The Pakistan Credit Rating Agency Limited

Rating Report

Ibrahim Fibres Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
08-Feb-2019	AA-	A1+	Stable	Maintain	-
10-Aug-2018	AA-	A1+	Stable	Maintain	-
26-Jan-2018	AA-	A1+	Stable	Maintain	-
22-Jun-2017	AA-	A1+	Stable	Maintain	-
17-Dec-2016	AA-	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect Ibrahim Fibres' leading position in the local polyester staple fibre (PSF) industry and very strong financial profile accentuated by low leveraging and strong coverages. Imposition of anti-dumping duty on PSF imported from China since Feb-16 has supported volumetric growth and margins. Meanwhile, local demand also witnessed increasing trend. Favorable movements in crude oil prices have resulted in increased prices, benefiting the company's core margins. Given demand pattern and efficient production, Ibrahim Fibres is expected to hold performance trend. In recent years, the company's bottomline had been a function of a reliable dividend stream of investment in Allied Bank Limited, an associated company. Recently, the said investment was sold to the Group holding company, Ibrahim Holdings (Private) Limited. Though the recurring stream of income has stopped, the resulting cash flows were primarily used to adjust debt levels, resulting in significant financial cost savings. The company is in the process of expanding its spinning capacity which is expected to come online in 4QFY20. The ratings further incorporate the company's association with the Ibrahim Group, which has demonstrated strong support.

The ratings are dependent on the company's ability to sustain its margins and profitability. Optimal utilization of upcoming capacity enhancement and improvement in margins is considered important. Excessive borrowings and/or prolonged downturn in margins would impact the ratings.

Disclosure

Name of Rated Entity	Ibrahim Fibres Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-18),Methodology | Criteria | Rating Modifier(Jun-18),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study | Polyester(Feb-19)
Rating Analysts	Muhammad Hassan | muhammad.hassan@pacra.com | +92-42-35869504

Profile

Legal Structure Ibrahim Fibres Limited was incorporated as a Public Limited Company in 1986.

Background The company was expanded by establishing additional spinning mills and a power generation company, all of which were merged into one entity, Ibrahim Fibres Limited in 2000.

Operations Ibrahim Fibres is primarily engaged in the production and marketing of polyester staple fibre (PSF) and blended yarns with manufacturing facilities located at Shahkot near Faisalabad. The company's total capacity currently stands at 390,600 TPA of polyester while spinning comprises 139,872 spindles.

Ownership

Ownership Structure Ibrahim Group continues to hold majority stake (~88%) in Ibrahim Fibres. Previously, ownership was held directly through individuals of the Mukhtar Family. In Oct-18, the sponsors transferred their individual shares of Ibrahim Fibres to Ibrahim Holdings Limited, the Group holding company.

Stability Ibrahim Group established Ibrahim Holdings (Pvt.) Limited for the purposes of succession planning and managing investments in subsidiary and associated companies. The holding company was incorporated in December, 2015, During FY17, Ibrahim Fibres sold its stake (~84%) in Allied Bank Limited to Ibrahim Holding (Pvt.) Limited. This bodes well for sustainability of the company, going forward.

Business Acumen The sponsors of the company have over five decades of experience in the textile sector as well as professional experience relating to banking, finance and power.

Financial Strength The net worth of Ibrahim Group is considered very strong. The sponsors have shown willingness and ability to support the business as demonstrated in the past through an interest free loan to support operations. Ibrahim Group group holds majority (84.35%) ownership of Allied Bank of Pakistan.

Governance

Board Structure The control of the company vests in a seven-member Board of Directors chaired by Mr. Sheikh Mukhtar Ahmed. Remaining members comprise two family members, two non-executive Ibrahim Group affiliates and two independent directors.

Members' Profile Mr. Sheikh Mukhtar – Chairman of Ibrahim Fibres and Ibrahim Group – has over 51 years of experience in establishing and successfully managing various industrial and financial companies. He also serves on the Boards of other Group companies. All Board members have significant industry related as well as diversified experience and they have been associated with the company for a reasonably long period of time.

