



The Pakistan Credit Rating Agency Limited

Rating Report

Ibrahim Fibres Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
09-Aug-2019	AA-	A1+	Stable	Maintain	-
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	-
18-Dec-2015	AA-	A1+	Stable	Maintain	-
18-Dec-2014	AA-	A1+	Stable	Maintain	-
18-Dec-2013	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. Unfavorable movements in crude oil prices impacted the entire petrochemical chain during 9MFY19, resulting in decreased PSF prices and inventory losses, deteriorating the Company's core margins and profitability. Given strong domestic demand and efficient production, performance is expected to recover, with a recovery in oil prices, while currency devaluation is likely to support domestic PSF prices. The Company's spinning segment continues to support its overall profitability. Keeping this in view, the Company is in the process of expanding its spinning capacity. The expansion is being undertaken with a mixture of debt and internally generated cash flows and 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	PACRA_Methodology_Corporate_FY19(Jun-19),PACRA_Criteria_LT ST Relationship_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study Polyester(Feb-19)
Rating Analysts	Muhammad Hassan muhammad.hassan@pacra.com +92-42-35869504

Profile

Legal Structure Ibrahim Fibres Limited ("Ibrahim Fibres", "The Company") 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 annual production 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 subsidiaries and associated companies. The holding company was incorporated in December, 2015, and bodes well for the stability of Ibrahim Fibres.

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 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 sponsor 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 previous 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 its financial statements for the periods ended 30th June 2018 and 31st December 2018.

Management

Organizational Structure Ibrahim Fibres has a well-tiered, functionally departmentalized management 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 also serves as Director on the Boards 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. Moreover, the management reviews MIS based reports regularly, aiding in informed and timely decision making.

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

Control Environment Ibrahim Fibres has an internal auditing function to ensure impartial oversight. A well-trained quality control department is also in place. 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 line with rising oil prices during 3MFY19, PSF prices maintained an upward trend. Post-Sep18, prices dipped in line with a dip in oil prices. However, the impact was constrained due to substantial currency devaluation, since domestic PSF prices are linked with international PSF prices. More than 80% of the world's production of PSF takes place in China, India and Southeast Asian countries, who are also the major exporters of the 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. Ibrahim Fibres is also a prominent player in Pakistan's yarn market with premium synthetic and blended yarns brands.

Revenues Ibrahim Fibres' topline predominantly comprises revenue from the PSF segment (~85%), followed by the spinning segment. The entire revenue is generated through domestic sales. Turnover in 9MFY19 showed an increase of ~30% YoY to stand at ~PKR 49bln, mainly driven by higher international PSF prices during the first quarter, an increase in domestic prices by the Company during the second quarter, along with a volumetric increase in sales of yarn.

Margins The Company's gross margins dipped YoY mainly due to inventory losses accumulated during the second and third quarters. Despite an increase in product price by the Company during the second quarter, gross margin for 9MFY19 decreased YoY to stand at ~5% (9MFY18: ~8%). This translated into a fall in operating margins which stood at ~4% (9MFY19: ~6%). Meanwhile, a ~37% YoY increase in finance cost on account of higher interest rates on short-term borrowing to support working capital needs, led the Company's net margin to deteriorate to ~1% (9MFY19: ~4%). The Company's bottomline for the period amounted to ~PKR 589mln (9MFY19: ~PKR 1,439mln).

Sustainability Regular BMR in the past has led to sustained capacity utilization levels in the Company's PSF and spinning segments. The Company has installed a coal-fired power plant to reduce reliance on expensive fuels, which has contained energy costs. Meanwhile, gross margins are expected to recover as oil prices stabilize, while the currency devaluation is likely to support domestic PSF prices. The Company is currently in the process of enhancing its yarn manufacturing capacity by the addition of a fourth textile plant comprising 100,320 spindles. The project is being financed through a mixture of internal and external sources (Debt: 54%, Equity: 46%) and is expected to become operational in 4QFY20. The additional borrowing is likely to increase finance cost burden amidst the rising interest rate environment, though expected to remain under control.

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 borrowing. Since sales are predominantly on cash basis, so the net cash cycle is relatively short. The Company's net cash cycle did not show any significant change YoY (9MFY19: 58days, 9MFY18: 57days) while borrowing capacity at trade assets level remains very strong.

Coverages During 9MFY19, operational cashflows increased ~10% YoY due to lower income tax paid during the period. The Company's debt-service coverage dipped to 8.7x (9MFY18: 10.7x) due to higher finance cost while core debt coverage showed YoY improvement to stand at 4.8x (9MFY18: 3.5x) due to payment of current maturity of long-term debt. Going forward, coverages are likely to dip once financing for the project is availed completely.

Capitalization Ibrahim Fibres maintains a very low-leveraged capital structure in 9MFY19. The Company's leveraging in 9MFY19 stood at ~15%, mainly comprising short-term debt. Long-term borrowing to finance its new spinning plant is in process, with a total of ~PKR 3.5bln drawn till date. Once the required financing has been availed, leveraging is expected to go up to around ~20%.



