



## 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
04-Sep-2020	A-	A2	Stable	Maintain	-
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 and has recently entered into segment of trucks and buses tyres. 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. Further, role of Chairman and CEO has been segregated and four new independent directors have been elected on the board to strengthen the governance of the company. 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. Despite Covid19 outbreak with associated lockdown period the company managed to sustain its growth in revenues and margins during FY20. 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

<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-20),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria   Rating Modifier(Jun-20)
<b>Related Research</b>	Sector Study   Tyres(Oct-19)
<b>Rating Analysts</b>	Sohail Ahmed   sohail.ahmed@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Panther Tyres Limited (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 ~36 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 & Tractor tyres and tubes in Pakistan. It is also engaged in the manufacturing and marketing of a tyres and tubes for rickshaw, forklift, LTV, scooter, HTV and OTR. The company has recently entered into segment of trucks and buses tyres.

## 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, remaining is held by wife and son of Mian Iftikhar in proportion of 10% and 20% respectively.

**Stability** Over the years, there has been no change in the shareholding structure of the company. Major 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 Seven members Board of Directors. Two are executive directors, including the chairman, one is a non-executive member of the sponsoring family and remaining seven are independent directors. Role of Chairman and CEO has been segregated and four new independent directors have been elected on the board during FY20 which has improved the governance structure of the company.

**Members' Profile** Mian Iftikhar Ahmed is the Chairman of the Board having extensive experience of the tyre industry. Other board members are also thorough professionals and carry experiences of managing business affairs in different sectors.

**Board Effectiveness** During the FY20, 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 one of big four audit firms, EY Ford Rhodes & Co. Chartered Accountants. The Auditors issued an unqualified audit opinion pertaining to annual financial statements for FY20.

## Management

**Organizational Structure** Panther has a lean organisational 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** As role of Chairman and CEO has been segregated, Mian Faisal Iftikhar, son of Mian Iftikhar Ahmed has taken up as CEO of the company during the year after the resignation of Mian Iftikhar Ahmed. 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) 2 & 3 wheeler tyres (ii) Tyres for Cars and LCVs, and (iii) Tyres for Trucks, Buses and Tractors. Tyres demand is driven by sales of new vehicles and demand from replacement market. Overall economic slowdown recently exacerbated by Covid19 had impacted the sales of new vehicles and hence the revenue from OEMs. However, tyre manufacturers operating in two wheels segment has shown higher resilience towards change in macro economic indicators, compared to four wheels tyre segment.

**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 honoured 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 and first only manufacturer of off-the-road (OTR) tyres.

**Revenues** Despite the Covid19 impact in last quarter of FY20 revenue reflected a significant growth of 18.5% during FY20 as compared to FY19, as company's topline clocked in at PKR 11,585mln as at end-Jun20 (FY19: PKR 9,779mln). 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** Gross margin increased by ~0.8% on back of cost push impact and controlled cost of production (FY20: 14.5%, FY19: 13.7%). Accordingly, operating margin inclined by ~0.7% (FY20: 8.6%, FY19: 7.9%). There was a significant increase of 48% in the finance cost during FY20 as compared to last year as a result of increase in borrowings to finance the working capital. Despite this, Net margin remained stagnant at 2.2% during FY20 as compared to 2.2% in FY19.

**Sustainability** The company's revenue is fairly diversified. Replacement market has relatively higher proportion as compared to OEMs. Demand from OEMs market is subdued currently 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 behaviour of gross margins.

## Financial Risk

**Working Capital** The company relies on short term borrowings and internal capital to fund working capital needs. To finance the increased working capital needs, short term borrowings also took an upsurge in FY20 to PKR 3.35bln from PKR 2.48bln in FY19. Despite this company's gross working capital days have decreased to 119 days in FY20 from 121 days in FY19 which was because of significant increase in top-line. Net working capital days have also decreased to 105 days as compared to 109 days in FY19.

