RATING REPORT

Omar Jibran Engineering Industries Limited

REPORT DATE:
May 14, 2020

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	Rating Watch - Negative		Stable	
Rating Date	*14 May, 2020*		*23 April, 2019*	

COMPANY INFORMATION	
Incorporated on March 10, 1991	**External Auditors:** M/s Deloitte Yousuf Adil
Un-listed Public 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 (April 2019) https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

Omar Jibran Engineering Industries Limited

OVERVIEW OF THE INSTITUTION

Incorporated in 1987, Omar Jibran Engineering Industries Limited (OJEIL) is an unlisted public limited company primarily engaged in the manufacture and sale of automotive parts.

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.

RATING RATIONALE

With around three decades of experience in auto parts manufacturing business, OJEIL is a single source supplier of several critical auto parts to leading automobile and motorcycle manufacturers including Indus Motor Company (IMC), Honda Atlas Cars Limited (HAC) and Atlas Honda Limited (AHL - manufacturers of Honda brand motorcycles). Production facilities are located a Steel Mill Down Stream Area, Karachi and Manga Mandi, Lahore.

Product portfolio comprises a) Cars ~ interior instrument panels, door handles, grill radiators, front & rear bumpers b) Motorcycles ~ fenders, front & rear rims, case chain and fuel tanks. During FY18, OJEIL diversified into rehabilitation products which include walking sticks, walkers, crutches, powered and manual wheelchairs, emergency stretchers and hospital beds.

Key Rating Drivers

Automobile sales which were already on a downward trajectory since the beginning of current fiscal year are expected to slow down significantly amidst lock down in the country due to Covid-19 pandemic.

During 9MFY20, sale of passenger cars witnessed a notable decline due to macroeconomic stabilization and import compression policies being pursued by government. Currency devaluation in addition to imposition of taxes and duties on import of CKD kits and raw materials led to significant jump in vehicle prices. This along with sizeable increase in interest rate led to a sharp slowdown in auto financing growth (Auto financing had grown at a CAGR of 31.2% during (2014-2018) but the same increased by only 4% during 2019) which negatively affected auto sales in both commercial (commercial vehicles) as well as the consumer segments (passenger vehicles).

Sale of OJEIL's Major Customers							
Units	**FY17**	**FY18**	**FY19**		**9MFY19**	**9MFY20**	**%**
HAC	39,163	51,494	44,234		35,888	14,058	-61%
IMC	59,911	63,068	65,399		49,566	25,300	-49%
AHL	960,105	1,150,346	1,114,956		823,918	768,974	-7%

Automobile sales which were already on a downward trajectory since the beginning of current fiscal year are expected to slow down further amidst unprecedented large-scale lockdown of non-essential services in the country due to Covid-19. Going forward, recent decline in interest rate in the month of March'20 and April'20 may provide some support to auto sales once lock down is lifted; nevertheless overall auto sales are expected to remain depressed. Moreover, liquidity of auto part manufacturers is expected to come under pressure given the strong dependence on volumetric sales of car manufacturers.

The revision in rating outlook reflects prevailing uncertainty in auto sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand and challenging economic environment. Status of the assigned rating is therefore uncertain as an event of deviation from expected trend has occurred; additional information will be necessary to take any further rating action, warranting a 'Rating Watch' status. Given the compression in demand and expected impact on cash flows, ratings are being placed on

'Negative' outlook. Ratings remain dependent on maintaining cash flow coverages and prudent leverage indicators. VIS will closely monitor and will accordingly take action to resolve the outlook status.

After registering a growth of 16.4% in FY19, sales are expected to witness a sharp slowdown in the ongoing year.
Topline of the company amounted to Rs. 2.6b (FY18: Rs. 2.2b) in FY19, registering a growth of ~16.4%. Growth in sales is mainly attributable to higher pricing in view of escalated raw material costs. Concentration in sales continues to remain significant with top three clients representing more than four-fifth of total revenue. However, long term association with these customers and recent diversification into rehabilitation products (in FY18) partly mitigates the concentration risk. The management is focused towards reducing the same through addition of news customers and new products over time. In HFY20, net sales were reported at Rs. 1.1b (HFY19: Rs. 1.2b). Given the slowdown in sales of major customers (IMC & HAC) due to advent of Covid-19 and its consequent lockdowns, sales are expected to stay sluggish during the remaining fiscal year.

