RATING REPORT

Omar Jibran Engineering Industries Limited

REPORT DATE:
September 08, 2021

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		Rating Watch - Negative	
Rating Date	*08 Sept, 2021*		*14 May, 2020*	

COMPANY INFORMATION	
Incorporated on March 10, 1991	**External Auditors:** M/s Yousuf Adil, Chartered Accountants (*Independent Correspondent Firm to Deloitte Network*)
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 (August 2021) https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Omar Jibran Engineering Industries Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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.

Omar Jibran Engineering Industries Limited (OJEIL) has successfully completed three decades in auto parts manufacturing business. The company is a single source supplier of several critical auto parts to Indus Motor Company and Honda Atlas Cars Limited and a preferred supplier to Atlas Honda Limited (manufacturers of Honda brand motorcycles). During the period under review, Master Changan Motor was taken on board while further enhancement of customer base along with diversification is the key focus area of management. Headquartered in Karachi, OJEIL has two production plants located at Steel Mill Down Stream Area, Karachi and Manga Mandi, Lahore while types of technologies include Plastic Injection Molding, Pressed Sheet Metal, Chrome Plating and Mold/Dies manufacturing.

Long-terms investment of Rs. 468.5m at end-FY21 comprises investment in a wholly-owned subsidiary, Adam Motor Company Limited.

<u>Product portfolio</u>

Product portfolio is broadly classified into three segments a) Cars ~ interior instrument panels, door handles, door window regulators, radiator grills, bumpers, wheel caps, air cleaner casings, air ducts, fog lamps b) Motorcycles ~ fenders, rims, case chain, brackets, rivets and fuel tanks c) Rehabilitation products ~ walking sticks, walkers, wheelchairs and stretchers.

<u>Key Rating Drivers</u>

Strong recovery in auto sales on the back of low interest rates, reduced taxes and new models introduced in the market. The paradigm shift in Pakistan's auto industry is expected to increase healthy completion and improve overall sector dynamics.

Auto sales already on a downward trajectory due to previous import compression policies pursued by GoP, significant currency devaluation, high interest rates and imposition of taxes and duties on raw materials, slumped further with the pandemic led lockdowns in FY20. However, the outgoing fiscal year FY21 turned out to be a strong recovery period for the auto sector amid the ongoing Covid-19 pandemic as car sales grew by ~57%, followed by 20% increase in trucks, 17% in buses, 23% in jeeps, 57% in pickups, 55% in tractors and 39% in two- and three-wheelers. Sustained economic recovery, prevailing low interest rates and new models introduced in the market are the major factors of growth in sales.

Sale of OJEIL's Major Customers					
Units	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
HAC	39,163	51,494	44,234	16,387	29,291
IMC	59,911	63,068	65,399	28,378	57,236
AHL	960,105	1,150,346	1,114,956	873,474	1,292,096

The growth in demand is expected to continue with new incentives and tax benefits announced by government for auto sector along with the upsurge in auto-financing. Increased competition also bodes well for overall sector dynamics. Exchange rate risk, cyclicality in sales due to slow down in GDP growth and political uncertainty remains the key business risk factors.

Business risk profile of auto parts manufacturers is supported by the healthy demand outlook in auto sales. Increase in completion among car assemblers along with room for growth in localization levels bodes well for sector growth.

As per industry estimates, Pakistan's domestic auto parts industry currently stands at USD ~2.9b in FY20. There are 1,600 auto parts vendors; of which ~400 vendors belong to Tier-1 category and are suppliers for the OEM market. As the industry derives its demand entirely from auto sales, its strong rebound had a detrimental impact on auto parts demand as well.

Localization Levels	
Passenger Cars & LCVs	50% – 60%
Trucks/Buses	~30%
Tractors	~85%
Motorcycles	~90%

Going forward, the increased competition among car assemblers is expected to create additional demand of auto parts to cater. This along with room for growth in localization levels and healthy demand outlook in auto sales bodes well for the auto parts manufacturing industry.

Healthy recovery posted in sales revenue post pandemic led decline while the growth momentum is expected to continue. Outlook assigned to ratings has been revised to 'Stable'.

Topline of the company has witnessed a healthy recovery in the outgoing fiscal year post pandemic led decline (FY21: Rs. 2.4b; FY20: Rs. 1.9b; FY19: Rs. 2.6b). The year-on-year uptick of ~26% in sales was mainly attributable to the volumetric growth coupled with higher average selling prices. In terms of product mix, significant increase in volumetric sales for Yaris, followed by City and Vigo Hilux were the major growth drivers. With top three clients representing more than four-fifth of total revenue, client wise concentration in sales continues to remain high. Nevertheless, the same is partly mitigated by long term association with these customers and diversification into rehabilitation products; growth in this segment is yet to be observed. The management's plan to further add new product lines would also reduce the concentration risk. Going forward, sales are projected to cross the Rs. 3b mark in FY22 on the back of steady demand from existing players, aggressive growth strategy in two-wheelers and planned addition of news customers and new products.

