The Pakistan Credit Rating Agency Limited

Rating Report

Panther Tyres Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Jun-2018	A-	A2	Stable	Maintain	-
04-Dec-2017	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

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.

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.

Disclosure	
Name of Rated Entity	Panther Tyres Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating Methodology(Jul-17),Methodology | Correlation between long-term and short-term rating scale(Jun-17),Methodology | Criteria Modifiers(Jun-17)
Related Research	Sector Study | Auto and Allied | Tyres(Nov-17)
Rating Analysts	Muhammad Noor ul Haq | muhammad.noorulhaq@pacra.com | +92-42-35869504 Jhangeer Hanif | jhangeer@pacra.com | +92-42-35869504

Panther Tyres Limited (Panther) Profile	
Incorporated	1983
Major Business	▪ Panther is primarily engaged in the production and sale of tyres and tubes of vehicles. The company is the market leader for motorcycle tyres in Pakistan for both original equipment manufacturers (OEMs) and replacement markets.
Legal Status	Unlisted Public Limited Company
Head Office	Lahore

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.

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 9MFY18, Panther's topline stood at PKR 6,079mln, registering a growth of 18% YoY. Supplemented by 23% growth in exports.
- Growth in revenue could not lift up the GP margin as it stood at 13.5% during 9MFY18 (FY17: 14%, FY16: 14.4%, FY15: 14.9%), due to higher raw material cost.
- For 9MFY18, Operating margin stood at 8% (FY17: 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 29%.
- Going forward, the company plans to continue with the expansion drive.

Financial Risk

- Inventory and receivables increased (YoY) as a percentage of sales (9MFY18: 41%, FY17: 40%, FY16: 25%); hence working capital needs increased, reflecting in slightly higher net working capital days (9MFY18: 119days, FY17: 91days, FY16: 66days).
- During 9MFY18, Panther's free cash flows (FCFO), amounted to ~PKR 674mln. Topped up by higher profits, core debt coverage remained comfortable during the period (9MFY18: 2.2x, 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% (FY17: 58%, FY16: 52%, FY15: 51%). Borrowings have surged to PKR 4.1bln (FY17: PKR 3.8bln, FY16: PKR 2.2bln, FY15: PKR 2bln) largely in order to finance expansion drive and working capital needs.

PKR mln

Panther Tyres Limited (Panther)

BALANCE SHEET	30-Jun-17	30-Jun-16	30-Jun-15
	Annual	Annual	Annual
Non-Current Assets	**3,879**	**2,895**	**2,796**
Investments (Incl. Associates)	**-**	**-**	**-**
Equity	-	-	-
Debt Instruments	-	-	-
Current Assets	**3,898**	**2,158**	**1,954**
Inventory	1,538	606	555
Trade Receivables	1,357	784	658
Others	1,004	767	741
Total Assets	**7,777**	**5,052**	**4,750**
Debt	**3,851**	**2,224**	**2,001**
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
Shareholders' Equity	**2,804**	**2,070**	**1,905**
Total Liabilities & Equity	**7,777**	**5,052**	**4,750**
INCOME STATEMENT			
Turnover	**7,259**	**5,599**	**5,432**
Gross Profit	1,018	804	808
Net Other Income	(26)	(22)	(18)
Financial Charges	(211)	(165)	(244)
Net Income	**294**	**224**	**210**
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 InvestingActivities	(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
Capital Structure			
Total Debt/Total Debt+Equity	57.8%	50.7%	51.2%

Rating Scale

Credit Rating Scale & Definitions

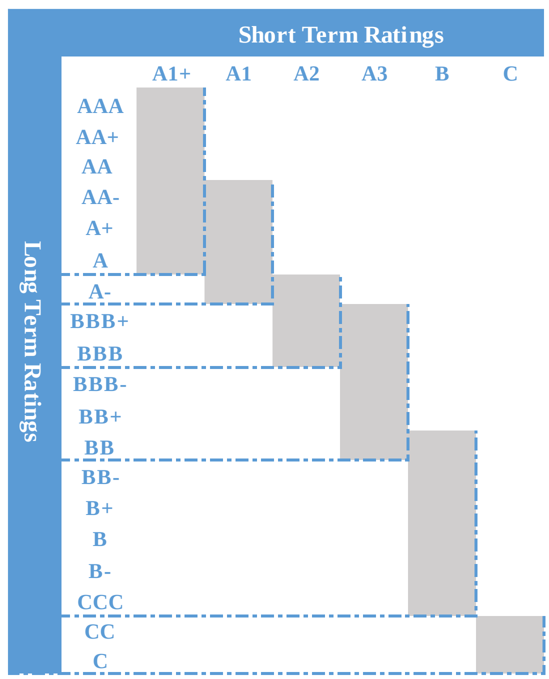
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

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 Ratings

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.



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, 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.

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, e) the entity/issuer defaults., or/and f) 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.

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

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(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.
(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 | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(f-VII)
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