



The Pakistan Credit Rating Agency Limited

**Rating Report**

**Panther Tyres Limited**

| Report Contents                            |
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| 1. Rating Analysis                         |
| 2. Financial Information                   |
| 3. Rating Scale                            |
| 4. Regulatory and Supplementary Disclosure |

| Rating History     |                  |                   |         |          |              |
|--------------------|------------------|-------------------|---------|----------|--------------|
| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action   | Rating Watch |
| 27-Dec-2018        | A-               | A2                | Stable  | Maintain | -            |
| 29-Jun-2018        | A-               | A2                | Stable  | Maintain | -            |
| 04-Dec-2017        | A-               | A2                | Stable  | Initial  | -            |

**Rating Rationale and Key Rating Drivers**

The ratings take strength from strong industry positioning of Panther Tyres in its respective niches. The company has a formidable market share in 2& 3 wheeler tyre and tractor tyre segment of tyre & tube industry. The sponsors have built a strong management team with a wholesome mandate: roles are clearly demarcated with high degree of delegation. The company intends to improve its overall organisation structure and inculcate financial transparency as per Code of Corporate Governance. Latest evidence is the appointment of a professional in the position of the CEO. Margins are sanguine though slightly constrained during FY18 due to increase in prices of raw material. The company is strengthening its international presence. The ratings draw comfort from strong coverages coupled with adequate capital structure. Going forward, the demand from replacement market is expected to remain strong whereas the OEMs' demand is expected to contract due to increased prices.

The ratings are dependent on the management's ability to sustain its business profile with careful management of market risks, increase in international outreach and improvement in governance structure.

| Disclosure                   |  |
|------------------------------|--|
| <b>Name of Rated Entity</b>  | Panther Tyres Limited  |
| <b>Type of Relationship</b>  | Solicited  |
| <b>Purpose of the Rating</b> | Entity Rating  |
| <b>Applicable Criteria</b>   | Methodology   Corporate Ratings(Jun-18),Methodology   Criteria   Rating Modifier(Jun-18),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-18) |
| <b>Related Research</b>      | Sector Study   Auto and Allied   Tyres(Oct-18)   |
| <b>Rating Analysts</b>       | Nadeem Sheikh   nadeem.sheikh@pacra.com   +92-42-35869504  |

## Profile

**Legal Structure** Panther Tyres Limited (hereinafter referred to as “the Company” or “Panther”) is a public unlisted company incorporated under the Companies Ordinance, 1984 (now “Companies Act, 2017”).

**Background** Mian Tyre & Rubber Company Limited was incorporated in 1983 as a private limited company and was later on converted into a public limited company with effect from Oct-2003. The company changed its name to Panther Tyres Limited in Oct-2011. With the operating history of ~35 years, the company has emerged as one of the top players in tyre and tube market of Pakistan.

**Operations** Panther’s products are divided in three divisions i.e. i) Two Wheel, ii) Three Wheel and, iii) Four Wheel. The company is one of the major producers of motorcycle tyres and tubes (Two Wheel) in Pakistan. It is also engaged in the manufacturing and marketing of a tyres and tubes for rickshaw, tractor, forklift, LTV, and scooter.

## Ownership

**Ownership Structure** Sponsoring family owns the entire shareholding of the company. Mr. Mian Iftikhar Ahmed is the major shareholder, he posses 70% shares of the company.

**Stability** Over the years, there has been no change in the shareholding structure of the company. Shareholding is expected to remain with the sponsoring family.

**Business Acumen** Mr. Mian Iftikhar Ahmed is the founder of the company. He is seasoned professional of the industry. Under his leadership, the company achieved many milestones and became a prominent player in the industry.

**Financial Strength** Financial strength of the sponsors is deemed adequate.

## Governance

**Board Structure** The overall control of the company vests in three member board of directors. Two are executive directors, including the chairman, and one is a non-executive member of the sponsoring family. There is no independent director on the board, hence the governance structure needs improvement.

**Members’ Profile** Two of the board members carry extensive experience of the tyre industry, while one board member is a family member with no professional experience.

**Board Effectiveness** During the year, six board meetings were held. Attendance of board members in these meetings remained good.

**Financial Transparency** Internal audit department reporting directly to the board is in place. The external auditor of the company is EY Ford Rhodes & Co. Chartered Accountants (Member firm of Ernst & Young). They issued an unqualified audit opinion pertaining to annual financial statements for FY18.

