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
12-Oct-2019	A-	A2	Stable	Maintain	-
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 company has a strong distribution network and longstanding relationships with Original Equipment Manufacturers (OEMs). 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 OEMs and Replacement Market (RM),wherein RM has a higher inclination. The company's financial risk profile is demonstrated by stable margins, healthy coverages and adequate capital structure. During FY19 the company has largely held its gross margins whereas there is a slight dilution in net profit, adjusted for one off gain in the last year. The company has presence in the international market. Going forward, demand from RM is expected to provide continued cushion whereas the OEMs demand will be subject to multiple challenges.

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	
Name of Rated Entity	Panther Tyres Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_Corporate_FY19(Jun-19),PACRA_Crtieria_LT ST Relationship_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study | Tyres(Oct-19)
Rating Analysts	Muhammad Noor ul Haq | muhammad.noorulhaq@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. 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 Mian Iftikhar Ahmed is the founder of the Panther. He is the pioneer of Bias tyre and Butyl tube manufacturing in Pakistan and is recognised as one of the leaders and mentors of the local tyre industry. Under his leadership, the company achieved many milestones and became a prominent player in the industry.

Financial Strength As Panther is the main business of the sponsor's family.They don't have any strategic stake in any other business. Therefore financial strength of the sponsors is deemed adequate.

Governance

Board Structure The overall control of the company vests in three members 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 FY19.

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 FY19 was a challenging year for the tyres and tubes industry for multiple reasons. The unprecedented devaluation of PKR against USD had a cost-push effect on pricing since raw materials are largely imported. Moreover, the increasing energy cost, contracting monetary policy also had an adverse impact on the local manufacturing industry in general and the auto industry in particular. As a result the overall demand of auto and its allied including tyres and tubes have been affected. Positives during FY19 were government stern action against smugglers (market share: ~45%) and removal of custom duties from major raw materials.However, tyre manufacturers operating in two wheels segment has shown higher resilience towards change in macro economic indicators, compared to four wheels tyre segment. Prolonged downturn may impact this segment, as well.

Relative Position The company has evolved to become one of the largest and leading suppliers and manufacturers of Tyres and Tubes in Pakistan and Internationally. The company is also honored suppliers of Suzuki, Honda and Yamaha for the past 26 years. The Company has achieved a milestone in captivating a vast extent of customers from Asian, Middle East, African & European countries. Moreover, the company is the second only manufacturer of tractor tyres in Pakistan.

Revenues During FY19, the top line of the company increased by 14.1% to PKR 9,779 mln against PKR 8,574mln. The increase is on the back of price hike and strong local demand generated from 2&3 wheeler tyres. Revenue stream is fairly divided amongst OEMs and replacement market (RM).

Margins The gross profit for FY19 was PKR 1,338 mln against PKR 1133mln last year. The margins is expected to be affected, mainly due to significant PKR depreciation, increase in utility prices, increase in prices of certain raw materials and other manufacturing cost. However, the net margins of the company was affected due to the increase in finance cost (FY19: 2.2%; FY18: 4.2%).

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 The company relies on short term borrowings and internal capital to fund working capital needs. Though in FY19 the company reliance on short term borrowings as witnessed a dip - on outcome of improvement in cash cycle (FY19: 109 days; FY18: 115 days). The Company’s room to borrow during the period clocked in at 20%, showing a healthy position.

Coverages The company generated FCFO of PKR~1,212mln during FY19 (FY18:PKR~878mln). Increased Cash flow led to improvement in overall coverages. However, impact of increase in FCFO was muted by increase in finance cost (~42%), which consequently resulted in decline in interest coverage ratio to 0.9x (FY18: 1.5x). 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 FY19 decresed to PKR~3,247mln as compared to PKR~3,854 mln in FY18. Out of the total debt of PKR~3,247mln, PKR~2,485mln pertained to short term and PKR~761mln were long term liabilities. Equity of the company stood at PKR~3,340mln in FY19 (FY18: PKR~3,209mln). Gearing ratio of the company remained stable at ~49% in FY19 (FY18: ~55%).

