RATING REPORT

Omar Jibran Engineering Industries Limited (OJEIL)

REPORT DATE:
February 19, 2024

RATING ANALYST:
Husnain Ali
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A-2	A-	A-2
Rating Outlook	Stable		Negative	
Rating Date	*19 Feb, 2024*		*17 Nov, 2022*	
Rating Action	Downgrade		Maintained	

COMPANY INFORMATION

Incorporated on June 25, 1987	**External Auditors:** M/s Yousuf Adil, Chartered Accountants
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

Applicable Rating Criteria:
Corporates (May 2023) https://docs.vis.com.pk/docs/CorporateMethodology.pdf
Rating Scale & Definitions https://docs.vis.com.pk/docs/VISRatingScales.pdf

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 Tubular Protection of America, Sigma-Chemi UAE, and Omar Jibran Engineering Limited and Adam Motor Company in Pakistan.

Omar Jibran Engineering Industries Limited ('OJEIL' or 'the company') possesses over 36 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 (IMC) and Honda Atlas Cars Limited (HCAR) and a preferred supplier to Atlas Honda Limited (AHL). Negotiations with AHL and IMC are underway for the development of auto parts of locally assembled electric bikes and hybrid electric vehicles (HEVs). The company is currently in process of negotiating long-term partnership contracts with MG Motors, Hyundai and an aftermarket partner. OJEIL also plans to diversify its operations into plastic bottle segment.

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-term investment of Rs. 468.5m at end-FY23 comprises exposure in a wholly-owned subsidiary, Adam Motor Company Limited (AMC).

The company's product mix is as follows:

Car parts	Interior Instrument Panels, Door Handles, Door Window, Regulators, Radiator Grills, Bumpers, Wheel Caps, Air Cleaner Casings, Fog Lamps, Air Ducts
Motorcycles parts	Fenders, Rims, Case Chain, Brackets, Rivets, Fuel Tanks
Rehabilitation products	Walking Sticks, Walkers, Wheelchairs, Stretchers

Key Rating Drivers

Subdued business environment of automobile sector impacted off-take of OJEIL's products: VIS classifies business risk profile of OJEIL in the high to medium category, given gross margins compression on a timeline basis which is mainly an outcome of lower volumetric off-take and higher cost of raw material. The volumetric sales have been affected by high prices thus impacting demand dynamics while exchange rate fluctuations adversely impacted costs of imported raw material. The rally of auto industry in FY22 was halted in FY23 mainly on account of hike in policy rate, rupee depreciation and import restrictions which led to industry-wide curtailment in production. In FY23, automobiles sales had decreased by 57% owing to sharp increase in prices and declining purchasing power of customers.

Client-wise concentration in sales continues to remain high; IMC and AHL contributed 88.2% (FY22: 84.9%) to sales during FY23. Nevertheless, the same is partly mitigated by long-term association with these customers and diversification into rehabilitation products, parts for industrial machinery and packaging products. Impact on topline from industrial machinery and packaging products is yet to manifest. Going forward, organic growth from existing clients, addition of customers and diversification in product offerings are key focus areas of the management. Given the impact of import restrictions in the outgoing year, use of local raw material in production increased to 65% (FY22: 49%) during FY23.

Profitability: Demand risk was elevated on account of decrease in volumetric sales specifically of two major customers, IMC and AHL. Total net sales decreased to Rs. 2.3b (FY22: Rs. 3.4b) during FY23. Net sales emanating from IMC decreased by 41.6% while net sales to AHL decreased by 22.0% during FY23. OJEIL's net sales stood lower at Rs. 537.6m during 4MFY24 on account of further decrease in demand from key customers. Following is the breakup of annual sales segregated by customers:

(Rs. in 000s)	**FY22**	**FY23**
IMC	1,339,947	782,258
HCAR	61,055	18,910
AHL	1,555,970	1,212,977
Others sales – Karachi	54,181	38,527
After market and scrap sales - Lahore	401,317	209,046
Total	**3,412,470**	**2,261,717**

A decreasing trend was witnessed in gross margins on a timeline basis to 2.6% (FY23: 14.5%; FY22: 16.2%; FY21: Rs. 21.2%) during 4MFY24. Operating expenses remained in similar range. Higher average borrowings and increase in policy rate resulted in higher financial charges of Rs. 304.8m (FY22: Rs. 190.8m) during FY23. Financial charges amounted to Rs. 119.3m during 4MFY24. Given lower net sales, lower gross margins and higher financial charges, a loss of Rs. 147.5m was reported during FY23 compared to a profit of Rs. 140.9m during FY22. The company reported higher loss of Rs. 161.6m during 4MFY24 on account of further decline in sales and margins.

