



The Pakistan Credit Rating Agency Limited

# PANTHER TYRES LIMITED (PANTHER) RATINGS REPORT

INITIAL [NOV-17]		REPORT CONTENTS
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DECEMBER 2017

**Profile & Ownership**

- Mr. Mian Iftikhar Ahmed and family own the entire shareholding of the company. Over the years, there has been no change in the shareholding structure.
- Mr. Mian Iftikhar Ahmed, the founder of the company, is identified as the man at the last mile. Mr. Ahmed is a renowned businessman who has previously served as the chairman of All Pakistan Tyres & Tubes Manufacturing Association (APTAMA).

**Governance**

- The overall control of the company vests in three member board of directors. Two are executive directors, including the chairman, while one is a non-executive member of the sponsoring family.
- No independent director; hence the governance structure needs improvement.
- There are three committees of the board; (i) Executive, (ii) Audit, and (iii) Finance.
- The audit committee reports directly to the board. The committee comprises three members, all of whom are executive directors; a weak governance practice.

**Management**

- Panther has a lean organizational structure with an experienced management team; a balanced mix of professionals from the FMCG industry.
- The organizational structure of the company is divided into various functional departments, namely: (i) Sales, (ii) Operations, (iii) Finance & Accounts, (iv) Internal Audit and (v) Human Resource/ Administration.
- Mr. Mian Iftikhar Ahmed is the CEO and Chairman of the company. He is assisted by a team of professionals.
- The COO of the company is currently overlooking all the departments; Mr. Iftikhar has recently started to delegate powers, hence the role of CEO is in transition phase.

**Systems & Controls**

- Panther is currently equipped with latest SAP solution. It was successfully implemented across the company (head office and factory) in June-13
- MIS reports for senior management are generated frequently and are detailed in nature. The reports are customized as per the requirements of the management.

**Performance**

- Panther's topline mix predominantly comprises domestic sales. The company's product slate can be categorized in two segments, 1) tyres, and 2) tubes. This further breaks down into three distinct divisions i.e. Two Wheel (2W), Three Wheel (3W) and Four Wheel (4W).
- During FY17, the 2W division witnessed growth of 12% whereas, major growth was led by 4W division (83%) on the back of 32% increase in quantities driven by growth in agricultural sector.
- On the export front, Panther registered growth of (73%), however, it still accounts for only 5% of the revenue.
- Panther's topline stood at PKR 7,259mln, registering a growth of 30% YoY. This was led by 83% higher revenue driven from 4W market and 73% growth in exports.
- Growth in revenue could not lift up the GP margin as it stood at 14% (FY16: 14.4%, FY15: 14.9%), due to higher raw material cost.
- Operating margin was 8% (FY16: 8.5%, FY15: 9.5%), primarily on the back of higher marketing expense. The bottom-line of the company registered a growth of 31% and stood at PKR 294mln.
- Going forward, the company plans to continue with the expansion drive. Panther is planning to set up a radial tyre manufacturing plant in Pakistan.

**Financial Risk**

- Inventory and receivables increased (YoY) as a percentage of sales (FY17: 40%, FY16: 25%); hence working capital needs increased, reflecting in slightly higher net working capital days (FY17: 91days, FY16: 66days).
- During FY17, Panther's free cash flows (FCFO), amounted to ~PKR 732mln, up 26% YoY. Topped up by higher profits, core debt coverage remained comfortable during the period (FY17: 1.8x, FY16: 1.9x, FY15: 2.2x).
- Panther has a leveraged capital structure, with a debt to debt plus equity ratio of 58% (FY16: 52%, FY15: 51%). Borrowings have surged to PKR 3.8bln (FY16: PKR 2.2bln, FY15: PKR 2bln) largely in order to finance expansion drive and working capital needs.

**RATING RATIONALE**

Ratings take strength from strong industry positioning of Panther in its respective niches. The company has formidable market share in tyre and tube industry, especially in two wheel segment, whereas three wheel and four wheel segments are on the growth trajectory. The sponsors embarked upon a strategy to build a strong management team with a wholesome mandate: roles are clearly demarcated with high degree of delegation. The margins are sanguine though slightly constrained during FY17 due to build-up of significant inventory levels, however, the improving trend is visible in 1QFY18. Comfort is drawn from strong coverages coupled with adequate capital structure. Going forward, strong growth in auto sector amidst improving macro-economic conditions is expected to result in robust consumer demand. Panther is poised to take full advantage.

**KEY RATING DRIVERS**

The ratings are dependent on the management's ability to sustain its business profile while benefiting from positive demand fundamentals; financial discipline is crucial. Moreover, strengthening of governance framework is pivotal for any growing business concern.

**INDUSTRY SNAPSHOT**

Robust growth in auto industry (2W, 3W and 4W) is driving demand for tyres. The trend is expected to continue on the back of improving macroeconomic indicators and the influx of low priced two-wheelers. Tyre industry in Pakistan, comprising six players, is only meeting approx. one third of the demand. There is a huge potential for the local manufacturers to expand the business to capture the lucrative market as going forward auto demand is poised for sizeable growth.

