The Pakistan Credit Rating Agency Limited

ENTITY RATINGS REPORT

IBRAHIM FIBRES LIMITED

ENTITY	RATING	OUTLOOK	ACTION	DATE
Ibrahim Fibres Limited	Long Term: AA- Short Term: A1+	Stable	Maintain	15-Jan-18

Rating Rationale

The ratings reflect IFL's (i) robust ownership profile (Ibrahim group) that has demonstrated strong support, (ii) leading market position in the local polyester staple fibre (PSF) industry, and (iii) intentions to keep leveraging at low levels. Imposition of anti-dumping duty on PSF imported from China since Feb-16 has supported volumetric growth and margin - performance has also gained from by increasing demand. Favorable movements in crude oil prices, and, PSF feedstock prices, provided further benefit to the company's core margins. Given demand pattern and efficient production, IFL is expected to hold performance trend. In recent years, the company's bottomline has been a function of a reliable dividend stream of IFL's investment in Allied Bank Limited (ABL), an associated company. Lately, the said investment has been sold to group holding company. Though the recurring stream of income from ABL would stop, the resulting cashflows are primarily being used to adjust debt levels. In turn, significant financial cost savings. Meanwhile improved core profitability would bode well for its financial profile.

The ratings are dependent on profitable operation of the company, supported by input prices and duty protection. Moreover, association with Ibrahim Group bodes well for the company. Going forward, induction of independent board members should benefit governance framework.

Report Contents

JANUARY 2018

IBRAHIM FIBRES LIMITED	
Incorporated	1986
Major business lines	▪ Polyester fibre ▪ Spinning
Legal status	Listed

INDUSTRY SNAPSHOT

- Polyester Staple Fiber's (PSF) basic raw materials include Pure Terephthalic Acid (PTA) and Mono Ethylene Glycol (MEG).
- Being derivative of crude oil, their prices fluctuate accordingly, making PSF a price volatile product
- With slight decline in crude oil prices after a year of sharp decline, (FY17: ~4%, FY16: ~38%), PSF prices were largely stable.

OWNERSHIP — STRONG

- IFL, incorporated in 1986, is listed on PSX
- Manufactures a wide variety of Polyester Staple Fibre (390,600 tpa), (139,872 spindles) and blended yarn, the largest capacity in Pakistan
- Majority (88%) owned by Ibrahim Group (IG) directly through Mukhtar family members. IG has presence in textile and financial industry
- The group formed Ibrahim Holdings (Pvt.) Ltd to streamline ownership structure of its companies, Earlier Ibrahim Fibres had significant stake in ABL; this is now transferred to Ibrhaim Holdings (Value : PKR ~20bln). However, a portion of proceed is yet to be received from Ibrahim Holdings

GOVERNANCE — GOOD

- Seven-member BoD comprises three directors from sponsoring family, three group affiliates, and one independent member
- Board members have significant industry related experience. Inclusion of more independent members should benefit governance framework

MANAGEMENT — ADEQUATE

- 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
- Oracle is deployed as ERP solution; comprehensive MIS reporting
- Captive power generation to meet entire energy requirements: The Company is in the process of installing a 20MW Coal fired plant. This would beneficially impact the energy cost mix

BUSINESS RISK — ADEQUATE

- In Feb16, National Tariff Commission imposed anti-dumping duty on Chinese PSF for five years; industry players benefitted in terms of volumes and margins.
- IFL's topline predominantly comprises revenue from PSF segment (FY17: ~80%), followed by spinning segment.
- During FY17, IFL's topline increased (~15%) YoY. This is mainly led by volumetric increase and price stability on account of anti-dumping duties on Chinese PSF.
- Cost of sales during the period increased less proportionately due to relatively lower raw material costs as against SPLY. Efficiency gains resulting from BMR also helped. Resultantly, gross margin (FY17: 6.1%, FY16: 2.8%) increased. This translated well to operating profits (FY17: PKR 1,444mln, FY16: PKR 64mln) as selling costs were contained.
- Incorporating gain (PKR 5,788mln) on sale of the ABL investment and reduction in finance cost by ~27% on YoY basis, the reported bottomline was significantly higher (FY17: PKR 8,480mln, FY16: PKR 1,535mln)
- During 1QFY18, the performance trend line was maintained while cost savings, on the back of BMR (replacement of spindles) and commissioning of a coal-fired power plant (Jul'17), resulted in slightly improved core business margins.

FINANCIAL RISK — ADEQUATE

- Working capital days slightly improved on YoY basis.
- During the period, improved cash flow position provided support to debt-service coverages. The Receipt of receivable from Ibrahim Holding's against the disposal of shares of ABL would further improve IFL's balance sheet strength
- Low leveraged capital structure. Debt to debt plus equity ratio stood reduced at ~15% at end-Sep17 (end-Jun17: ~23%, end-Jun16: ~42%). Going forward, leveraging is expected to go down on account of loan repayment
- Interest-free loan from directors (end-Mar'17: Nil, end-Jun'16: ~PKR .l7.4bln) has been adjusted/repaid.