## Management

**Organizational Structure** Panther has a lean organizational structure with an experienced management team; a balanced mix of professionals from the FMCG industry (including Chartered Accountants and Engineers). Majority of the senior management is associated with the company for a long time.

**Management Team** Mr. Naveed A. Khawaja is the CEO of the company. He holds the degree of M.Com (Finance). He has an experience of almost ~3 decades and is assisted by a team of professionals.

**Effectiveness** Currently, the company has three management committees in place.

**MIS** Panther is currently equipped with latest SAP solution package i.e. SAP ECC. 6.0. It was successfully implemented across the company in June-13 by ABACUS CONSULTING. The SAP system is a business software package designed to integrate all areas of the business.

**Control Environment** The Corporate structure of the Company is diverged into various departments each having an effective Internal Control System to ensure achievement of overall strategic goals and reliable financial reporting. Different portals have been established to be used for customized management needs. Back-up policies and disaster recovery plans are in place to ensure smooth functioning.

## Business Risk

**Industry Dynamics** Pakistan’s tyre industry is composed of three segments, (i) two and three wheeler tyres, (ii) tyres for cars and LCVs, and (iii) tyres for trucks, buses and tractors. Panther tyres operates in (i) and (iii) segments. Demand for tyres is expected to remain strong but price competition amongst peers posses a threat to the profitability margins.

**Relative Position** Panther is one of the prominent players in the industry. The company has a strong market share in 2 & 3 wheeler tyre market and major competitor of the company is Servis. Moreover, Panther is the second only manufacturer of tractor tyres in Pakistan following The General Tyre & Rubber Company of Pakistan. The competitive position of the company is, therefore strong.

**Revenues** Top-line of the company increased by ~18% in FY18 and ~21% in 1QFY19. The revenue for 1QFY19 clocked in at PKR 2,467mln. The increase is on the back of strong local demand generated from tractor tyres. Revenue stream is fairly divided amongst OEMs and replacement market.

**Margins** Gross profit margin of the company slightly increased to 13.7% in 1QFY19 from 13.2% from FY18. The margin is expected to be affected going forward due to steep devaluation of PKR against US Dollar which would increase the prices of raw material. Effective resource management is necessitated to sustain profitability of the company.

**Sustainability** The company’s revenue is fairly diversified. Replacement market has relatively higher proportion as compared to OEMs. Demand from both OEMs and replacement market is expected to remain steady. Intense competition in replacement market would be the key challenge for the company going forward. Raw material pricing and currency devaluation shall persist to be the key determinants of the behavior of gross margins.

## Financial Risk

**Working Capital** Net working capital days of the company increased during FY18 by ~25 days but slightly decreased in 1QFY19. To finance is working capital requirement company rely on short term borrowings that increase the company’s dependence on short term finance. Current assets represent ~51% of the total assets as on End-Sep-18.

**Coverages** Tax refunds during the period increased the free cash flows of the company. Increased Cash flow led to improvement in overall coverages of the company. Going forward, sustenance of cash flows from operations is necessary to keep the coverages intact.

**Capitalization** The company has a leveraged capital structure. Total debt of the company in 1QFY19 clocked in at PKR~3,715 million as compared to PKR~3,854 million in FY18. Out of the total debt of PKR~3,715 million, PKR~2,928 million pertained to short term and PKR~787 million were long term liabilities. Equity of the company stood at PKR~3,309 million in 1QFY19 (FY18: PKR~3,209mln). Gearing ratio of the company slightly decreased to ~53% in 1QFY19 (FY18: ~55%).