## Panther Tyres Limited (Panther)

### BALANCE SHEET

	30-Jun-17	30-Jun-16	30-Jun-15
	Annual	Annual	Annual
<b>Non-Current Assets</b>	<b>3,879</b>	<b>2,895</b>	<b>2,796</b>
<b>Investments (Incl. Associates)</b>	-	-	-
Equity	-	-	-
Debt Instruments	-	-	-
<b>Current Assets</b>	<b>3,898</b>	<b>2,158</b>	<b>1,954</b>
Inventory	1,538	606	555
Trade Receivables	1,357	784	658
Others	1,004	767	741
<b>Total Assets</b>	<b>7,777</b>	<b>5,052</b>	<b>4,750</b>
<b>Debt</b>	<b>3,851</b>	<b>2,224</b>	<b>2,001</b>
Short-Term	2,891	1,424	1,249
Long-Term (Incl. Current Maturity of Long-Term Debt)	960	800	752
Other short-term liabilities	486	265	378
Other long-term liabilities	635	492	465
<b>Shareholders' Equity</b>	<b>2,804</b>	<b>2,070</b>	<b>1,905</b>
<b>Total Liabilities &amp; Equity</b>	<b>7,777</b>	<b>5,052</b>	<b>4,750</b>

### INCOME STATEMENT

<b>Turnover</b>	<b>7,259</b>	<b>5,599</b>	<b>5,432</b>
Gross Profit	1,018	804	808
Net Other Income	(26)	(22)	(18)
Financial Charges	(211)	(165)	(244)
<b>Net Income</b>	<b>294</b>	<b>224</b>	<b>210</b>

### Cashflow Statement

Free Cashflow from Operations (FCFO)	732	581	588
Net Cash changes in Working Capital	(1,636)	(273)	71
Net Cash from Operating Activities	(904)	308	658
Net Cash from Investing Activities	(627)	(320)	(113)
Net Cash from Financing Activities	1,450	63	(612)

### Ratio Analysis

#### Performance

Turnover Growth	29.7%	3.1%	-9.9%
Gross Margin	14.0%	14.4%	14.9%
Net Margin	4.0%	4.0%	3.9%
ROE	12.1%	11.3%	11.7%

#### Coverages

Interest Coverage (FCFO/Gross Interest)	3.5	3.5	2.4
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	1.7	1.5	1.4
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	1.7	1.5	1.4
Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO- Gross Interest)	1.8	1.9	2.2

#### Liquidity

Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	90.9	65.9	61.1
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#### Capital Structure

Total Debt/Total Debt+Equity	57.8%	50.7%	51.2%
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## CREDIT 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.

<b>LONG TERM RATINGS</b>		<b>SHORT TERM RATINGS</b>
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<p><b>A1+:</b> The highest capacity for timely repayment.</p> <p><b>A1:</b> A strong capacity for timely repayment.</p> <p><b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>C:</b> An inadequate capacity to ensure timely repayment.</p>
<b>AA+</b>	<b>Very high credit quality.</b> Very low expectation of credit risk.	
<b>AA</b>	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	
<b>AA-</b>		
<b>A+</b>	<b>High credit quality.</b> Low expectation of credit risk.	
<b>A</b>	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.	
<b>A-</b>		
<b>BBB+</b>	<b>Good credit quality.</b> Currently a low expectation of credit risk.	
<b>BBB</b>	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.	
<b>BBB-</b>		
<b>BB+</b>	<b>Moderate risk.</b> Possibility of credit risk developing.	
<b>BB</b>	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>BB-</b>		
<b>B+</b>	<b>High credit risk.</b>	
<b>B</b>	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.	
<b>B-</b>		
<b>CCC</b>	<b>Very high credit risk.</b> Substantial credit risk	
<b>CC</b>	“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.	
<b>C</b>		
<b>D</b>	Obligations are currently in default.	

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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’.</p>	<p><b>Rating Watch</b> 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. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.</p>	<p><b>Suspension</b> 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.</p>	<p><b>Withdrawn</b> 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, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information</p>
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[Rated Entity](#)

**Entity**  
**Sector**  
**Type of Relationship**

Panther Tyres Limited  
Tyre  
Solicited

[Purpose of the Rating](#)

Independent Risk Assessment

[Rating History](#)

Notification Date	LT Rating	ST Rating	Action	Outlook
4-Dec-17	A-	A2	Initial	Stable

[Related Criteria and Research](#)

[Methodology](#)  
[Sector Research](#)

Corporate Rating Methodology  
Tyre Sector - Viewpoint | Nov-17

[Rating Analysts](#)

Muneeb Rashid <a href="mailto:muneeb.rashid@pacra.com">muneeb.rashid@pacra.com</a> (92-42-35869504)	Jhangeer Hanif <a href="mailto:jhangeer@pacra.com">jhangeer@pacra.com</a> (92-42-35869504)
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[Rating Team Statement](#)

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