RATING REPORT

Omar Jibran Engineering Industries Limited (OJEIL)

REPORT DATE:
November 17, 2022

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	Negative		Stable	
Rating Date	*17 Nov, 2022*		*08 Sept, 2021*	
Rating Action	Maintained		Maintained	

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 and Family ~ 71.5%	
Pakistan Catalyst Fund LLC ~ 10.4%	
JS Bank Limited ~ 9.6%	

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

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

Omar Jibran Engineering Industries Limited (OJEIL) possesses around 33 years of experience in the 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, sales for Master Changan Motors commenced for Caravan. The company is currently under negotiation with MG Motors and Hyundai.

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. 485.8m at end-FY22 comprises exposure in a wholly-owned subsidiary, Adam Motor Company Limited.

Product portfolio

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 and c) Rehabilitation products ~ walking sticks, walkers, wheelchairs and stretchers.

Key Rating Drivers

Strong volumetric growth in the local automobile assembling industry during FY22 on the back of imports curtailment by the Government through high duty structure on CBU imports. However, VIS expects demand slowdown given subdued macroeconomic environment due to exchange rate volatility, high interest rates, impact of floods inflationary pressures and political uncertainty in the country.

VIS classifies business risk profile of OJEIL in the high to medium category, given historical volatility in gross margins. This volatility in gross margins is mainly a product of volumetric offtake, while volatility in exchange rate also affects the gross margin, given significant dependence on imported raw material as the same comprises roughly half of the procurement cost. The Company's revenue base does depict counterparty concentration, albeit the same is largely addressed by the presence of long-term binding contracts and the fact the company plans to add new clients in its portfolio.

The outgoing fiscal year FY22 turned out to be a strong growth period for the auto sector as total car sales grew by ~55%, followed by 57% increase in total trucks, 7% in total buses, 49% in total jeeps & pickups and 16% in total tractors. Localization of the industry activities because of increased healthy competition among local players and expensive import alternatives (CBUs) is the most important factor of growth in sales.

However, in the ongoing year, auto sales are on a downward trajectory due to inflationary pressures, significant currency devaluation, high interest rates thereby increasing cost of production for assemblers. Elevated policy rate has also diminished auto-loan financing portfolio.

However, exchange rate risk, cyclicality in sales due to slow down in GDP growth and political uncertainty remains the key business risk factors.

Following is the timeline production and sales units of cars whose parts are provided by OJEIL:

PAMA	Production units			
Type of Vehicle	FY21	FY22	1Q22	1Q23
Toyota Cars (Corolla & Yaris)	47,679	55,383	12,988	6,529
Honda Cars (Civic & City)	25,081	35,079	7,712	5,060
Honda Motorcycles	1,291,732	1,362,790	310,374	248,875
PAMA	Sales units			
Type of Vehicle	FY21	FY22	1Q22	1Q23
Toyota Cars (Corolla & Yaris)	46,650	56,528	13,836	6,415
Honda Cars (Civic & City)	25,276	35,197	7,793	5,045
Honda Motorcycles	1,292,096	1,360,403	310,041	250,132

Business risk profile of auto parts manufacturers is determinant of automotive sales. Room for growth in localization levels bodes well for sector growth. Risk profile of OJEIL is supported by management's plans to diversify and venture into manufacturing parts for industrial machinery.

Annualized sales for automotive parts is recorded at 71.4m units for CY21 depicting a Year-on-Year growth of 20%. There are 2,000 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	~85%

Going forward, the increased competition among local car assemblers is expected to create additional demand of auto parts to cater. This along with OJEIL's plans of diversification into other business segments over the rating horizon supports the business risk profile assessment.

Higher volumetric sales in FY21 and FY22 supported revenue base. Going forward, organic growth from existing clients, addition of customers and diversification in product offerings are key focus areas for the management. Materialization of the same is contingent on improved performance of the macroeconomic indicators.

Topline of the company has witnessed healthy growth on the back of higher volumetric sales and was reported at Rs. 3.4b in FY22 (FY21: Rs. 2.4b; FY20: Rs. 1.9b). The year-on-year uptick of ~11% in sales was mainly attributable to the volumetric growth coupled with higher average selling prices. In terms of product mix, volumetric growth emanated from Corolla, followed by CD 70 and CD 125 Motocycles. Client concentration is on the higher side with Atlas Honda Motocycles Limited (AHL) and Indus Motor Company (IMC) contributing 45.6% (FY21: 31.5%) and 39.3% (FY21: 40%) and in the topline of the Company in FY22.

Sales	FY21	%	FY22	%
Total IMC Sales	968,833,201	40.0%	1,339,947,083	39.3%
Total HACPL Sales	198,191,587	8.3%	61,054,740	1.8%
Total AHL Sales	754,801,839	31.5%	1,555,969,682	45.6%
Total Sales others	470,760,105	19.7%	455,498,990	13.3%
Total Sales	**2,392,586,732**	**100%**	**3,412,469,752**	**100%**

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 and parts for industrial machinery; growth in this segment is yet to be observed. Moreover, in order to support revenue base, the company commenced after-market sales of motorcycle parts and plans to employ more sales representatives over the rating horizon. Going forward, organic growth from existing clients, addition of customers and diversification in product offerings are key focus areas for the management.