Declining trend in gross margins and higher overheads along with increase in financial charges has resulted in weakening of earning profile. The Company is expected to incur a sizeable loss in FY20 due to slowdown in auto sales.
Gross margins contracted to 9.8% (FY19: 13.9%; FY18: 16.1%) in HFY20 owing to increase in inventory cost (affected by currency devaluation as major proportion is imported) and higher operating costs related to salaries, ijara rental and fuel & power cost. Financial charges grew considerably in FY19 due to higher utilization of short-term financing and increase in benchmarks rates. During HFY20, finance cost was reported at Rs. 89.3m (HFY19: Rs. 56.5m). Nevertheless, the same is expected to be lower on full year basis mainly due to decrease in debt levels at end-Dec'19 and recent decline in interest rates. The company reported a net loss of Rs. 43.9m (HFY19: profit of Rs. 42.3m) in HFY20. Going forward, given sharp contraction in demand and ongoing sluggishness in automobile sales, as witnessed currently, net margin is likely to remain negative.

Liquidity profile came under stress during HFY20 on account of negative cash flows. Debt coverage metrics have depicted significant weakening.
In line with weakening in profitability profile, the company has posted negative cash flows during HFY20. As a result, debt coverage metric like FFO to long term debt and debt servicing coverage ratio (DSCR) declined considerably. Current ratio was also reported lower at 0.85x at end-HFY20. Coverage of short term borrowings by way of inventory and receivables stood at ~93% at end-HFY20. Going forward, debt coverage metrics are expected remain under pressure due to impact of Covid-19 outbreak while the eventual recovery is contingent on the duration and breadth of the pandemic. Comfort is drawn from expected principal deferment for a period of 1 year and support from auto manufacturers.

Leverage indicators remain within manageable levels but are expected to trend upwards.
At end-HFY20, equity (excluding surplus on revaluation) was reported at Rs. 1.2b. Total interest bearing debt of the company declined to Rs. 1.2b (FY19: Rs. 1.5b); of which ~88.5% is short term in nature. The decrease in debt levels (as at end-Dec'19) is due to retirement of long term debt during the ongoing fiscal year. Gearing and leverage ratios were reported at 0.97x (FY19: 1.17x; FY18: 0.98x) and 1.57x (FY19: 1.52x; FY18: 1.36x). respectively at end-HFY20. Leverage indicators are expected to increase from Dec'2019 levels.

Financial Summary *(amounts in PKR millions)*				Appendix I
	FY17	**FY18**	**FY19**	**HFY20**
BALANCE SHEET				
Property, Plant and Equipment	1,316.0	1,319.5	1,930.1	1,900.3
Other Fixed Assets	459.7	476.2	495.2	529.5
Stock-in-Trade	392.4	554.4	772.6	857.1
Trade Debts	154.4	237.2	243.6	102.7
Cash & Bank Balances	1.7	33.3	23.2	21.3
Total Assets	2,478.1	2,886.4	3,728.5	3,684.4
Trade and Other Payables	193.8	174.5	184.6	340.2
Long Term Debt (including contingencies and commitments)	457.8	411.1	335.4	134.2
Short Term Debt	674.4	676.1	1,127.5	1,036.1
Total Debt	1,132.2	1,087.2	1,462.9	1,170.3
Total Liabilities	1,565.5	1,508.9	1,888.7	1,888.6
Paid-up Capital	277.6	750.0	750.0	750.0
Total Equity (excluding revaluation)	638.1	1,110.0	1,245.8	1,201.8
Total Equity (including revaluation)	912.5	1,377.5	1,839.2	1,795.3
INCOME STATEMENT				
Net Sales	1,968.1	2,217.5	2,581.6	1,141.7
Gross Profit	326.2	357.4	359.5	112.2
Operating Profit	237.8	267.2	273.1	62.5
Profit Before Tax	156.0	180.4	133.8	(26.8)
Profit After Tax	121.5	129.9	117.8	(43.9)
RATIO ANALYSIS				
Gross Margin (%)	16.6%	16.1%	13.9%	9.8%
Net Profit Margin	6.2%	5.9%	4.6%	-3.8%
Current Ratio (x)	0.7	1.0	0.9	0.9
Net Working Capital	(375.5)	19.3	(178.0)	(221.2)
Funds From Operations (FFO)	189.3	220.3	217.8	(9.8)
FFO to Total Debt (%)	16.7%	20.3%	14.9%	-1.7%
FFO to Long Term Debt (%)	41.4%	53.6%	64.9%	-14.6%
Debt Servicing Coverage Ratio (x)	1.6	1.0	1.0	0.5
ROAA (%)	5.2%	4.8%	3.6%	-2.4%
ROAE (%)	19.1%	14.9%	10.0%	-7.2%
Gearing (x)	1.8	1.0	1.2	1.0
Leverage (x)	2.5	1.4	1.5	1.6

ISSUE/ISSUER RATING SCALE &DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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	(see table below)
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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
05/14/2020	A-	A-2	Rating Watch - Negative	Maintained
04/23/2019	A-	A-2	Stable	Reaffirmed
06/07/2017	A-	A-2	Stable	Initial