Board Effectiveness To ensure proper oversight, two committees are in place: Audit and Human Resource. Attendance of members in the meetings remains strong. Furthermore, the Board arranged Directors' Training Program for five directors during the year which is expected to equip the board members in fulfilling their role in an effective manner.

Financial Transparency The company's external auditor, M/s. Deloitte Yousuf Adil, Chartered Accountants, provided an unqualified audit opinion on financial statements for the period ended 30th June 2018.

Management

Organizational Structure Ibrahim Fibres has a well-tiered, functionally departmentalized structure which is segregated for polyester units, spinning plants and power generation.

Management Team Mr. Naeem Mukhtar is the CEO of the company with over 32 years of experience of finance and industrial manufacturing. He is also the CEO of Ibrahim Holdings (Pvt.) Limited and serves as Director on other Group companies. Most of the senior management has been associated with Ibrahim Fibres for a long time.

Effectiveness Meetings are conducted by the senior management on a need basis for discussion and decision-making purposes.

MIS The company has deployed Oracle as the ERP solution. This produces comprehensive MIS reporting.

Control Environment Ibrahim Fibres has an internal auditory function in place to ensure impartial oversight. There is a well-trained quality control department. The company is ISO 9002 certified.

Business Risk

Industry Dynamics Global demand for PSF is on the rise with research estimating the PSF industry to grow at a CAGR of ~4.1% between 2017 and 2025. The basic raw materials for PSF include Pure Terephthalic Acid (PTA) and Mono Ethylene Glycol (MEG). Being derivative of crude oil, their prices fluctuate accordingly, making PSF a price volatile product. In Feb16, the NTC imposed a five-year anti-dumping duty on import of PSF from China, resulting in support to the local players in terms of preserving margins and gaining market share.

Relative Position Pakistan's PSF industry is dominated by three main players: Ibrahim Fibres, ICI Pakistan and Rupali Polyester. Of these, Ibrahim Fibres retains the lion's share of the market.

Revenues Ibrahim Fibres' topline predominantly comprises revenue from the PSF segment (FY18: ~85%, FY17: ~80%) followed by the spinning segment. The entire revenue is generated through domestic sales. Turnover showed increase of ~35% YoY to stand at ~PKR 54bln driven by volumetric increase in sales of PSF on the back of rising demand and higher prices. During 3MFY19, revenues continued to display robust growth, clocking in at ~PKR 16bln, a ~35% YoY increase.

Margins The company's gross margin improved YoY to stand at ~8% (FY17: ~6%) mainly driven by the relatively higher prices and cost savings on the back of BMR and power generation from coal-fired power plant during the year. Driven by strong revenues, cost controls and ~44% decrease in finance cost owing to complete repayment of long-term debt, bottomline for the year clocked in at ~PKR 2.1bln. Gross and operating margins continued to show improvement in 3MFY19 to stand at ~11% and ~10% respectively while net margin stood at 6%.

Sustainability During FY18, the company performed BMR, which led to enhanced capacity utilization in polyester and spinning segment. Ibrahim Fibres also commissioned its coal-fired power plant in March, 2018 to reduce reliance on expensive fuels. The company has also decided to enhance its yarn manufacturing capacity by initiating the installation of a fourth textile plant comprising 100,320 spindles which is expected to become operational in 4QFY20. The project is to planned to be financed through a mixture of internal and external sources (Debt: 55%, Equity: 45%).

Financial Risk

Working Capital The company's working capital needs emanate from financing its inventory of PTA, MEG, cotton and viscose through a mix of internal generation and short term borrowings. Since sales are predominantly on cash basis, the company's net cash cycle has improved during the year (FY18: 42days, FY17: 50days).

Coverages During FY18, operational cashflows increased due to higher profitability. The company also received complete amount outstanding from the sale of Allied Bank, which was utilized to retire long-term and reduce short-term debt. This led to lower finance cost resulting in stronger debt service coverage and core debt coverage which improved to 12x (FY17: 4.7x) and 3.5x (1.2x), respectively, in FY18.

