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-2021	AA	A1+	Stable	Maintain	-
08-Feb-2020	AA	A1+	Stable	Upgrade	-
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	-

Rating Rationale and Key Rating Drivers

The ratings reflect Ibrahim Fibres' long standing and sustained position as a leading player in the local polyester staple fibre (PSF) industry. The year 2020 has been an unprecedented year for the entire globe. The industrial segments in our country had to bear operational challenges as a consequent to complete lockdowns on account of COVID-19 outbreak in the first half of 2020, hence adversely impacting the demand cycle while reciprocating in the revenue base of the company. In previous years, imposition of anti-dumping duty on PSF imported from China since Oct-15 has supported volumetric growth and margins, which is expected to continue in the future. Volatility in crude oil prices and effects of pandemic resulted in fluctuating PSF prices and inventory losses, resulting in a decayed Company's core margins and profitability on a YoY basis. However, post ease of lockdown the industry bounced back with strong domestic demand, in addition to enhanced yet efficient production, performance is expected to recover and close at a positive note. Furthermore, the Company has undergone expansion of spinning capacity by installing a state-of-the-art 100,320 spindles plant which has successfully achieved its commercial operations during FY20 and already operating at full capacity since Nov'20. The later results are expected to depict much improved picture. The expansion is being undertaken with a mixture of debt and internally generated cash flows. Defying all odds, the Company's financial profile remains strong, accentuated by strong working capital management, low leveraging and moderate coverages. 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 capacity enhancement in spinning and resulting improvement in margins will remain important.

Disclosure	
Name of Rated Entity	Ibrahim Fibres Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20)
Related Research	Sector Study | Polyester(Feb-20)
Rating Analysts	Raniya Tanawar | raniya.tanawar@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 presently comprises 240,192 spindles.

Ownership

Ownership Structure Structure Ibrahim Group continues to hold majority stake (~90%) in Ibrahim Fibres. This is held through the Group holding company, Ibrahim Holdings (Pvt.) Limited.

Stability Ibrahim Group established Ibrahim Holdings (Pvt.) Limited for the purposes of succession planning and managing investments in subsidiary and associated companies, including Allied Bank 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 textile sector and 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 (84.93%) 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 59 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 2020.

Management

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

Management Team Mr. Naeem Mukhtar is the CEO of the company with over 35 years of experience of finance and industrial manufacturing. He is also the CEO of Ibrahim Holdings (Pvt.) Limited and Director in 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 established well-integrated systematic processes and 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 favourable with research projected estimate Polyester Staple Fiber (PSF) market size to reach USD 3024.3 million by 2026, from USD 2269.7 million in 2020, at a CAGR of 4.9% during 2021-2026. The basic raw materials for PSF include Pure Terephthalic Acid (PTA) and Mono Ethylene Glycol (MEG). Being derivatives of crude oil, their prices fluctuate accordingly, thereby making PSF a price volatile product. From January'20 onwards, crude oil prices across the globe declined sharply amidst the COVID-19 pandemic. This has affected PSF prices as the feedstock's pricing - PTA and MEG took a dip. Furthermore, over 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. Total demand of PSF in Pakistan for FY20 was 484,106 tons out of which local sales were 353,135 tons and balance was contributed through import of 131k tons. Total import of Polyester staple fibre - PSF in Pakistan from July'20 to Dec'20 is 99,970 tons.

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 (~65%).

Revenues Ibrahim Fibres' topline is majorly driven by PSF segment, with spinning segment playing a supporting role. Revenues witnessed a fall (-29%) YoY (FY20: PKR 47,078mln; FY19: PKR 66,238mln) due to the pressure exerted on PSF prices by the dwindling global oil prices specifically during the third quarter as global economies were mostly under lock down on account of the COVID-19 pandemic. This affect continued in the fourth quarter with shrinking the delta in 1QFY21. However, the revenues are expected to bounce back as the economies reopened and now fully-operational, newly-installed 100,320 spindles will increase production and sale volumes eventually.

Margins Instilling affects from topline, gross margins of the Company witnessed a dip (1QFY21: 3.3% ; FY20: ~4%). This translated in operating margins as well(1QFY21: 0.9% ; FY20: 1.7%, FY19: ~4%). Reduced raw material prices assisted in restricting the slump but reduced revenues and high finance cost (1QFY21: PKR 292mln, FY20: PKR 1,658mln; FY19: PKR 612mln) led to loss at the bottom-line level hence resulting in negative margins (1QFY21: -2.4%; FY20: -2.8%, FY19: 1.5%). However, the later results are expected to depict much improved position.

Sustainability During the pandemic, textile plant & polyester plant were operated at minimum capacity and later on was shut as per government's directive. Furthermore, global oil prices have taken a hit, specifically in the third quarter of the financial year, as COVID-19 spread across the world, ultimately being declared a pandemic. This has had an impact on the prices of PTA, MEG and ultimately PSF. Furthermore, the Company has achieved commercial operation of 100,320 spindles' expansion during FY20, Meanwhile, a BMR activity of textile plant 3 is planned in the near future.

Financial Risk

Working Capital The Company's working capital needs are driven from its inventory requirements of PTA, MEG, cotton and viscose through a mix of internal generation and short-term borrowing. The sales are predominantly cash based, and historically, net working capital cycle remained short. However, since the cotton procurement in the first quarter for expansion of the spinning unit and further the impact of COVID-19 pandemic; there has been an increase in net working capital cycle (FY20: 81 days; FY19: 55 days). Simultaneously, the net trade assets also decreased (FY20: PKR 13,241mln, FY19: PKR 18,511mln). During 1QFY21 the situation began to ease out. As the working capital days stood at 66days. As per the need in the times of COVD-19, ST borrowings increased (FY20: PKR 7,041mln; FY19: PKR 5,107mln) but came down to PKR 2,847mln in 1QFY21.