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Financial Summary

PKR mln

Ibrahim Fibres Limited Polyester	Mar-19 9M	Jun-18 12M	Jun-17 12M	Jun-16 12M
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A BALANCE SHEET

1 Non-Current Assets	30,257	29,273	28,610	24,817
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	6,866	13,762
4 Current Assets	21,622	17,735	16,805	12,479
<i>a Inventories</i>	11,661	9,159	7,393	5,197
<i>b Trade Receivables</i>	413	404	228	206
5 Total Assets	51,878	47,008	52,281	51,058
6 Current Liabilities	3,093	2,341	1,915	2,226
<i>a Trade Payables</i>	357	348	312	369
7 Borrowings	6,747	3,031	11,403	9,991
8 Related Party Exposure	-	-	-	7,427
9 Non-Current Liabilities	2,958	2,680	1,717	2,604
10 Net Assets	39,080	38,957	37,246	28,811
11 Shareholders' Equity	39,080	38,957	37,246	28,811

B INCOME STATEMENT

1 Sales	49,208	53,887	39,911	34,710
<i>a Cost of Good Sold</i>	(46,616)	(49,391)	(37,485)	(33,730)
2 Gross Profit	2,593	4,496	2,425	980
<i>a Operating Expenses</i>	(821)	(1,051)	(981)	(916)
3 Operating Profit	1,772	3,445	1,444	64
<i>a Non Operating Income</i>	(36)	(135)	7,074	2,755
4 Profit or (Loss) before Interest and Tax	1,736	3,310	8,518	2,819
<i>a Total Finance Cost</i>	(430)	(387)	(693)	(897)
<i>b Taxation</i>	(717)	(816)	655	(387)
6 Net Income Or (Loss)	589	2,107	8,480	1,535

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	3,720	4,652	3,254	2,177
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	3,442	4,207	3,255	2,548
<i>c Changes in Working Capital</i>	(3,511)	657	(4,421)	663
1 Net Cash provided by Operating Activities	(69)	4,864	(1,166)	3,211
2 Net Cash (Used in) or Available From Investing Activities	(3,023)	3,766	(2,620)	(2,929)
3 Net Cash (Used in) or Available From Financing Activities	3,254	(8,682)	3,781	(343)
4 Net Cash generated or (Used) during the period	161	(52)	(5)	(61)

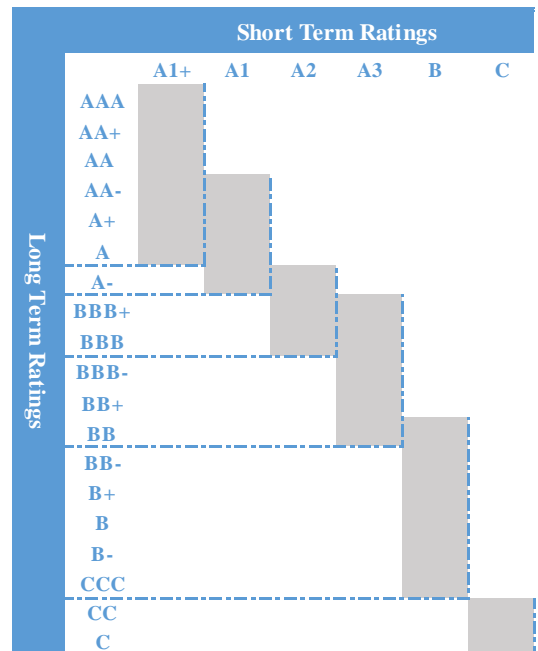
D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	21.8%	35.0%	15.0%	-6.9%
<i>b Gross Profit Margin</i>	5.3%	8.3%	6.1%	2.8%
<i>c Net Profit Margin</i>	1.2%	3.9%	21.2%	4.4%
<i>d Cash Conversion Efficiency (EBITDA/Sales)</i>	8.2%	11.1%	10.0%	7.8%
<i>e Return on Equity (ROE)</i>	2.0%	5.5%	25.7%	5.5%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	60	58	60	63
<i>b Net Working Capital (Average Days)</i>	58	56	56	54
<i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i>	7.0	7.6	8.8	5.6
3 Coverages				
<i>a EBITDA / Finance Cost</i>	9.4	15.5	5.8	3.0
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	4.8	3.5	1.2	0.8
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.1	0.2	2.5	11.5
4 Capital Structure (Total Debt/Total Debt+Equity)				
<i>a Total Borrowings / Total Borrowings+Equity</i>	14.7%	7.2%	23.4%	37.7%
<i>b Short-Term Borrowings / Total Borrowings</i>	93%	69%	43%	15%
<i>c Average Borrowing Rate</i>	11.7%	5.3%	4.8%	5.1%

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	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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.

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)

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