

**RATING (FEBRUARY 2010)**
Ibrahim Fibres Limited (IFL)

ENTITY	NEW
Long Term	A+
Short Term	A1

FINANCIAL DATA

PKR (mln)

	30-Jun-09	30-Jun-08
Total Assets	26,478.7	23,856.6
Pure Equity	11,720.5	10,560.9
Adj. Equity*	11,870.8	10,704.3
Turnover	22,059.6	21,549.9
Net Income/(Loss)	1,625.4	1,582.7
Net Debt/Equity (%)	78.1	69.1
Gross Margin (%)	10.5	10.2
RoE (%)	14.4	15.9

Including revaluation surplus on investments*ANALYSTS**Sarmad Pretu
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jhangeer@pacra.com**RATING RATIONALE AND KEY DRIVERS**

- The ratings reflect IFL's strong positioning in its niche market emanating from its ability to meet significant portion of the domestic demand while maintaining requisite quality parameters. The ratings recognize the company's seasoned management team, efficient production process, sound technological infrastructure, and tight control environment. Meanwhile, IFL's strong financial profile resulting from low leveraged capital structure and robust cash flows lends support to the ratings. At the same time, a stable dividend stream from the company's strategic investment – Allied Bank Limited – is also a key rating factor.
- The ratings are dependent on the company's ability to maintain its market positioning through changing regulatory and competitive scenarios. The company's topline is subject to high concentration and therefore, requires initiative for diversification of risk, especially in the wake of oligopoly structure of the polyester staple fiber (PSF) industry. Meanwhile, improvement in IFL's governance framework, for which the company is taking appreciable steps, remains a challenge.

ASSESSMENT

- IFL experienced a slight contraction in capacity utilization of PSF plants, inline with the demand trend in the country (FY09: 86%, FY08: 91%). The company's turnover, after witnessing substantial rise in FY08, took a marginal growth in FY09. This was an outcome of subdued economic fundamentals of the local textile industry in the wake of global downturn. The pressure on the company's turnover was also cushioned by the closure of one major player in the polyester market, hence increasing the customer base of IFL. Meanwhile, spinning segment's contribution towards the turnover remained approximately 20%. IFL's gross margins came under significant pressure during 2QFY09, resulting in hefty net loss for the period. This was attributed to inventory losses in consequence of sizeable dip in the pricing of main raw materials (PTA and MEG – crude oil derivatives). Subsequently, the pressure eased substantially as crude oil price stabilized during 2HFY09, thereby helping IFL's profitability. IFL's production facility is based on the latest technology in the sector. This has helped in ensuring operational efficiency (0.5% wastage). IFL experienced a considerable rise in finance cost during FY09, a combined effect of higher interest rates in the country and relatively increased leveraging. Nevertheless, the company posted healthy profitability as supplemented by a significant share of the associate's profit. During 1HFY10, the company has experienced significant improvement on a comparative basis.
- Going forward, IFL intends to continue focusing on the local industry to fully capitalize on the latent potential of the domestic market. The company has a strategic advantage of its plants' location, which provides proximity to the consumption hub – Faisalabad. Meanwhile, the company is undertaking a major expansion project for its polyester plant, which is likely to increase its capacity to approx. 400,000 M.T. per annum. Although there is room for deployment of further capacity, the extent and related timeline of the same remains to be seen. Investment in balancing, modernizing and replacement of IFL's production facilities is expected to remain a permanent feature. Meanwhile, IFL's gas based power production would help the company save on its energy cost except winter season.
- IFL's working capital is mainly a function of its inventory, for which the company resorts to short term borrowings. Meanwhile, IFL has strong coverages and robust cash flows due to mostly cash nature of its transactions and a stable dividend stream from ABL (FY09: PKR 568mln, FY08: PKR 511mln).
- IFL is a low leveraged entity. During FY09, the company saw slight increase in leveraging as it raised long term borrowing to enhance its stake in ABL to 40% (FY08: 32%). Another reason for IFL's long term borrowings is a continuous stream of BMR activities. Going forward, the company is expected to witness a rise in its borrowing as the expansion program unfolds.

PROFILE

- IFL, incorporated in 1986 and listed on Karachi and Lahore stock exchanges, is primarily engaged in the production & marketing of PSF and blended yarns. The production facilities are located at Shahkot near Faisalabad; these facilities include current annual production capacity of 208,600 M.T. for PSF and 41,696 M.T. for yarn converted into 20/s count. Ibrahim group holds majority stake (~88%) in IFL through sponsoring individuals and a group holding company, Ibrahim Agencies (Pvt.) Limited. While IFL holds ~ 40% stake in Allied Bank Limited (ABL), the group's ownership structure is ~ 80%.
- IFL's board of directors comprises seven members, including the CEO. Apart from the CEO, there are two directors from the sponsoring family while the remaining directors are senior executives of the group. The affairs of the company are currently being managed by Chief Executive Officer, Mr. Mohammad Naem Mukhtar, duly supported by Mr. Mohammad Waseem Mukhtar, and a team of senior executives having vast experience in their related fields.