The Pakistan Credit Rating Agency Limited

Rating Report

Panther Tyres Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
01-Jun-2022	A	A1	Stable	Maintain	-
01-Jun-2021	A	A1	Stable	Maintain	-
01-Dec-2020	A	A1	Stable	Upgrade	-
04-Sep-2020	A-	A2	Stable	Maintain	-
12-Oct-2019	A-	A2	Stable	Maintain	-
12-Apr-2019	A-	A2	Stable	Maintain	-
27-Dec-2018	A-	A2	Stable	Maintain	-
29-Jun-2018	A-	A2	Stable	Maintain	-
04-Dec-2017	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Panther Tyres Limited (‘PTL’ or ‘the Company’) is primarily engaged in the manufacture and sale of tyres & tubes for vehicles followed by the sale of auto parts & lubricants. The ratings reflect Company’s strong brand equity to serve OEMs and replacement market. In an industry, which is volume driven and price sensitive, PTL sustains its market share underpinned by product diversification in respective niches. Tyre demand is primarily governed by replacement market followed by automobile production. Intense competition between tyre manufacturers necessitates high quality products at affordable prices. Adoption of advanced technology is indispensable to drive the growth of rubber tyre and tube industry in Pakistan. Pertinently, fluctuating prices of raw materials (natural rubber, synthetic rubber, reinforcing materials) hinder the industry’s growth. Key opportunities are generically available to the industry with improvements in economy, government’s support and anticipated rise in auto and allied sectors. The demand for 2 & 3 wheel segments is entirely served by local market players. Consequently, PTL captures formidable market share in motorcycle tyres, tractor tyres, rickshaw/loader tyres. The Company opens new era by manufacturing OTR tyres in Pakistan – a step towards import substitution. Nevertheless, policy rate hike, exchange rate volatility, and imports through grey channels can pose serious business risks (specifically in terms of volume & margins). Topline of the Company continued to witness reasonable growth on a year-on-year basis, however margins deteriorated owing to increased materials prices, exponential rise in sea freights, and disruption of energy supplies. With its legal status converted into a Public Listed Entity, quality of governance structure improved through independent oversight. The new leadership from the sponsor side built a strong management team with a wholesome mandate. Financial support received from issuing stocks has ramped up the Company’s equity base. Thus, making the capital structure moderately leveraged mainly comprised of STBs. Financial risk profile of the Company is characterized by adequate working capital cycle and coverages. Going forward, growth in sales volume is substantial to attain high market share and maximize its profit margins. The management needs to devise an effective pricing strategy to cope with rising competition among leading tyre manufacturers in Pakistan. Further, the Company intends to materialize the envisaged strategies by strong oversight of risk, compliance and code of corporate governance.

The ratings are dependent on the Company's ability to retain its position amidst competitive business environment, management of market risks, increase in international outreach and improvement in profit margins. Prudent financial performance, strong coverages, and effective liquidity profile shall remain vital for the business.

Disclosure

Name of Rated Entity	Panther Tyres Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Tyres(Oct-21)
Rating Analysts	Sohail Ahmed Qureshi | sohail.ahmed@pacra.com | +92-42-35869504

Profile

Legal Structure Panther Tyres Limited (hereinafter referred to as 'Panther' or 'the Company') is a public listed company incorporated under the Companies Ordinance, 1984 (now "Companies Act, 2017").

Background Mian Tyre & Rubber Company Limited was established in 1983 as a private limited company and was later on converted into a public limited company with effect from Oct-2003. The company changed its name to Panther Tyres Limited in Oct-2011. During Feb-21, the Company got listed on PSX. With the operating history of ~38 years, the Company has emerged as one of the top players in tyre and tube market of Pakistan.

Operations Panther's products are divided in three divisions i.e., i) Two Wheel, ii) Three Wheel and, iii) Four Wheel. The Company is one of the major producers of motorcycle & tractor tyres and tubes in Pakistan. It is also engaged in the manufacturing and marketing of tyres and tubes for rickshaw, forklift, LTV, scooter, HTV and OTR. Later, the Company also entered into segment of trucks & buses tyres. During April'18, the Company also ventured into trading business of automobile lubricants and motorcycle spare parts.

Ownership

Ownership Structure Sponsoring family owns the major shareholding of the Company. Mian Iftikhar Ahmed is the major shareholder, he possesses 47.86% shares of the Company, his wife, Ms. Samina Iftikhar and son Mian Faisal Iftikhar holds shareholding of 9.05% and 15.83% respectively.

Stability During the year ending June 30th, 2021, the Company got listed on Pakistan Stock Exchange and there has been some change in the shareholding structure of the Company. However, major shareholding is expected to remain with the sponsoring family.

Business Acumen Mian Iftikhar Ahmed is the founder of the Panther. He is the pioneer of Bias tyre and Butyl tube manufacturing in Pakistan. He is recognized as one of the leaders and mentors of the local tyre industry. Under his leadership, the Company achieved many milestones and became a prominent player in the industry.

Financial Strength As Panther is the main business of the sponsor's family. They don't have any strategic stake in any other business. Therefore, financial strength of the sponsors is deemed adequate.