Coverages As the Company's profit base suffered losses at PBIT level therefore, in FY20, cashflow from operations dropped, yet remained strong at PKR 3,122mln (FY19: PKR 5,333mln). However, due to a significantly higher finance cost, interest coverage declined (FY20: 1.9x; FY19: 8.9x). As the COVID19 driven challenges saw some respite post Jun'20 interest coverage improved to 3.6x in 1QFY21.

Capitalization Historically, Ibrahim Fibres has maintained a lowly leveraged capital structure. However, during FY20, the leverage has increased to ~31% (FY19: ~14%) on account of proliferated total debt (FY20: PKR 17,041mln; FY19: PKR 6,607mln). The increased borrowing is to finance the expansion in the spinning unit and other efficiency projects. Short-term debt constitutes >40% of the total debt during FY20 (FY19: ~77%). The Company's capital structure remained comfortable in 1QFY21.

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Financial Summary
PKR mln

Ibrahim Fibres Limited Polyester	Sep-20 3M	Jun-20 12M	Jun-19 12M	Jun-18 12M
A BALANCE SHEET				
1 Non-Current Assets	39,929	39,611	32,116	29,273
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	17,951	19,977	21,454	17,735
a Inventories	*7,715*	*9,703*	*10,818*	*9,159*
b Trade Receivables	*987*	*860*	*517*	*404*
5 Total Assets	57,881	59,588	53,570	47,008
6 Current Liabilities	3,711	2,375	4,399	2,341
a Trade Payables	*914*	*423*	*679*	*348*
7 Borrowings	14,333	17,041	6,607	3,031
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	2,266	2,306	3,090	2,680
10 Net Assets	37,571	37,865	39,474	38,957
11 Shareholders' Equity	37,571	37,865	39,474	38,957
B INCOME STATEMENT				
1 Sales	12,314	47,078	66,238	53,887
a Cost of Good Sold	*(11,908)*	*(45,127)*	*(62,391)*	*(49,391)*
2 Gross Profit	406	1,951	3,847	4,496
a Operating Expenses	(295)	(1,147)	(1,111)	(1,051)
3 Operating Profit	111	804	2,736	3,445
a Non Operating Income or (Expense)	*13*	*3*	*(79)*	*(135)*
4 Profit or (Loss) before Interest and Tax	125	807	2,657	3,310
a Total Finance Cost	*(292)*	*(1,658)*	*(612)*	*(387)*
b Taxation	*(127)*	*(445)*	*(1,046)*	*(816)*
6 Net Income Or (Loss)	(294)	(1,295)	998	2,107
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,039*	*3,122*	*5,335*	*4,652*
b Net Cash from Operating Activities before Working Capital Changes	*594*	*1,508*	*4,865*	*4,207*
c Changes in Working Capital	*3,587*	*(1,263)*	*(2,422)*	*657*
1 Net Cash provided by Operating Activities	4,181	246	2,443	4,864
2 Net Cash (Used in) or Available From Investing Activities	(1,291)	(10,390)	(5,567)	3,766
3 Net Cash (Used in) or Available From Financing Activities	(2,708)	10,125	3,114	(8,682)
4 Net Cash generated or (Used) during the period	181	(19)	(10)	(52)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	4.6%	-28.9%	22.9%	35.0%
b Gross Profit Margin	3.3%	4.1%	5.8%	8.3%
c Net Profit Margin	-2.4%	-2.8%	1.5%	3.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	37.6%	3.9%	4.4%	9.9%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	-3.1%	-3.6%	2.7%	5.1%
2 Working Capital Management				
a Gross Working Capital (Average Days)	71	85	58	58
b Net Working Capital (Average Days)	66	81	55	56
c Current Ratio (Current Assets / Current Liabilities)	4.8	8.4	4.9	7.6
3 Coverages				
a EBITDA / Finance Cost	3.9	2.6	9.6	15.5
b FCFO / Finance Cost+CMLTB+Excess STB	3.6	1.9	8.9	3.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	3.8	6.8	0.3	0.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	27.6%	31.0%	14.3%	7.2%
b Interest or Markup Payable (Days)	115.5	114.9	108.5	27.9
c Entity Average Borrowing Rate	7.6%	12.1%	9.8%	5.9%

Credit Rating

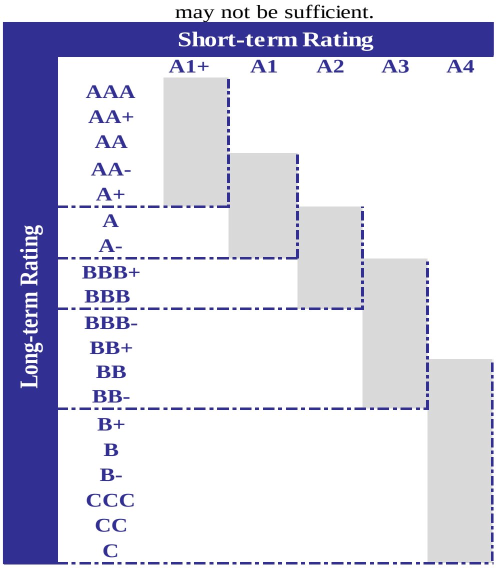
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
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 Rating

Scale	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
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 surveill 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):

Entities
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

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