The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Panther Tyres Limited	Jun-19	Jun-18	Jun-17
Tyres	12M	12M	12M
A BALANCE SHEET			
1 Non-Current Assets	3,996	3,955	3,879
2 Investments	-	-	-
3 Related Party Exposure	-	-	-
4 Current Assets	3,756	4,140	3,898
a Inventories	*1,330*	*1,845*	*1,538*
b Trade Receivables and Others	*1,894*	*1,421*	*1,357*
5 Total Assets	7,752	8,095	7,777
6 Current Liabilities	621	490	486
a Trade Payables	*316*	*320*	*432*
7 Borrowings	3,247	3,854	3,851
8 Related Party Exposure	0	-	-
9 Non-Current Liabilities	545	542	635
10 Net Assets	3,340	3,209	2,804
11 Shareholders' Equity	3,340	3,209	2,804
B INCOME STATEMENT			
1 Sales	9,779	8,574	7,259
a Cost of Good Sold	*(8,441)*	*(7,442)*	*(6,241)*
2 Gross Profit	1,338	1,133	1,018
a Operating Expenses	(565)	(456)	(439)
3 Operating Profit	773	677	579
a Non Operating Income or (Expense)	*(38)*	*43*	*(26)*
4 Profit or (Loss) before Interest and Tax	735	720	553
a Total Finance Cost	*(404)*	*(288)*	*(211)*
b Taxation	*(116)*	*(70)*	*(47)*
6 Net Income Or (Loss)	214	361	294
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*1,212*	*878*	*732*
b Net Cash from Operating Activities before Working Capital Changes	*836*	*614*	*555*
c Changes in Working Capital	*220*	*(265)*	*(1,636)*
1 Net Cash provided by Operating Activities	1,057	349	(1,080)
2 Net Cash (Used in) or Available From Investing Activities	(331)	(630)	(627)
3 Net Cash (Used in) or Available From Financing Activities	(607)	323	1,627
4 Net Cash generated or (Used) during the period	118	42	(81)
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	14.1%	18.1%	29.7%
b Gross Profit Margin	13.7%	13.2%	14.0%
c Net Profit Margin	2.2%	4.2%	4.1%
d Cash Conversion Efficiency (EBITDA/Sales)	10.8%	11.3%	11.0%
e Return on Equity (ROE)	6.5%	12.0%	12.1%
2 Working Capital Management			
a Gross Working Capital (Average Days)	121	131	108
b Net Working Capital (Average Days)	109	115	91
3 Coverages			
a EBITDA / Finance Cost	2.7	3.5	3.9
b FCFO / Finance Cost+CMLTB+Excess STB	1.7	1.5	1.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.9	1.5	1.8
4 Capital Structure (Total Debt/Total Debt+Equity)			
a Total Borrowings / Total Borrowings+Equity	49.3%	54.6%	57.9%
b Interest or Markup Payable (Days)	74.9	86.4	96.6
c Average Borrowing Rate	11.1%	7.3%	6.7%

Rating Scale | Corporate

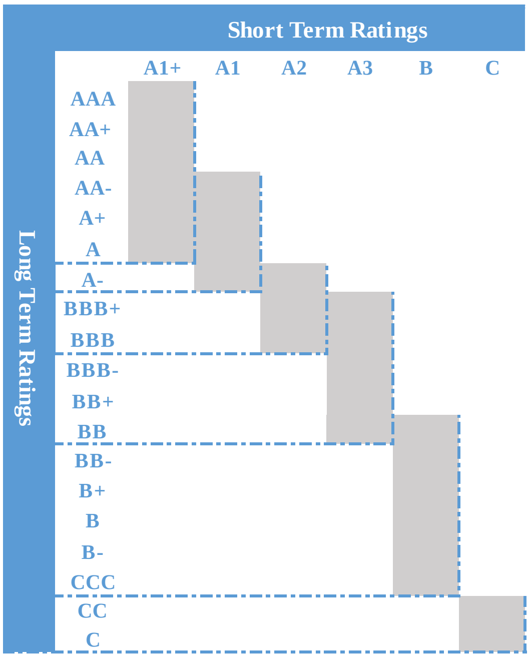
2019

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.

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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

Restrictions

(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)

Proprietary Information