Governance

Board Structure The overall control of the Company vests in 7-members Board of Directors. Two are executive directors, including the CEO, two are non- executive members of the sponsoring family and three directors are independent. Role of Chairman and CEO has been segregated which has improved the governance structure of the Company.

Members' Profile Mian Iftikhar Ahmed (Chairman of the Board) is having extensive experience of the tyre industry. Other board members are also thorough professionals and carry experiences of managing business affairs in different sectors.

Board Effectiveness During 2021, various board meetings were held. Attendance of board members in these meetings remained good.

Financial Transparency Internal audit department reporting directly to the board is in place. The external auditor of the Company is one of big 4 audit firms, EY Ford Rhodes & Co. Chartered Accountants. The Auditors issued an unqualified audit opinion pertaining to annual financial statements for FY21.

Management

Organizational Structure Panther has a lean organisational structure with an experienced management team; a balanced mix of professionals from the FMCG industry (including Chartered Accountants and Engineers). Majority of the senior management is associated with the company for a long time.

Management Team As role of Chairman and CEO has been segregated, Mian Faisal Iftikhar, son of Mian Iftikhar Ahmed has taken up position as Chief Executive Officer of the Company after the resignation of Mian Iftikhar Ahmed. He is assisted by a team of qualified professionals.

Effectiveness Currently, the Company has three management committees in place.

MIS Panther is currently equipped with latest SAP solution package i.e., SAP ECC. 6.0. It was successfully implemented across the company in June-13 by Abacus Consulting. The SAP system is a business software package designed to integrate all areas of the business.

Control Environment The corporate structure of the Company is diverged into various departments each having an effective Internal Control System to ensure achievement of overall strategic goals and reliable financial reporting. Different portals have been established to be used for customized management needs. Back-up policies and disaster recovery plans are in place to ensure smooth functioning.

Business Risk

Industry Dynamics Pakistan's Tyre industry is composed of three segments, (i) 2 & 3-wheeler tyres (ii) Tyres for Cars and LCVs, and (iii) Tyres for Trucks, Buses and Tractors. Tyres demand is driven by sales of new vehicles and demand from replacement market. According to PAMA numbers, the demand revived during FY2021 post Global Pandemic Crises. However, during first six months of FY2022, quantitative demand of Tyres & Tubes seemed under pressures owing to inflationary pressures. Negative macro indicators like currency devaluation and policy rate hikes shown unfortunate results, purchasing power deteriorated which instigated the rigid demand particularly from OEM market.

Relative Position The Company has evolved to become one of the largest and leading suppliers and manufacturers of Tyres and Tubes in Pakistan. The Company is also honored suppliers of Suzuki, Honda and Yamaha for the past 28 years. The Company has achieved a milestone in captivating a vast extent of customers from Asian, Middle East, African & European countries. Moreover, the company is the second only manufacturer of tractor tyres and TBB tyres in Pakistan and first only manufacturer of off-the-road (OTR) tyres.

Revenues Automobile & allied sector shown growth during FY21 as negative impacts of pandemic crises started to reverse, accordingly revenue of the Company reflected a significant growth of 39.9% when compared with FY20. The Company's top-line clocked at PKR 16,202mln during FY21 (FY20: PKR 11,585mln) on back of price hike and strong local demand generated from 2 & 3-wheeler and tractor tyres. However, during 1HFY22, the Company's revenue recorded at PKR 9,481mln (1HFY21: PKR 8,128mln) registering a growth of 17%. The Company's revenue stream is fairly divided amongst OEMs & replacement market (RM).

Margins Gross margin of the Company decreased to 11.0% on back of increased cost of production, rise in sea freights, high energy cost and overall inflationary pressures (FY21: 15.2%, 1HFY21: 15.9%, FY20: 14.5%). Accordingly, operating margin reduced to ~6.0% (FY21: 9.8%, 1HFY21: 10.9%, FY20: 8.6%). There has been a significant increase of 30.17% in the finance cost during 1HFY22 as compared to same period of last year. Consequently, net margin of the Company reduced to 2.7% (FY21: 5.3%, 1HFY21: 5.8%).

Sustainability The Company's revenue is fairly diversified. Replacement market has relatively higher proportion as compared to OEMs. Demand from OEMs market has shown growth after pandemic crises whereas replacement market is expected to remain steady. Going forward, intense competition in replacement market would be the key challenge for the Company. Raw material pricing and currency devaluation shall persist to be the key determinants of the behavior of gross margins.

Financial Risk

Working Capital The Company relies on short-term borrowings and internal cash flows to fund working capital needs. Short-term borrowings increased in 1HFY22 to PKR 7,058mln (FY21: PKR 4,112mln, 1HFY21: PKR 3,333mln). Company's gross working capital days have increased to 142 days in 1HFY22 (FY21: 123 days, 1HFY21: 100 days) on back of increase in average days of inventory. Subsequently, net working capital days also increased to 131 days as at end Dec-21 (FY21: 110 days, 1HFY21: 88 days).

