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
29-May-2024	A	A1	Stable	Maintain	-
29-May-2023	A	A1	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

Panther Tyres Limited (‘PTL’ or ‘the Company’) is primarily engaged in the manufacturing and sale of bias tyres & tubes for vehicles augmented by the sale of auto parts & lubricants. The ratings reflect the Company’s prominent position and brand equity to serve OEMs and the replacement market. PTL has been able to improve its market share in a price-sensitive and volume-driven segment of 2 wheelers and tractors, owing to its broad product range that caters to the needs of a wide range of users. Pakistan’s tyre industry faced operational challenges resulting from the import restrictions during the past couple of years. Moreover, the profitability matrix of the industry also remained under pressure on the back of increased production costs triggered by high energy prices and elevated interest rates. Additionally, the OEMs’ sales have substantially declined as a consequence of massive price increases due to PKR depreciation and decreased purchasing power of the consumers on the back of high inflation. However, the demand for tyres remains intact as the industry derives ~80% of its demand from the replacement market. Moreover, the high prices of cars and the increase in associated fuel and maintenance costs have resulted in the rise in the usage of 2-wheelers, which has created an opportunity for players like PTL who specialize in the 2-wheeler and tractor tyres segment. During 3QFY24, the company’s topline grew by ~33% YoY, attributable to increased volumes and price hikes. The gross margin of the company marginally improved to ~15% during 3QFY24 (FY23, 14.5%: FY22, 11%) that also trickled down to an improved net margin of ~2.6% during 3QFY24 (FY23, 2%: FY22, 2.1%), primarily triggered by price adjustments to pass on the impact of elevated costs. The governance structure of the company is dominated by independent directors, reflecting the company’s adherence to the code of corporate governance. The capital structure of the Company is considered leveraged. The debt book is dominated by short-term borrowings to fund working capital needs. The financial risk profile of the Company is characterized by an adequate working capital cycle and reduced coverages owing to a substantial increase of ~38% in the finance costs of the company. Going forward, growth in sales volume is substantial to attain a high market share and maximize the profitability matrix. The Company must intend to materialize the envisaged strategies by strong oversight of risk, compliance and code of corporate governance while maintaining leverage at an adequate level.

The ratings are dependent on the Company's ability to retain its position amidst a competitive business environment, improvement in the profitability matrix, and increase in international outreach. Prudent financial performance like healthy 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(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Tyres(Oct-23)
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"). The Company is listed on PSX with a free float of ~25.00% at end Mar'24.

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 ~40 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 Apr-18, the Company ventured into trading business of automobile lubricants and motorcycle spare parts.

Ownership

Ownership Structure The 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 hold shareholding of ~10.34% and 15.83%, respectively.

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

Business Acumen Mian Iftikhar Ahmed is the founder of the company. 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 Panther is the main business of the sponsor's family. They don't have any strategic stake in any other business. Therefore, the 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. The roles of Chairman and CEO have been segregated which has improved the governance structure of the Company.

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

Board Effectiveness During FY23, various board meetings were held. Attendance of board members in these meetings remained good.

Financial Transparency An internal audit department reporting directly to the audit committee of the board is in place. The external auditor of the Company is one of big 4 audit firms, KPMG Taseer Hadi & Co. Chartered Accountants. The outgoing auditors issued an unqualified audit opinion on the annual financial statements of the Company for the period ending June 30, 2023.

Management

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

Management Team As the 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 the 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 & LCVs, and (iii) Tyres for Trucks, Buses & Tractors. Tyres demand is driven by sales of new vehicles and demand from the replacement market. The estimated market size of the industry in FY23 stood at PKR 198bln. During FY23, the industry's production decreased significantly owing to operational difficulties emanating from import restrictions. However, revival in the production volumes was witnessed after the restrictions were lifted. PAMA numbers show a significant decline in the sales of cars, pickups and LCVs during last couple of years. However, the demand for tyres remains largely intact as the industry derives ~80% of its demand from the replacement market. Moreover, the profitability matrix of the industry remained under pressure resulting from PKR depreciation, increased cost of production and elevated interest rates.

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 honoured suppliers of Suzuki, Honda and Yamaha for the past 30 years. The Company has achieved a milestone in captivating a vast extent of customers from Asian, Middle East, African & European countries.

Revenues Automobile & allied sector is currently going through a recessionary phase, however, revenue of the Company reflected a growth of ~33.3% in 3QFY24 on a year on year basis. The Company's topline clocked at PKR 21,432mln during 3QFY24 (FY23: PKR 21,441mln). The Company's sales function is a mix of both price & local demand generated from 2-wheeler & tractor tyres. It's revenue stream is fairly divided amongst OEMs & replacement markets (RMs).

Margins Gross margin of the Company showed a marginal increase and remained at 15% on the back of better sales prices (FY23: 14.5%). Accordingly, operating margin increased to 8.7% (FY23: 8.4%). Moreover, during the review period, net margin slightly improved to 2.6% (FY23: 2.0%).

Sustainability The Company's revenue is fairly diversified. The replacement market has a relatively higher proportion as compared to OEMs. Demand from the OEMs market has shown a dip owing to ongoing economic crises whereas the replacement market is expected to remain steady. Going forward, intense competition in the replacement market will be the key challenge for the Company. Raw material pricing and currency devaluation shall persist to be the key determinants of the behaviour of gross margins.