Capitalization Ibrahim Fibres maintains a very low-leveraged capital structure. During FY18, it paid off its entire long-term debt. Leveraging at end-Sep18 stood at ~10% comprising only short-term debt. The company plans to borrow to finance its new textile plant in upcoming years which will take leveraging up to ~18%.

Ibrahim Fibres Limited

BALANCE SHEET	30-Sep-18	30-Jun-18	30-Jun-17	30-Jun-16
	3M	FY	FY	FY
Non-Current Assets	**29,146**	**29,273**	**28,610**	**24,817**
Investments (Incl. associates)	**-**	**-**	**-**	**13,762**
Equity	-	-	-	13,762
Debt	-	-	-	-
Current Assets	**21,452**	**17,735**	**23,671**	**12,479**
Inventory	12,572	9,159	7,393	5,197
Trade Receivables	268	404	228	206
Others	8,613	8,172	16,050	7,076
Total Assets	**50,598**	**47,008**	**52,281**	**51,058**
Debt	**4,392**	**3,031**	**11,403**	**17,418**
Short-term	3,459	2,097	4,924	2,691
Long-term (Incl. Current Maturity of Long-Term Debt)	933	933	6,479	14,727
Other Short-term Liabilities	3,341	2,341	1,915	2,226
Other Long-term Liabilities	2,954	2,680	1,717	2,604
Shareholder's Equity	**39,911**	**38,957**	**37,246**	**28,811**
Total Liabilities & Equity	**50,598**	**47,008**	**52,281**	**51,058**
INCOME STATEMENT				
Turnover	**15,786**	**53,887**	**39,911**	**34,710**
Gross Profit	1,766	4,496	2,425	980
Net Other Income (Share of profit + Other income - Other expenses)	(54)	(135)	7,074	2,755
Net Finance Cost	(63)	(387)	(693)	(897)
Net Income	**954**	**2,107**	**8,480**	**1,535**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	2,410	4,652	3,254	2,177
Net Cash changes in Working Capital	(3,089)	657	(4,421)	663
Net Cash from Operating Activities	(711)	4,864	(1,166)	3,211
Net Cash from InvestingActivities	(511)	3,766	(2,620)	(2,929)
Net Cash from Financing Activities	1,362	(8,682)	3,781	(343)
Ratio Analysis				
Performance				
Turnover Growth	35%	35%	15%	-7%
Gross Margin	11%	8%	6%	3%
Net Margin	6%	4%	21%	4%
ROE	10%	5%	23%	5%
Coverages				
Interest Coverage (FCFO/Gross Interest)	38.1	12.0	4.7	2.4
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	8.1	3.5	1.2	0.8
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	8.1	3.5	1.4	1.4
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	0.1	0.2	2.5	11.5
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	40	42	50	53
Capital Structure (Total Debt/Total Debt+Equity)	10%	7%	23%	38%

Rating Scale

Credit Rating Scale & Definitions

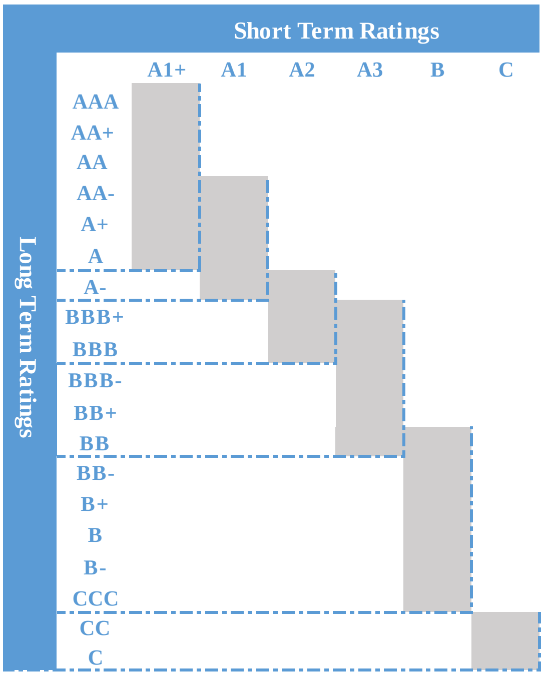
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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.

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