Coverages The Company generated FCFO of PKR 426mln during 1HFY22 (FY21: PKR 1,499mln, 1HFY21: PKR 872mln). On account of high interest cost and diminished profitability, interest coverage against FCFO significantly reduced to 1.9x in 1HFY22 (FY21: 4.8x, 1HFY21: 5.0x). Going forward, sustenance of cash flows from operations is necessary to improve the coverages position of the Company.

Capitalization The Company has a leveraged capital structure. Total debt of the Company in 1HFY22 increased to PKR 9,098mln (FY21: PKR 5,494mln, 1HFY21: PKR 4,469mln). Out of the total debt, PKR 7,058mln pertains to short-term. Equity of the Company stood at PKR 6,568mln in 1HFY22 (FY21: 6,577mln, 1HFY21: PKR 4,091mln). Gearing ratio of the Company reduced to 60% in 1HFY22 from 52% in 1HFY21.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Panther Tyres Limited	Dec-21	Jun-21	Jun-20	Jun-19
##	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	7,593	5,985	4,130	3,996
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	10,588	8,285	4,975	3,756
a Inventories	*4,648*	*3,235*	*1,905*	*1,330*
b Trade Receivables	*3,549*	*3,304*	*2,440*	*1,894*
5 Total Assets	18,182	14,270	9,105	7,752
6 Current Liabilities	1,175	945	871	621
a Trade Payables	*631*	*541*	*563*	*316*
7 Borrowings	9,098	5,494	4,133	3,247
8 Related Party Exposure	770	620	-	0
9 Non-Current Liabilities	571	634	488	545
10 Net Assets	6,568	6,577	3,612	3,340
11 Shareholders' Equity	6,568	6,577	3,612	3,340
B INCOME STATEMENT				
1 Sales	9,481	16,202	11,585	9,779
a Cost of Good Sold	*(8,437)*	*(13,731)*	*(9,908)*	*(8,441)*
2 Gross Profit	1,044	2,471	1,677	1,338
a Operating Expenses	(478)	(877)	(676)	(565)
3 Operating Profit	566	1,593	1,001	773
a Non Operating Income or (Expense)	*8*	*(45)*	*(23)*	*(38)*
4 Profit or (Loss) before Interest and Tax	574	1,548	978	735
a Total Finance Cost	*(233)*	*(328)*	*(598)*	*(404)*
b Taxation	*(81)*	*(369)*	*(128)*	*(116)*
6 Net Income Or (Loss)	259	851	252	214
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*426*	*1,499*	*1,144*	*1,212*
b Net Cash from Operating Activities before Working Capital Changes	*290*	*1,155*	*637*	*836*
c Changes in Working Capital	*(1,761)*	*(2,465)*	*(1,068)*	*220*
1 Net Cash provided by Operating Activities	(1,471)	(1,309)	(431)	1,057
2 Net Cash (Used in) or Available From Investing Activities	(1,771)	(1,852)	(300)	(331)
3 Net Cash (Used in) or Available From Financing Activities	3,469	3,817	706	(607)
4 Net Cash generated or (Used) during the period	227	655	(25)	118
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	17.0%	39.9%	18.5%	14.1%
b Gross Profit Margin	11.0%	15.2%	14.5%	13.7%
c Net Profit Margin	2.7%	5.3%	2.2%	2.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-14.1%	-6.0%	0.7%	14.6%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	7.9%	16.7%	7.2%	6.5%
2 Working Capital Management				
a Gross Working Capital (Average Days)	142	123	119	121
b Net Working Capital (Average Days)	131	110	105	109
c Current Ratio (Current Assets / Current Liabilities)	9.0	8.8	5.7	6.1
3 Coverages				
a EBITDA / Finance Cost	3.4	6.3	2.3	2.7
b FCFO / Finance Cost+CMLTB+Excess STB	1.1	2.3	1.4	1.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	6.8	1.7	1.4	0.9
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	60.0%	48.2%	53.4%	49.3%
b Interest or Markup Payable (Days)	110.5	61.2	81.8	74.9
c Entity Average Borrowing Rate	6.9%	6.9%	14.6%	10.5%

Credit Rating

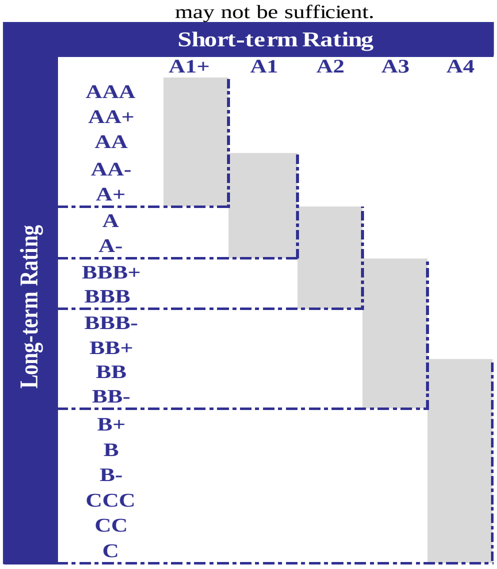
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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