Financial Risk

Working Capital The Company relies on short-term borrowings (STBs) and internal cash flows to fund working capital needs. STBs increased to PKR 7,821mln in 3QFY24 (FY23: PKR 5,502mln). The Company's gross working capital days decreased to 99 days in 3QFY24 (FY23: 131 days). Subsequently, net working capital days recorded at 74 days during 3QFY24 (FY23: 107 days).

Coverages The Company generated FCFO of PKR 1,773mln during 3QFY24 (FY23: PKR 1,770mln). However, on account of increased finance cost, interest coverage was recorded at 1.7x during 3QFY24 (FY23: 1.8x) whereas core coverage ratio decreased to 0.9x (FY23: 1.5x). Going forward, improvement in cash flows from operations is necessary to improve the coverage position.

Capitalization Panther holds a leveraged capital structure. The debt book of the Company increased in 3QFY24 and stood at PKR 10,099mln (FY23, PKR 7,486mln) resulting in an increased leverage ratio of 61.2%. Moreover, the debt book is dominated by STB which comprise 72% of the total borrowings.

The Pakistan Credit Rating Agency Limited

Panther Tyres Limited Tyres	Mar-24 9M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	10,944	9,737	9,116	5,985
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	10,877	8,209	10,279	8,285
a Inventories	*5,287*	*3,806*	*4,340*	*3,235*
b Trade Receivables	*3,505*	*2,953*	*4,298*	*3,304*
5 Total Assets	21,821	17,946	19,396	14,270
6 Current Liabilities	3,654	2,531	2,009	945
a Trade Payables	*1,874*	*1,622*	*1,187*	*541*
7 Borrowings	10,099	7,486	9,046	5,494
8 Related Party Exposure	770	770	692	620
9 Non-Current Liabilities	407	517	792	634
10 Net Assets	6,891	6,643	6,856	6,577
11 Shareholders' Equity	6,891	6,643	6,856	6,577
B INCOME STATEMENT				
1 Sales	21,432	21,441	20,460	16,202
a Cost of Good Sold	*(18,221)*	*(18,333)*	*(18,217)*	*(13,731)*
2 Gross Profit	3,211	3,108	2,244	2,471
a Operating Expenses	(1,346)	(1,310)	(1,051)	(877)
3 Operating Profit	1,865	1,798	1,193	1,593
a Non Operating Income or (Expense)	*26*	*(104)*	*124*	*(45)*
4 Profit or (Loss) before Interest and Tax	1,891	1,694	1,317	1,548
a Total Finance Cost	*(1,111)*	*(1,049)*	*(650)*	*(328)*
b Taxation	*(230)*	*(213)*	*(247)*	*(369)*
6 Net Income Or (Loss)	550	433	420	851
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,773*	*1,770*	*1,102*	*1,499*
b Net Cash from Operating Activities before Working Capital Changes	*995*	*832*	*801*	*1,155*
c Changes in Working Capital	*(1,614)*	*2,197*	*(1,217)*	*(2,465)*
1 Net Cash provided by Operating Activities	(619)	3,030	(416)	(1,309)
2 Net Cash (Used in) or Available From Investing Activities	(1,515)	(1,620)	(3,291)	(1,852)
3 Net Cash (Used in) or Available From Financing Activities	2,167	(1,770)	3,616	3,817
4 Net Cash generated or (Used) during the period	33	(360)	(92)	655
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	33.3%	4.8%	26.3%	39.9%
b Gross Profit Margin	15.0%	14.5%	11.0%	15.2%
c Net Profit Margin	2.6%	2.0%	2.1%	5.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	0.7%	18.5%	-0.6%	-6.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	10.8%	6.4%	6.3%	16.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	99	131	135	123
b Net Working Capital (Average Days)	77	107	120	110
c Current Ratio (Current Assets / Current Liabilities)	3.0	3.2	5.1	8.8
3 Coverages				
a EBITDA / Finance Cost	2.1	2.2	2.7	6.3
b FCFO / Finance Cost+CMLTB+Excess STB	0.9	1.5	1.4	2.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	3.9	3.6	4.9	1.7
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	61.2%	55.4%	58.7%	48.2%
b Interest or Markup Payable (Days)	154.1	126.5	186.8	61.2
c Entity Average Borrowing Rate	15.3%	10.7%	6.8%	6.9%

Credit Rating

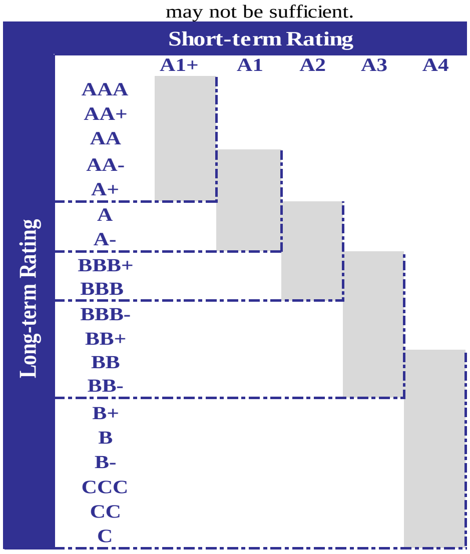
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies 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 | Clause 11-(A)(p).
(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

Proprietary Information