Rebound in sales along with lower inventory cost led to improvement in profitability margins. Higher financial charges continues to be a drag on profitability.

Gross margins swiftly bounced back in the outgoing fiscal year from the pandemic slump (FY21: 19.3%; FY20: 4.5%; FY19: 13.9%) mainly on account of decline in international steel prices and efficient procurement. Meanwhile, general and admin expenses grew by ~18% and financial charges though decreased as compared to previous fiscal year but continues to remain a drag on profitability. The finance cost is expected to remain at similar levels. In line with growth in sales and gross margins, bottom-line turned positive and amounted to Rs. 120.8m (FY20: net loss of Rs. 137.7m) in FY21.

Cash flows turned positive on account of improvement in profitability.

In line with the improvement in profitability, cash flows and debt coverage metrics turned positive and FFO, in absolute terms, amounted to Rs. 239.5m in FY21. FFO to total debt and FFO to long-term debt were reported at 19.4% and 50.0%, respectively. Similarly, Debt Service Coverage Ratio (DSCR) stood higher at 1.81x (FY20: 0.2x) in FY21. Current ratio of the company stood at 0.93x and has room for improvement while trade debts and stock in trade are sufficient to cover short term borrowings. Moreover, during the pandemic deferment of principal repayment for a period of one year supported the overall liquidity profile.

Leverage indicators are expected to remain within manageable levels.
At end-FY21, equity base (excluding surplus on revaluation) was reported at Rs. 1.3b (FY20: Rs. 1.1b). The company has not paid out dividends since past three fiscal years. Total interest bearing debt declined to Rs. 1.2b (FY20: Rs. 1.4b); of which three-fifth is short term in nature. Moreover, the company is in the process of streamlining their borrowing lines which will facilitate and create room for additional financing. Gearing and leverage ratios have improved and were reported at 0.98x (FY20: 1.21x; FY19: 1.17x) and 1.65x (FY20: 1.80x; FY19: 1.52x), respectively at end-FY21.

Financial Summary *(amounts in PKR millions)*					Appendix I
	FY17	**FY18**	**FY19**	**FY20**	**FY21**
BALANCE SHEET					
Property, Plant and Equipment	1,316.0	1,319.5	1,930.1	1,879.2	1,788.2
Other Fixed Assets	459.7	476.2	495.2	611.4	645.1
Stock-in-Trade	392.4	554.4	772.6	863.3	1,012.7
Trade Debts	154.4	237.2	243.6	133.4	111.1
Cash & Bank Balances	1.7	33.3	23.2	17.1	23.5
Total Assets	**2,478.1**	**2,886.4**	**3,728.0**	**3,752.4**	**3,907.6**
Trade and Other Payables	193.8	174.5	184.6	380.2	480.6
Long Term Debt (including contingencies and commitments)	457.8	411.1	335.4	408.4	478.7
Short Term Debt	674.4	676.1	1,127.5	972.0	758.2
Total Debt	1,132.2	1,087.2	1,462.9	1,380.4	1,236.9
Total Liabilities	**1,565.5**	**1,508.9**	**1,888.7**	**2,043.3**	**2,077.7**
Paid-up Capital	277.6	750.0	750.0	750.0	750.0
Total Equity (excluding revaluation)	**638.1**	**1,110.0**	**1,245.8**	**1,136.7**	**1,257.5**
Total Equity (including revaluation)	**912.5**	**1,377.5**	**1,839.2**	**1,709.1**	**1,829.9**
INCOME STATEMENT					
Net Sales	1,968.1	2,217.5	2,581.6	1,899.9	2,392.6
Gross Profit	326.2	357.4	359.5	85.8	462.5
Operating Profit	237.8	267.2	273.1	26.5	343.1
Profit Before Tax	156.0	180.4	133.8	(156.5)	184.1
Profit After Tax	121.5	129.9	117.8	(137.7)	120.8
RATIO ANALYSIS					
Gross Margin (%)	16.6%	16.1%	13.9%	4.5%	19.3%
Net Profit Margin	6.2%	5.9%	4.6%	-7.2%	5.1%
Current Ratio (x)	0.65	1.02	0.88	0.87	0.93
Net Working Capital	(375.5)	19.3	(178.0)	(181.3)	(104.4)
Funds From Operations (FFO)	189.3	220.3	175.8	(90.8)	239.5
FFO to Total Debt (%)	16.7%	20.3%	12.0%	-6.5%	19.4%
FFO to Long Term Debt (%)	41.4%	53.6%	52.4%	-22.1%	50.0%
Debt Servicing Coverage Ratio (x)	1.57	1.02	0.85	0.20	1.81
ROAA (%)	5.2%	4.8%	3.6%	-3.7%	3.1%
ROAE (%)	19.1%	14.9%	10.0%	-12.1%	9.6%
Gearing (x)	1.77	0.98	1.17	1.21	0.98
Leverage (x)	2.45	1.36	1.52	1.80	1.65

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

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
09/08/2021	A-	A-2	Stable	Maintained
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

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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Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Feroz Khan	CEO	Aug 26, 2021