive MIS reporting
- Captive power generation to meet entire energy requirements

Business Risk

- In Feb16, National Tariff Commission imposed anti-dumping duty on PSF for five years; likely to benefit industry margins
- IFL's topline continued to have predominant contribution from PSF (FY16: ~78%), followed by spinning segment
- Topline remained on the downside registering a decline of ~7% YoY in FY16 (FY15: 22%); though the extent reduced. Fall in topline is mainly on account of i) lower revenues in spinning segment on the back of dip in both sales volume – shut down of one unit due to BMR – and selling price and ii) decline in PSF price
- Cost of sales decreased more proportionately owing to lower raw material and energy cost. Resultantly, gross (FY16: ~3%, FY15: ~2%) margin inched up while the company reported operating profits (FY16: PKR 64mln, FY15: loss of PKR 39mln)
- Support from ABL, in form of share of profits, continued to support bottomline; though share of profit declined by ~5% on YoY basis
- Finance cost decreased significantly by ~44% on YoY basis. Resultantly, the company posted profit before tax of PKR 1.9bln (up by 41% on YoY basis)
- During 1QFY17, topline increased by ~24% YoY. The company posted profit during the period (1QY17: PKR 708mln, 1QFY16: loss of PKR 53mln)
- IFL is in process of setting up a 20.4MW coal power plant with an estimated cost of PKR 6.3bln, expected CoD: 4QFY17
- In the medium term, IG intends to establish a holding company, therein to consolidate ownership structure of IFL and ABL

Financial Risk

- Working capital days largely maintained YoY
- Share of Profit from ABL continued to provide support to coverages (end-Jun16: interest coverage: 3.9x; debt service coverage: 1.4x)
- Moderately leveraged capital structure
- Support from sponsors in form of loan (~PKR 9bln at end-Sep16) is important till entity's core margins improve

RATING RATIONALE

The ratings reflect IFL's (i) strong ownership profile demonstrated through continued financial support by sponsor – Ibrahim Group (IG), having predominant shareholding in the company, and (ii) leading market position (market share: 62%) in the local polyester staple fibre (PSF) industry. The subdued crude oil prices, and hence, PSF feedstock prices, the company's core margins remained low. However, improvement has been witnessed post 2QFY16. Comfort is drawn from a reliable dividend stream of IFL's investment in Allied Bank Limited - an associated company. This has uplifted the company's financial risk profile. At the same time, imposition of anti-dumping duty (Oct15) on PSF imported from China is likely to provide relief to margins, in turn coverages, going forward.

KEY RATING DRIVERS

The rating are dependent on i) continued financial support from sponsors till improvement in stand-alone performance of entity, and ii) regular dividend inflows to support coverages. Moreover, induction of independent board members may improve governance framework.

In order to formalize its corporate structure, sponsors of Ibrahim Group contemplate to establish a holding company in the medium term. The new structure envisages consolidation of investments in IFL and Allied Bank at holdco level, thus changing ownership and investment structure of investee companies. This is likely to be in place after obtaining all relevant regulatory approvals. Upon completion of on-going process, IFL's ratings may be reviewed to align it with the proposed structure.



Ibrahim Fibres

| BALANCE SHEET | 30-Sep-16 | 30-Jun-16 | 30-Jun-15 | 30-Jun-14 |
|--|------------------|------------------|------------------|------------------|
| | 1QFY17 | Annual | Annual | Annual |
| Non-Current Assets | 27,876 | 24,817 | 24,228 | 25,060 |
| Investments (Incl. associates) | 14,100 | 13,762 | 12,594 | 11,108 |
| Equity | 14,100 | 13,762 | 12,594 | 11,108 |
| Debt | - | - | - | - |
| Current Assets | 13,698 | 12,479 | 12,782 | 11,809 |
| Inventory | 5,823 | 5,197 | 6,462 | 6,048 |
| Trade Receivables | 195 | 206 | 178 | 417 |
| Others | 7,680 | 7,076 | 6,142 | 5,344 |
| Total Assets | 55,674 | 51,058 | 49,604 | 47,977 |
| Debt | 21,325 | 17,418 | 17,761 | 17,830 |
| Short-term | 4,016 | 2,691 | 4,528 | 2,683 |
| Long-term (Incl. Current Maturity of long-term debt) | 17,309 | 14,727 | 13,232 | 15,147 |
| Other shortterm liabilities | 2,310 | 2,226 | 1,945 | 1,758 |
| Other Longterm Liabilities | 2,693 | 2,604 | 2,552 | 1,865 |
| Shareholder's Equity | 29,346 | 28,811 | 27,346 | 26,524 |
| Total Liabilities & Equity | 55,674 | 51,058 | 49,604 | 47,977 |