Profitability Margins were impacted due to volatility in raw material costs, time delays in transferring the impact of the same to consumers and higher financial costs in the outgoing year

Gross margins declined to 16.2% in the outgoing fiscal year (FY21: 21.2%; FY20: 4.5%) mainly on account of time delays in passing on hike in input costs. Meanwhile, general and admin expenses inclined by ~18% on account of higher staff costs, legal fees and communication charges. Similarly, Distribution costs increased to Rs. 17.3m (FY21: Rs. 8.8m; FY20: Rs. 15.0m) on the back of higher freight charges in FY22. Financial charges also increased to Rs. 190.8m (FY21:Rs. 165.5m; FY20: Rs. 183.0m) on account of higher benchmark rates in the outgoing year. As per management, high finance costs in the wake of elevated working capital needs will continue to remain a drag on profitability over the rating horizon. In line with elevated costs including higher tax expense, bottom-line declined and amounted to Rs. 143.6m (FY21: Rs. 149.6; FY20: net loss of Rs. 137.7m) in FY22. As per management, cost-controlling measures including reducing salaries are being implemented to support bottom-line of the Company.

Sufficient Cash flow coverages and negative working capital cycle support liquidity profile

FFO, in absolute terms, amounted to Rs. 283.9m in FY22 (FY21: 241.6m, FY20: Rs. -90.8m). FFO to total debt and FFO to long-term debt were reported at 21.2% (FY21: 19.5%) and 42.0% (FY20: 50.2%), respectively at end-June'22. Debt Service Coverage Ratio (DSCR) stood lower at 0.96x (FY21: 1.97x) in FY22 on the back of higher current portion of debt. Current ratio of the company improved and stood comfortably at 1.29x at end-Jun'22 as a result of re-profiling of short-term debt into long-term debt. Trade debts and stock in trade provide sufficient coverage to short-term borrowings. Sustaining liquidity profile amidst weak operating environment will be important from a ratings perspective.

Sound capitalization profile

At end-FY22, equity base (excluding surplus on revaluation) was reported higher at Rs. 1.5b (FY21; Rs. 1.3b; FY20: Rs. 1.1b) on the back of profit retention. The company has not paid out dividends since past four fiscal years. Total interest bearing debt increased to Rs. 1.3b (FY21: Rs. 1.2b; FY20: Rs. 1.4b); of which 50% is short term in nature. Increase in long-term debt during FY22 depicts re-profiling of debt structure by drawing permanent working capital lines from financial institutions. Despite increase in quantum of debt employed, gearing and leverage ratios have improved and were reported at 0.92x (FY21: 0.95x; FY20: 1.21x) and 1.55x (FY21: 1.61x; FY20: 1.80x), respectively at end-FY22 due to profit retention. While gearing and leverage indicators are on the lower side, projected increase in the same to manage liquidity constraints amidst weak demand outlook may increase capitalization indicators in the ongoing year. Sustaining the same within manageable levels is considered important.

Financial Summary(amounts in PKR millions)				Appendix I
	FY19	FY20	FY21	FY22 (UA)
BALANCE SHEET				
Property, Plant and Equipment	1,930.10	1,879.20	1,787.47	2,108.71
Stock-in-Trade	772.60	863.30	982.38	1,312.44
Trade Debts	243.60	133.40	151.37	184.59
Cash & Bank Balances	23.20	17.10	28.61	67.05
Total Assets	3,728.00	3,752.40	3,953.41	4,494.22
Trade and Other Payables	184.60	380.20	480.26	502.91
Long Term Debt (including contingencies and commitments)	335.40	408.40	481.05	675.30
Short Term Debt	1,127.50	972.00	757.83	663.27
Total Debt	1,462.90	1,380.40	1,238.88	1,338.57
Total Liabilities	1,888.70	2,043.30	2,096.46	2,262.11
Paid-up Capital	750.00	750.00	750.00	750.00
Total Equity (excluding revaluation)	1,245.80	1,136.70	1,304.29	1,461.31
Total Equity (including revaluation)	1,839.20	1,709.10	1,856.96	2,232.11
INCOME STATEMENT				
Net Sales	2,581.60	1,899.90	2,392.40	3,412.47
Gross Profit	359.50	85.80	507.74	553.65
Operating Profit	273.10	26.50	380.19	410.50
Profit Before Tax	133.80	(156.50)	214.67	219.69
Profit After Tax	117.80	(137.70)	149.64	143.65
RATIO ANALYSIS				
Gross Margin (%)	13.9%	4.5%	21.2%	16.2%
Net Profit Margin	4.6%	-7.2%	6.3%	4.2%
Current Ratio (x)	0.88	0.87	0.92	1.29
Net Working Capital	(178.00)	(181.27)	(125.69)	405.17
Funds From Operations (FFO)	175.80	(90.80)	241.63	283.88
FFO to Total Debt (%)	12.0%	-6.6%	19.5%	21.2%
FFO to Long Term Debt (%)	52.4%	-22.2%	50.2%	42.0%
Debt Servicing Coverage Ratio (x)	1.65	0.22	1.97	0.96
ROAA (%)	4%	-4%	4%	3%
ROAE (%)	10%	-12%	12%	10%
Gearing (x)	1.17	1.21	0.95	0.92
Leverage (x)	1.52	1.80	1.61	1.55

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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Due Diligence Meeting Conducted	(see table below)

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
11/17/2022	**A-**	**A-2**	**Negative**	**Maintained**
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

Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Feroz Khan	CEO	2^{nd} November, 2022
Mr. Shakeel Ahmed	Manager Finance	2^{nd} November, 2022