RATING REPORT

Omar Jibran Engineering Industries Limited

REPORT DATE:
April 26, 2019

RATING ANALYST:
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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Date	23rd April 2019		6th July 2017	

COMPANY INFORMATION	
Incorporated on March 10, 1991	**External auditors:** M/s Deloitte Yousuf Adil
Private Limited Company	**Chief Executive Officer:** Mr. Feroz Uddin Khan
Key Shareholders (with stake 5% or more):	
Feroz Uddin Khan – 54.9%	
Pakistan Catalyst Fund LLC – 10.4%	
JS Bank Limited – 9.6%	
Omar Khan – 5.9%	

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

Omar Jibran Engineering Industries Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

OVERVIEW OF THE INSTITUTION

Omar Jibran Engineering Industries Limited (OJEIL) was founded and incorporated as an unquoted public company in 1987. OJEIL was the first company in Pakistan to manufacture car bumpers, instrument panels, radiator grills and scores of automotive plastic parts for OEMs like Suzuki, Toyota and Honda Cars and trucks. The company initiated commercial production at the Karachi plant in 1990. A second plant was established in Lahore where commercial production began in 2005. In 2008, the company started to manufacture and supply motor cycle parts for Honda Motorcycles. The Company has diversified into rehabilitation products for the disabled population. This product line consists of walking sticks, walkers, crutches, powered and manual wheelchairs, emergency stretchers and hospital beds.

RATING RATIONALE

OJEIL is a manufacturer and supplier of auto parts to Toyota and Honda vehicles since 1990, which are being assembled by Indus Motor Company and Honda Atlas Cars Limited, respectively. The Company is a single source supplier of car parts to these OEMs. OJEIL also manufactures and supplies parts to Atlas Honda Limited, manufacturers of Honda brand motorcycles. The Company's main vehicle products are bumpers, instrument panels, grills, door panels and nickle chromed plated steel fenders, rims and fuel tanks for Honda motorcycles. Additionally, parts are also supplied to the auto companies and franchise distributors as after-market sales. The company caters to the local requirement via two production facilities based in Steel Mill Down Stream Area, Karachi and Manga Mandi, Lahore.

Rating Drivers

Market Position: The assigned ratings incorporate the company's competitive position as the single source supplier of auto parts to IMC and HAC. OJEIL also has significant sales to AHL as it is a single source supplier of fuel tanks and also provides fender and rims for motorcycles. Being a manufacturer, the company adds value from processing plastic and steel raw materials to manufacture parts and thus enjoys duty advantages vis-à-vis imported parts. Due to limited clientele, concentration is witnessed in sales; however, concentration risk is partly mitigated by long term association with these clients. Additionally the company is a partner in development of the tooling i.e. the molds and dies for all new vehicle models being introduced in the country by its existing clients. The business model is such that the product development process starts anywhere between 18 to 24 months prior to commercial launch of the vehicle.

Sales: Net Sales of the company grew by 12.7% to Rs. 2.2b (FY17: Rs. 2.0b) in FY18. The increase in net sales is a combination of increase in average selling price coupled with volumetric growth. Top three clients represent 86.6% (FY17: 85.9%) of total gross sales. Given the planned introduction of new models, steady demand for sales growth from existing players, entry of new players, and actual sales in 9M'19, net sales are projected to increase by 20% in 2019. Furthermore, the management has decided to further diversify its product portfolio by introducing plastics blow molded shampoo and conditioner bottles. The company has also diversified into rehabilitation (rehab) products comprising of powered and manual equipment (wheel chairs, walking sticks and walkers). These new products will be launched in May 2019. Client wise concentration in sales may witness reduction on account of contribution of these new products to the topline of the company.

Business Risk: While business risk profile has weakened year-on-year on account of sluggish auto sales (due to weak macroeconomic indicators and rise in interest rates) in 8M'FY19 vis-à-vis the corresponding period last year, overall business risk profile is considered modest. Removal of restriction on non-filers to buy automobiles, capacity expansion by AHL and existing duty structure provide are favorable demand drivers for the company. Moreover, presence of the mechanism in place with clients through which considerable increase/decrease in input cost and changes in exchange rate are passed on a

Profile of CEO

Mr. Feroz Uddin Khan is the Chairman and CEO of OJEIL. Mr. Khan has completed his Bachelors from NED University of Engineering and Technology and his Masters from University of California Santa Barbara. He is the founder of several businesses in USA, UAE and in Pakistan. These businesses included Tubular Protection of America, Sigma-Chemi UAE, Omar Jibran Engineering Limited and Adam Motor Company. He also designed and manufactured a Pakistani Car, Revo in 2005.

quarterly basis also provides comfort to the ratings. In addition, manufacturing overheads are reviewed and built in prices on an annual basis. However, any adverse change in the operating environment, duty structure may impact demand for automobiles and the business risk profile of the company.