INCOME STATEMENT

| | | | | |
|-------------------|--------------|---------------|---------------|---------------|
| Turnover | 9,255 | 34,710 | 37,274 | 47,972 |
| Gross Profit | 469 | 980 | 838 | 1,329 |
| Other Income | 658 | 2,755 | 3,001 | 2,599 |
| Financial Charges | (186) | (897) | (1,601) | (1,984) |
| Net Income | 517 | 1,535 | 803 | 874 |

Cashflow Statement

| | | | | |
|--------------------------------------|---------|---------|---------|---------|
| Free Cashflow from Operations (FCFO) | 696 | 2,177 | 2,288 | 2,836 |
| Net Cash changes in Working Capital | (1,195) | 663 | (115) | 1,580 |
| Net Cash from Operating Activities | (173) | 3,211 | 1,886 | 3,369 |
| Net Cash from Investing Activities | (3,603) | (2,929) | (1,739) | (626) |
| Net Cash from Financing Activities | 3,907 | (343) | (69) | (2,861) |

Ratio Analysis

| | | | | |
|--|-------|-------|--------|-------|
| Performance | | | | |
| Turnover Growth | 23.8% | -6.9% | -22.3% | 23.5% |
| Gross Margin | 5.1% | 2.8% | 2.2% | 2.8% |
| Net Margin | 5.6% | 4.4% | 2.2% | 1.8% |
| ROE | 7.3% | 5.4% | 3.0% | 3.3% |
| Coverages | | | | |
| Interest Coverage (FCFO/Gross Interest) | 3.7 | 2.4 | 1.4 | 1.4 |
| Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB) | 1.1 | 0.8 | 1.1 | 0.5 |
| Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB) | 1.7 | 1.4 | 1.8 | 0.7 |
| Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest) | 8.5 | 11.5 | 19.3 | 17.8 |
| Liquidity | | | | |
| Net Cash Cycle (Inventory Days + Receivable Days - Payable Days) | 43 | 53 | 55 | 56 |
| Capital Structure (Total Debt/Total Debt+Equity) | 42.1% | 37.7% | 39.4% | 40.2% |



STANDARD RATING SCALE & DEFINITIONS

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 RATINGS | | SHORT TERM RATINGS |
|---|--|--|
| AAA AA+ AA AA- A+ A A- | Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events. 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. 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. | 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 conditions. B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. C: An inadequate capacity to ensure timely repayment. |
| BBB+ BBB BBB- BB+ BB BB- | 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. Speculative. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. | |
| B+ B B- | Highly speculative. Significant 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 | High default 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. | |

| | | | |
|---|---|--|---|
| Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved with in foreseeable future, but may continue if underlying circumstances are not settled. | 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’. | 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults. |
|---|---|--|---|

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Name of Issuer
Sector
Type of Relationship
Purpose of the Rating

Ibrahim Fibres Limited
 Polyester
 Solicited
 Independent Risk Assessment

Rating History

| Dissemination Date | Long Term | Short Term | Outlook | Action |
|--------------------|-----------|------------|---------|----------|
| 17-Dec-16 | AA- | A1+ | Stable | Maintain |
| 18-Dec-15 | AA- | A1+ | Stable | Maintain |
| 18-Dec-14 | AA- | A1+ | Stable | Maintain |
| 18-Dec-13 | AA- | A1+ | Stable | Maintain |
| 30-Jun-12 | AA- | A1+ | Stable | Maintain |

Related Criteria and Research

Rating Methodology
 Sector Research

Corporate Rating Methodology
 Textile | Polyester - Viewpoint | Dec-16

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[Rating Team Statement](#)

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[Probability of Default \(PD\)](#)

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