



The Pakistan Credit Rating Agency Limited

## Rating Report

### Panther Tyres Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
12-Apr-2019	A-	A2	Stable	Maintain	-
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 a high degree of delegation. The company has improved its overall organisation structure and is inculcating financial transparency as per Code of Corporate Governance. Revenue stream is segmented into Original Equipment Manufacturers (OEMs) and Replacement Market ,wherein replacement market has a higher inclination. The company's financial risk profile is demonstrated by stable margins, healthy coverages and adequate capital structure. Additionally, the company is strengthening its international presence. Going forward, demand from replacement market is expected to remain strong whereas the OEMs' demand is expected to remain range bound due to pass-on effect of increased costs.

The ratings are dependent on the management's ability to sustain its business profile with cautious 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>	Muhammad 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 nonexecutive 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. Mian Iftikhar Ahmed has taken up as CEO of the company after the retirement of Mr. Naveed A. Khawaja. He 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. Tyres' sales growth is linked to the sales of OEMs and demand in replacement market. Despite the economic challenges, the sales of 2 & 3 wheeler had showed resilience. Tractors' demand in OEMs however declined during the period, whereas it remained intact in the replacement market. Rising exchange rates and intense competition are the key challenges to the industry.

**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. 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** Topline of the company increased by ~18% in FY18 and ~14% in 1HFY19. The revenue for 1HFY19 clocked in at PKR~4,670mln; increase is on account of persistent local demand generated from 2, 3 & 4 wheeler tyres. Revenue stream is fairly divided amongst OEMs and replacement market.

**Margins** Gross profit margin of the company slightly increased to 15% in 1HFY19 from 13.2% in FY18. Increased cost impact is majorly passed on to the customers.

**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 increased during 1HFY19 by to ~130 days (FY18: ~115 days). The company relies on short term borrowings and internal capital to fund working capital needs. Short term trade leverage reduced during the period under review due to increased funding needs.

**Coverages** Tax refunds during the period increased the free cash flows of the company. The company generated FCFO of PKR~774mln during 1HFY19 (FY18:PKR~878mln). Increased Cash flow led to improvement in overall coverages. 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 1HFY19 clocked in at PKR~4,209million as compared to PKR~3,854 million in FY18. Out of the total debt of PKR~4,209million, PKR~3,501 million pertained to short term and PKR~708million were long term liabilities. Equity of the company stood at PKR~3,434million in 1HFY19 (FY18: PKR~3,209mln). Gearing ratio of the company remained stable at ~55% in 1HFY19 (FY18: ~55%).



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Panther Tyres Limited

BALANCE SHEET

	Jun-18	Jun-17	Jun-16
	12M	12M	12M
	Audited	Audited	Audited
<b>Non-Current Assets</b>	<b>3,955</b>	<b>3,879</b>	<b>2,895</b>
<b>Investments</b>	-	-	-
Equity Instruments	-	-	-
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>Borrowings</b>	<b>3,854</b>	<b>3,851</b>	<b>2,224</b>
Short-Term	2,974	2,891	1,424
Long-Term (Incl. CMLTB)	880	960	800
Other Short-Term Liabilities	490	486	265
Other Long-Term Liabilities	542	635	492
<b>Shareholder's 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>Sales</b>	<b>8,574</b>	<b>7,259</b>	<b>5,599</b>
<b>Gross Profit</b>	<b>1,133</b>	<b>1,018</b>	<b>804</b>
Non Operating Income	44	(26)	(22)
Total Finance Cost	(288)	(211)	(165)
<b>Net Income</b>	<b>362</b>	<b>294</b>	<b>224</b>

CASH FLOW STATEMENT

Free Cash Flow from Operations (FCFO)	878	732	581
Total Cashflows (TCF)	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
Net Cash generated during the period	42	(81)	50

RATIO ANALYSIS

Performance

Sales Growth (for the period)	18%	30%	3%
Gross Profit Margin	13%	14%	14%
Net Profit Margin	4%	4%	4%
Return of Equity	12%	12%	11%

Working Capital Management

Gross Working Capital (Inventory Days + Receivable Days)	131	108	85
Net Working Capital (Inventory Days + Receivable Days - Payable Days)	115	91	66

Coverages

Debt Service Coverage (FCFO / Finance Cost+CMLTB+Excess STB)	1.5	1.7	1.5
Interest Coverage (FCFO / Finance Cost)	3.1	3.6	3.6
Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.5	1.8	1.9

Capital Structure (Total Debt/Total Debt+Equity)

Capital Structure (Total Borrowings / Total Borrowings+Equity)	55%	58%	52%
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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.

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> <b>AA</b> <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> <b>A</b> <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> <b>BBB</b> <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> <b>BB</b> <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> <b>B</b> <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> <b>CC</b> <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.

**Disclaimer:** PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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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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- (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)
- (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)
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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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- (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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