RATING REPORT

Omar Jibran Engineering Industries Limited

REPORT DATE:
JULY 10, 2017

RATING ANALYSTS:
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RATING DETAILS		
	Initial Rating	
Rating Category	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	*6th July'17*	

COMPANY INFORMATION	
Incorporated in 1987	**External auditors:** M/s BDO Ebrahim & Co., Chartered Accountants
Unquoted Public Limited Company	**Chairman & Chief Executive Officer:** Mr. Feroz Khan
Key Shareholders (with stake 5% or more):	
Mr. Feroz Uddin Khan – 60.5%	
Pak Brunei Investment Company Limited – 9%	
Mr. Omar Khan – 7.4%	

APPLICABLE METHODOLOGY(IES)	
JCR-VIS Entity Rating Criteria	*Industrial Corporates (May 2016)*
	http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf

Omar Jibran Engineering Industries Limited

OVERVIEW OF THE INSTITUTION

Omar Jibran Engineering Industries Limited (OJEIL) was founded and incorporated by Mr. Feroz Uddin Khan on June 25th, 1987 as an unquoted public company. OJEIL was the first company in Pakistan to manufacture car bumpers, instrument panels and radiator grills. The company initiated commercial production at the Karachi plant in 1990. A second plant was established in Lahore where commercial production began in 2005.

Profile of Chairman and CEO

Mr. Feroz Uddin Khan is the Chairman and CEO of OJEIL. Mr. Khan has done his bachelors from NED University of Engineering and Technology and his Masters from University of California Santa Barbara. He was responsible for establishing OJEIL.

RATING RATIONALE

OJEIL is a single source supplier of auto parts for Indus Motor Company (IMC), Honda Atlas Cars (HAC) and has a significant share in supplies to Atlas Honda Limited (AHL). Top three customers represent around 93% of total sales with motor cycle segment representing 37% of total sales. The company has had a long-term association of over two decades with IMC and HAC while association with AHL is around 8 years.

Range of products that OJEIL supplies to these companies varies from (for car) interior instrument panels, door handles, front & rear bumpers, grill radiators to (for motorcycle) fenders, front & rear rims, case chain and fuel tanks. Additionally, parts are also supplied to the auto companies and franchise distributors as after-market sales. The company has production facilities in Karachi and Lahore with Karachi plant operating at around 80% capacity while capacity utilization for Lahore Plant ranges between 60%-80%. Over the medium term, the company also plans to diversify in the plastic segment (crates, pallets boxes and packaging).

Market Position: The assigned rating incorporates company's position as the single source supplier of auto parts to IMC and HAC. OJEIL also has significant share is sales to AHL with the company being single source supplier for CG-125 and fuel tanks. While risk of concentration in sales remains, long-term relationship with most customers partly mitigates concentration risk.

Sales: Net sales of the company have increased at a CAGR of 11.4% over the last 5 years (FY11-FY16) on account of healthy increase in car/motorcycle sales of major customers. Given the planned introduction of new models, steady demand for sales growth from existing players, expansion by AHL and entry of new players, sales are projected to increase at a CAGR of 15% over the next 5 years.

Business Risk: Business risk profile is supported by growing demand for automobiles due to low interest rate environment, existing duty structure (45% import duty) and mechanism in place with clients through which any increase/decrease in input cost and changes in exchange rate are passed on a quarterly basis. Moreover, manufacturing overheads are reviewed and built in prices on an annual basis. However, any adverse change in the operating environment and duty structure, including but not limited to inclusion of auto sector in Pakistan-Thailand Free Trade Agreement, may impact business risk profile of the company.

Profitability: Financial profile of the company has depicted improvement in FY16 with an improvement in profitability and cash flow metrics. With increase in capacity utilization and higher units sold, gross margins have improved to 15.5% (FY15: 12.9%) during FY16. Higher gross margins and reduction in finance cost due to decline in interest rates and lower average borrowings translated in improved profitability (FY16: Rs. 119.9m; FY15: Rs. 49.7m). Going forward, profitability is projected to grow on account of margin improvement as volumetric sales increases while other income from rent of a production facility is also expected to support bottom line. Reduction in finance cost post planned IPO is also expected to increase profitability

Liquidity and Capitalization: Capitalization levels have increased on a timeline basis on account of profit retention. However, gearing (Current: 1.63x; FY16: 1.52x; FY15: 2.11x; FY14: 2.5x) after declining over the last two years witnessed an increase subsequent to end-June'2016 as borrowing was mobilized in order to redeem expensive preference shares. Current gearing levels are on the higher side with the company having assumed sizeable liabilities of a subsidiary company as part of a restructuring arrangement. Management expects gearing levels to reduce with retained profits and funds generated from planned IPO. Liquidity profile has improved on a timeline basis with higher fund flow from operations in relation to outstanding obligations (FFO/Total Debt FY16: 24%; FY15: 14%). However, current ratio remains below 1x while current extended working capital cycle necessitates utilization of short-term borrowing. Mismatch on balance sheet is evident from short-term borrowings being in excess of the sum of stock-in-trade and trade debts.

Corporate Governance: The management has enhanced focus on governance and quality assurance (OJ quality management systems and regular quality inspection) through regular Obeya meetings and development of key risk indicators. The company is also ISO 9001 certified. Board composition and oversight has room for improvement.

Omar Jibran Engineering Industries Limited **Appendix I**

FINANCIAL SUMMARY

(amounts in PKR millions)

BALANCE SHEET	JUN 30, 2016	JUN 30, 2015	JUN 30, 2014
Fixed Assets	1,260	1,056	1,075
Long Term Loan & Advances (AMCL)	366	426	-
Stock-in-Trade	345	362	293
Trade Debts	116	133	149
Cash & Bank Balances	27	14	7
Total Assets	2,208	2,095	2,042
Trade and Other Payables	196	190	187
Long Term Debt *(*incl. current maturity)*	297	325	421
Short Term Debt	525	554	474
Shareholder's Equity	605	490	426
INCOME STATEMENT	**JUN 30, 2016**	**JUN 30, 2015**	**JUN 30, 2014**
Net Sales	1,818	1,526	1,430
Gross Profit	274	191	180
Operating Profit	234	161	149
Profit After Tax	119.9	49.7	64
RATIO ANALYSIS	**JUN 30, 2016**	**JUN 30, 2015**	**JUN 30, 2014**
Gross Margin (%)	15.1%	12.5%	12.6%
Net Working Capital	(251)	(260)	(250)
Funds from Operations (FFO)	198	121	(1)
FFO to Total Debt (x)	0.24	0.14	(0.00)
FFO to Long Term Debt (x)	0.67	0.37	(0.00)
Debt Leverage	2.18	2.76	3.18
Gearing	1.36	1.79	2.10
Debt Servicing Coverage Ratio (x)	1.50	0.89	0.31
ROAA (%)	5.6%	2.4%	3.1%
ROAE (%)	21.9%	10.9%	12.1%

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES					Appendix III
Name of Rated Entity	Omar Jibran Engineering Industries Limited (OJEIL)				
Sector	Auto-part Manufacturing				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
			RATING TYPE: ENTITY		
	10/07/2017	A-	A-2	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
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