**Coverages** The company generated FCFO of PKR~1.144mln during FY20 (FY19: PKR~1.211mln). On account of higher interest cost, interest coverage against FCFO deteriorated however still remaining comfortable (Jun20: 2x; Jun19: 3.1x). 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 FY20 increased to PKR~4,133mln as compared to PKR~3,247mln in FY19. Out of the total debt of PKR~3,354mln, PKR pertained to short term. Equity of the company stood at PKR~3,612mln in FY20 (FY19: PKR~3,340mln). Gearing ratio of the company escalated to ~53.4% in FY20 from ~49.3% in FY19.



Panther Tyres Limited Tyres	Jun-20 12M	Jun-19 12M	Jun-18 12M
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**A BALANCE SHEET**

1 Non-Current Assets	4,130	3,996	3,955
2 Investments	-	-	-
3 Related Party Exposure	-	-	-
4 Current Assets	4,975	3,756	4,140
<b>5 Total Assets</b>	<b>9,105</b>	<b>7,752</b>	<b>8,095</b>
6 Current Liabilities	871	621	490
<i>a Trade Payables</i>	563	316	320
7 Borrowings	4,133	3,247	3,854
8 Related Party Exposure	-	0	-
9 Non-Current Liabilities	488	545	542
<b>10 Net Assets</b>	<b>3,612</b>	<b>3,340</b>	<b>3,209</b>
<b>11 Shareholders' Equity</b>	<b>3,612</b>	<b>3,340</b>	<b>3,209</b>

**B INCOME STATEMENT**

1 Sales	11,585	9,779	8,574
<i>a Cost of Good Sold</i>	(9,908)	(8,441)	(7,442)
<b>2 Gross Profit</b>	<b>1,677</b>	<b>1,338</b>	<b>1,133</b>
<i>a Operating Expenses</i>	(676)	(565)	(456)
<b>3 Operating Profit</b>	<b>1,001</b>	<b>773</b>	<b>677</b>
<i>a Non Operating Income or (Expense)</i>	(23)	(38)	43
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>978</b>	<b>735</b>	<b>720</b>
<b>5 Net Income Or (Loss)</b>	<b>252</b>	<b>214</b>	<b>361</b>

**C CASH FLOW STATEMENT**

<i>a Free Cash Flows from Operations (FCFO)</i>	1,144	1,212	878
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	637	836	614
<i>c Changes in Working Capital</i>	(1,068)	220	(265)
<b>1 Net Cash provided by Operating Activities</b>	<b>(431)</b>	<b>1,057</b>	<b>349</b>
<b>2 Net Cash (Used in) or Available From Investing Activities</b>	<b>(300)</b>	<b>(331)</b>	<b>(630)</b>
<b>3 Net Cash (Used in) or Available From Financing Activities</b>	<b>706</b>	<b>(607)</b>	<b>323</b>
<b>4 Net Cash generated or (Used) during the period</b>	<b>(25)</b>	<b>118</b>	<b>42</b>

**D RATIO ANALYSIS**

<b>1 Performance</b>			
<i>a Sales Growth (for the period)</i>	18.5%	14.1%	18.1%
<i>b Gross Profit Margin</i>	14.5%	13.7%	13.2%
<i>c Net Profit Margin</i>	2.2%	2.2%	4.2%
<i>d Cash Conversion Efficiency (EBITDA/Sales)</i>	11.6%	10.8%	11.3%
<i>e Return on Equity (ROE)</i>	7.2%	6.5%	12.0%
<b>2 Working Capital Management</b>			
<i>a Gross Working Capital (Average Days)</i>	119	121	131
<i>b Net Working Capital (Average Days)</i>	105	109	115
<b>3 Coverages</b>			
<i>a EBITDA / Finance Cost</i>	2.3	2.7	3.5
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.4	1.7	1.5
<b>4 Capital Structure (Total Debt/Total Debt+Equity)</b>			
<i>a Total Borrowings / Total Borrowings+Equity</i>	53.4%	49.3%	54.6%
<i>b Interest or Markup Payable (Days)</i>	81.8	74.9	86.4

**Credit Rating**

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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<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.
AA-	
A+	
A	<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.
A-	
BBB+	
BBB	<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.
BBB-	
BB+	<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.
BB	
BB-	
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-	
CCC	<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.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
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.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*\*The correlation shown is indicative and, in certain cases, may not hold.*

**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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) 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.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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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)

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- 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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- (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.
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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
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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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