Liquidity risk: FFO decreased to Rs. 59.8m (FY23: Rs. 273.0m) during FY23 mainly on account of lower profit from core operations. Given decrease in FFO, debt coverages were adversely impacted during FY23. FFO turned negative during 4MFY24. Current ratio improved to 1.5x (FY22: 1.3x) given lower current portion of long-term liabilities at end-FY23. Cash conversion cycle has remained high and increased further to 241 days (FY22: 164 days; FY21: 215 days) in FY23. Trade debts increased to Rs. 229.0m (FY22: Rs. 184.6m) mainly owing to increase in prices. Aging profile of trade debts is as follows:

	FY22	**FY23**
Not due	62.7%	58.4%
1-30 days	33.1%	22.2%
31-60 days	1.9%	8.7%
61 days and above	2.4%	10.6%

Capitalization profile: Equity base eroded to Rs. 1.3b (FY22: Rs. 1.5b) by end-FY23 and further to Rs. 1.2b by end-1QFY24 on account of loss incurred during the period under review. The company mobilized term finance facility from a DFI (development finance institution) resulting in higher long-term borrowings of Rs. 767.7m (FY22: Rs. 675.3m) at end-FY23. Proportion of short-term borrowings in total borrowings has been decreasing on a timeline basis and is depicted in the table below:

	FY20	**FY21**	**FY22**	**FY23**
Short-term borrowings	78%	61%	50%	45%
Long-term borrowings	22%	39%	50%	55%

Gearing and debt leverage increased to at 1.2x (FY23: 1.0x, FY22: 0.9x) and 2.1x (FY23: 1.8x, FY22: 1.6x) on mainly account of lower equity base at end-1QFY24. Leverage indicators are projected to increase slightly by end-FY24 and decrease in subsequent years, moving forward.

Omar Jibran Engineering Industries Limited — Annexure I

FINANCIAL SUMMARY				(PKR in millions)
BALANCE SHEET	**FY21**	**FY22**	**FY23**	**1QFY24**
PPE (inc. Work in Progress)	1,925.9	2,149.5	2,565.6	2,527.3
Long-Term Investments	535.7	468.5	468.5	468.5
Trade Debts	151.4	184.6	229.0	145.6
Stock-In-Trade	982.4	1,312.4	1,303.8	1,126.6
Tax Refund from The Government	113.4	94.2	94.2	-
Taxation	82.0	73.0	71.4	388.1
Cash and Bank Balances	28.6	67.1	25.6	15.1
Other Assets	134.1	142.2	131.2	184.2
Total Assets	**3,953.4**	**4,491.4**	**4,889.3**	**4,855.4**
Long-Term Borrowing (inc. Current Portion)	469.5	675.3	767.7	746.6
Short-Term Borrowing	757.8	663.3	633.3	643.2
Total Borrowing	1,227.3	1,338.6	1,401.0	1,389.8
Deferred Liabilities	343.6	412.4	519.0	596.0
Trade and Other Payables	480.3	502.9	441.0	270.3
Other Liabilities	45.3	8.2	80.4	172.4
Total Liabilities	**2,096.5**	**2,262.1**	**2,441.4**	**2,428.5**
Paid Up Capital	750.0	750.0	750.0	750.0
Equity	**1,304.3**	**1,458.5**	**1,339.5**	**1,170.7**
INCOME STATEMENT	**FY21**	**FY22**	**FY23**	**1QFY24**
Net Sales	2,392.4	3,412.5	2,261.7	537.6
Gross Profit	507.7	553.6	327.6	14.3
Operating Expenses	(137.0)	(158.5)	(164.6)	(53.6)
Other Income	9.4	7.5	4.3	4.0
Finance Cost	(165.5)	(190.8)	(304.8)	(119.3)
Profit Before Tax	214.7	211.8	(137.5)	(154.6)
Profit After Tax	**149.6**	**140.9**	**(147.5)**	**(161.6)**
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**	**1QFY24**
Gross Margin	21.2%	16.2%	14.5%	2.6%
Net Margin	6.3%	4.1%	-	-
ROAA	3.8%	3.1%	-	-
ROAE	11.5%	9.7%	-	-
Current Ratio (x)	0.9	1.3	1.5	1.7
(Stock-in-trade+Trade debts)/ST Borrowings (x)	1.5	2.3	2.4	2.0
Trade debts/Net Sales	6.3%	5.4%	10.1%	*9.0%
Net Working Capital	(125.7)	419.6	631.1	725.5
Funds From Operations (FFO)	241.6	273.0	59.8	(65.6)
FFO to Total Debt	19.5%	20.4%	4.3%	-
FFO to Long Term Debt	50.2%	40.4%	7.8%	-
Debt Servicing Coverage Ratio (x)	1.0	2.1	0.7	-
Gearing (x)	0.9	0.9	1.0	1.2
Leverage (x)	1.6	1.6	1.8	2.1

**Annualized*

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Omar Jibran Engineering Industries Limited (OJEIL)
Sector	Auto-part Manufacturing
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
02/ 19/ 2024	BBB+	A-2	Stable	Downgrade
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

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.
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Due Diligence Meeting Conducted	

Name	Designation	Date
Mr. Feroz Uddin Khan	CEO	
Mr. Asad	Finance Manager	December 8, 2023
Mr. Shams Ul Islam	Advisor	