Profitability

Financial profile of the company has depicted improvement in FY18 with growth in profitability and cash flows on account of volumetric increase in sales. Gross margins remained at approximately similar level of 16.1% (FY17: 16.3%) in FY18. Growth in topline also translated into higher bottom-line in FY18. Subsequently, with increase in input costs due to currency devaluation, gross margins witnessed a dip to 13.9% in HY19. Moreover, moderate increase in debt level and rising interest rates, resulted in higher finance costs during the same period. Resultantly, net profit margins were also reported lower at 5.8% (FY17: 5.9%) in FY18. Going forward, management is expecting profitability to increase on the back of higher volumes of existing products and diversified product portfolio. Moreover, growth in profitability of the company will also be supported by lower tax charge on account of utilization of unabsorbed depreciation of an associated company along with BMR credits pertaining to investment made in plant and machinery. Improvement in profitability indicators is considered important from ratings perspective.

Capitalization

Equity base (excluding revaluation surplus) of the company amounted to Rs. 1.2b (FY18: 1.1b; FY17: Rs. 631.9m) at end-HY19. Equity base of the company increased significantly in FY18 primarily on account of issue of right shares. Total Debt of the company was reported at Rs. 1.3b (FY18: 1.0b; FY17: 1.0b); short term debt comprises more than four-fifth of the total debt. Short term borrowing has witnessed a significant increase due to increasing working capital requirements primarily on account of currency devaluation and anticipated annual business growth. Resultantly, gearing and leverage ratios increased to 1.12x (FY18: 0.98x; FY17: 1.80x) and 1.51x (FY18: 1.41x; FY17: 2.61x) respectively at end-HY19. Management expects leverage ratios to improve going forward on the back of modest increase in debt drawdown, profit retention and funds generated from planned IPO in the financial year 2021 depending upon the profitability of the company and conducive industry conditions.

Liquidity

Liquidity profile has remained a function of profitability of the company. With increase in bottom-line in FY18, Funds from Operations (FFO) in relation to total debt improved to 20.3% (FY17: 16.1%). However, Debt Service Coverage Ratio has declined compared to preceding year on account of rising current maturities (FY18: 1.02x; FY17: 1.53x). Current ratio has observed improvement on the back of increase in stock in trade, trade debts and short-term investments. The same was satisfactory in FY18 as it remains above 1.0x (FY18: 1.02x; FY17: 0.65x). Stock in trade and trade debts provide adequate coverage for short term borrowings. Going forward, maintenance of liquidity indicators is considered important from rating perspective.

Financial Summary (amounts in PKR millions)			Appendix I
	FY16	FY17	FY18
BALANCE SHEET			
Property, Plant and Equipment	1,219.0	1,316.0	1,319.5
Other Fixed Assets	401.6	459.7	475.0
Stock-in-Trade	369.3	392.4	554.4
Trade Debts	115.8	154.4	237.2
Cash & Bank Balances	26.5	1.7	33.3
Total Assets	2,235.8	2,478.1	2,885.2
Trade and Other Payables	196.2	193.8	173.7
Long Term Debt (including contingencies and commitments)	361.0	464.0	411.1
Short Term Debt	525.0	674.4	676.1
Total Debt	886.1	1,138.3	1,087.3
Total Liabilities	1,318.2	1,571.7	1,507.7
Total Equity (excluding revaluation)	568.8	631.9	1,110.0
Total Equity (including revaluation)	917.7	906.3	1,377.4
INCOME STATEMENT			
Net Sales	1,818.2	1,968.1	2,217.5
Gross Profit	281.5	320.0	357.4
Operating Profit	220.7	231.6	266.8
Profit After Tax	133.2	115.3	129.4
RATIO ANALYSIS			
Gross Margin (%)	15.5%	16.3%	16.1%
Net Profit Margin	7.3%	5.9%	5.8%
Net Working Capital	(209.2)	(375.5)	20.4
FFO to Total Debt (%)	22.4%	16.1%	20.3%
FFO to Long Term Debt (%)	55.0%	39.5%	53.6%
Debt Servicing Coverage Ratio (x)	1.50	1.53	1.02
ROAA (%)	6.1%	4.9%	4.8%
ROAE (%)	35.6%	19.2%	14.9%
Gearing (x)	1.56	1.80	0.98
Leverage (x)	2.43	2.61	1.41

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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		
	04/23/2019	A-	A-2	Stable	Reaffirm
	06/07/2017	A-	A-2	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	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.				
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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