**Panther Tyres Limited (Panther)**

PKR Million

| <b>BALANCE SHEET</b>                                 | <b>30-Jun-18</b> | <b>30-Jun-17</b> | <b>30-Jun-16</b> |
|--|------------------|------------------|------------------|
|  | <b>Annual</b>    | <b>Annual</b>    | <b>Annual</b>    |
| <b>Non-Current Assets</b>                            | <b>3,955</b>     | <b>3,879</b>     | <b>2,895</b>     |
| <b>Investments (Incl. Associates)</b>                | -                | -                | -                |
| Equity   | -                | -                | -                |
| Debt Instruments                                     | -                | -                | -                |
| <b>Current Assets</b>                                | <b>4,140</b>     | <b>3,898</b>     | <b>2,158</b>     |
| Inventory  | 1,845            | 1,538            | 606              |
| Trade Receivables                                    | 1,421            | 1,357            | 784              |
| Others   | 874              | 1,004            | 767              |
| <b>Total Assets</b>                                  | <b>8,095</b>     | <b>7,777</b>     | <b>5,052</b>     |
| <b>Debt</b>  | <b>3,854</b>     | <b>3,851</b>     | <b>2,224</b>     |
| Short-Term   | 2,974            | 2,891            | 1,424            |
| Long-Term (Incl. Current Maturity of Long-Term Debt) | 880              | 960              | 800              |
| Other short-term liabilities                         | 490              | 486              | 265              |
| Other long-term liabilities                          | 542              | 635              | 492              |
| <b>Shareholders' Equity</b>                          | <b>3,209</b>     | <b>2,804</b>     | <b>2,070</b>     |
| <b>Total Liabilities &amp; Equity</b>                | <b>8,095</b>     | <b>7,777</b>     | <b>5,052</b>     |

**INCOME STATEMENT**

|                   |              |              |              |
|-------------------|--------------|--------------|--------------|
| <b>Turnover</b>   | <b>8,574</b> | <b>7,259</b> | <b>5,599</b> |
| Gross Profit      | 1,133        | 1,018        | 804          |
| Net Other Income  | 44           | (26)         | (22)         |
| Financial Charges | (288)        | (211)        | (165)        |
| <b>Net Income</b> | <b>362</b>   | <b>294</b>   | <b>224</b>   |

**Cashflow Statement**

|                                      |       |         |       |
|--------------------------------------|-------|---------|-------|
| Free Cashflow from Operations (FCFO) | 878   | 732     | 581   |
| Net Cash changes in Working Capital  | (265) | (1,636) | (273) |
| Net Cash from Operating Activities   | 349   | (1,080) | 147   |
| Net Cash from Investing Activities   | (630) | (627)   | (320) |
| Net Cash from Financing Activities   | 323   | 1,627   | 223   |

**Ratio Analysis**

**Performance**

|                 |     |     |     |
|-----------------|-----|-----|-----|
| Turnover Growth | 18% | 30% | 3%  |
| Gross Margin    | 13% | 14% | 14% |
| Net Margin      | 4%  | 4%  | 4%  |
| ROE             | 12% | 12% | 11% |

**Coverages**

|  |     |     |     |
|--|-----|-----|-----|
| Interest Coverage (FCFO/Gross Interest)  | 3.0 | 3.5 | 3.5 |
| Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)                                | 1.4 | 1.7 | 1.5 |
| Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)                            | 1.4 | 1.7 | 1.5 |
| Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO- Gross Interest) | 1.5 | 1.8 | 1.9 |

**Liquidity**

|  |     |    |    |
|--|-----|----|----|
| Net Cash Cycle (Inventory Days + Receivable Days - Payable Days) | 115 | 91 | 66 |
|--|-----|----|----|

**Capital Structure**

|                              |     |     |     |
|------------------------------|-----|-----|-----|
| Total Debt/Total Debt+Equity | 55% | 58% | 51% |
|------------------------------|-----|-----|-----|

**Panther Tyres Limited (Panther)**

December 2018

## 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                        |   | Short Term Ratings |  |
|--|---|--------------------|--|
| <b>AAA</b>                               | <b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments  | <b>A1+</b>         | The highest capacity for timely repayment.   |
| <b>AA+</b><br><b>AA</b><br><b>AA-</b>    | <b>Very high credit quality.</b> 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.   | <b>A1</b>          | A strong capacity for timely repayment.  |
| <b>A+</b><br><b>A</b><br><b>A-</b>       | <b>High credit quality.</b> 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.  | <b>A2</b>          | A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.   |
| <b>BBB+</b><br><b>BBB</b><br><b>BBB-</b> | <b>Good credit quality.</b> 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.   | <b>A3</b>          | An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions. |
| <b>BB+</b><br><b>BB</b><br><b>BB-</b>    | <b>Moderate risk.</b> 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>           | The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.                   |
| <b>B+</b><br><b>B</b><br><b>B-</b>       | <b>High credit risk.</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>C</b>           | An inadequate capacity to ensure timely repayment.   |
| <b>CCC</b><br><b>CC</b><br><b>C</b>      | <b>Very high credit risk.</b> 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. |                    |  |
| <b>D</b>                                 | Obligations are currently in default.   |                    |  |



**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 surveil the opinion due to lack of requisite information.

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

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(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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- (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)

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- (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)

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- (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)
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- (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)

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- (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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