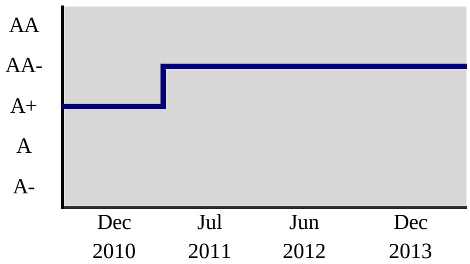
SYNTHETIC AND RAYON

The Pakistan Credit Rating Agency Limited

RATINGS (DECEMBER 2013)
IBRAHIM FIBRES LIMITED (IFL)

ENTITY	NEW	PREVIOUS
Long Term	AA-	AA-
Short Term	A1+	A1+

L.T. ENTITY RATING - HISTORY



FINANCIAL DATA
PKR (MLN)

	30-Sep-13*	30-Jun-13	30-Jun-12
Total Assets	49,235.2	49,235	39,316
Equity	25,745	26,055	21,933
Turnover	13,282	38,839	35,853
Net Income	323	5,534	4,114
Gross Margin (%)	5.8	7.0	7.3
RoE (%)	5.0^	23.6	21.2
Total Debt/Total Debt + Equity (%)	40.2	43.5	36.9
EBITDA/Interest	2.6	3.5	3.5

** Based on unaudited accounts for three months ended September 30, 2013*
^Annualized

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RATING RATIONALE AND KEY DRIVERS

- The ratings reflect IFL's sound business profile and its leading position in the local polyester staple fibre (PSF) industry. Given sizable new capacity and competitive availability of imported PSF in the market, the expansion would achieve capacity utilization gradually. The prices of PSF and its feed stocks are linked to international market and its supply demand dynamics. This exposes its margins to volatility; a trend observed recently as well. The ratings recognize the company's experienced management team, quality manufacturing process, and sound technology framework. With debt-driven expansion, the management of financial profile is critical. However, comfort is drawn from overall low debt and likely support to coverage from incremental cash flows. This is supported by healthy revenue stream in the form of dividends from its investment in Allied Bank Limited (ABL), an Ibrahim Group company.
- The ratings require careful management of i) business risk – profitable utilization of expanded capacity and ii) financial risk – generation of comfortable cash flows to strengthen the coverages.

ASSESSMENT

- Till FY12, Pakistan's PSF market continued to be supply deficient and the gap was met through imports. With addition of 182,000 M. Tons by Ibrahim Fibres Limited in later half of FY13, the country's nameplate capacity reached 564,600 M.T. Given sizeable excess capacity in the local market coupled with availability of imported PSF at very low prices, the margins of industry players have come under pressure. Nevertheless, maintaining operational capacity of 390,600 M.T, IFL is the largest player in the PSF industry having 70% market share. The company is expected to improve its capacity utilization gradually.
- IFL's top line consists of two products: PSF (80%) and Yarn (20%). In terms of geographical distribution, 99% of the sales are being generated through domestic market. During FY13, IFL achieved modest growth in its revenue mainly on account of better product pricing. However, owing to additional depreciation of expansion plants and inventory losses in the later period of FY13, gross margin was adversely impacted resulting in a slight dip in business margins for the year. Share of profit from Allied Bank Limited (ABL) also dropped owing a decline in stake (ownership stake: FY13: 17%; FY12: 24%). Increased YoY leveraging resulted in higher finance cost. Nevertheless, gain on disposal of the investment in ABL helped in sustaining the pretax profitability. Moreover, reversal in taxation on account of deferred tax helped the company in posting significantly higher net income.
- During 1QFY14, despite significant improvement in top line, overall profitability of the company declined considerably owing to (i) reduction in business margins, (ii) lower investment income vis-à-vis last year, and (iii) increased financial charges.
- Going forward, the company plans consolidating its position as a dominant player in PSF market. With enhanced production capacities, the management aims to maximize its capacity utilization gradually. In this regard, apart from meeting current demand the company would strengthen its marketing efforts to create awareness about its use. Timely and successful execution of business strategy would be critical. Meanwhile, any support from regulator to discourage imports of PSF would be positive.
- During FY13, the company's cash cycle doubled on YoY mainly due to the higher inventory days. This, while resulting in higher working capital requirements; beefed up the short term borrowings. However, it rationalized later in 1QFY14.
- During FY13, on account of YoY increased working capital requirements, the company registered negative operating cash flows. Moreover, increased borrowings exerted pressure on debt service coverage ratio. However, comfort can be drawn from stable dividend stream and the need based sale inflows of investment in ABL. However, any further decline in investment would reduce the dividend cash flow.
- IFL maintains low leveraged capital structure. Major portion of this borrowing constitute long term financing acquired for PSF capacity expansion project. The debt repayment would start in June 2014. Incremental cash flow generation by the new plant would be the primary source for debt repayment.

PROFILE

- IFL, incorporated in 1986 and listed on Karachi and Lahore stock exchanges, is 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 390,600 M.T. for PSF and 137,856 spindles for Yarn. Ibrahim group holds majority stake (88%) in IFL through sponsoring individuals. IFL holds ~ 17% stake in Allied Bank Limited (ABL), while the group's total ownership in the bank is ~ 80%.
- IFL's board of directors comprises seven members, including the CEO, Mr. Mohammad Naeem Mukhtar. In addition to the CEO, there are two directors from the sponsoring family, while the remaining directors are senior executives of the company. All board members have significant related experience. CEO is supported by a team of senior executives having vast experience in their related fields.