



**RATINGS (JUNE 2011)**

**IBRAHIM FIBRES LIMITED (IFL)**

ENTITY	NEW	PREVIOUS
Long Term	AA-	A+
Short Term	A1+	A1

	31-Mar-11*	30-Jun-10	30-Jun-09
Total Assets	29,631.2	27,016.9	26,478.6
Equity	17,884.5	15,238.1	11,870.8
Turnover	28,668.8	27,123.8	22,059.6
Net Income	3,264.2	3,360.1	1,625.4
Gross Margin (%)	9.5	10.1	10.5
RoE (%)	25.1^	24.8	14.4
Total Debt/Total Debt + Equity (%)	23.5	33.7	44.3
EBITDA/Interest	4.3	2.3	1.9

**FINANCIAL DATA**

**PKR (MLN)**

\*Based on un-audited accounts for nine months

^Simple Annualized

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**PROFILE**

▪ IFL, incorporated in 1986 and listed on Karachi and Lahore stock exchanges, is primarily engaged in the production & marketing of PSF and blended yarns. The production facilities are located at Shahkot near Faisalabad; these facilities include current annual production capacity of 208,600 M.T. for PSF and 41,696 M.T. for yarn converted into 20/s count. Ibrahim group holds majority stake (88%) in IFL through sponsoring individuals. While IFL holds ~ 37% stake in Allied Bank Limited (ABL), the group's total ownership of the bank is ~ 80%.

▪ IFL's board of directors comprises seven members, including the CEO. Apart from the CEO, there are two directors from the sponsoring family while the remaining directors are senior executives of the group. The company is headed by Chief Executive Officer, Mr. Mohammad Naeem Mukhtar, who is duly supported by Mr. Muhammad Waseem Mukhtar and a team of senior executives having vast experience in their related fields.

**RATING RATIONALE AND KEY DRIVERS**

▪ The ratings reflect IFL's dominant market position in the local polyester staple fiber (PSF) industry. The ratings recognize the company's seasoned management team, efficient production process, sound technological infrastructure, and effective control environment. The company is doubling its polyester plant's capacity for which it has taken adequate measures to achieve project completion within set targets (time as well as cost), and onward smooth operations. Given significant expansion related debt (~PKR 13bln), management of financial risk would be challenging. This is accentuated by subdued socio-economic environment and need to expand its market to achieve higher utilization of enhanced capacity. However, comfort is drawn from the fact that current quantum of free cash flows, is sufficient to hold debt coverages at adequate level. The stable dividend stream from the company's strategic investment – Allied Bank Limited – and the sponsor's continuing support remain key rating factors.

▪ The ratings are dependent on the successful execution of the expansion project within the expected timeline without major cost overruns. The ratings also depend upon effective management of the company's financial risk. At the same times, the company's ability to maintain its market positioning, through changing regulatory and competitive scenarios, would remain important.

**ASSESSMENT**

▪ Polyester staple fibre (PSF) has wide range of applications. Its main use is the production of blended yarns by the spinning industry, which in turn is used to produce fabric. There are five main players in this industry in Pakistan with a current production capacity of 624,781 tons per annum. However, the biggest participant - Dewan Salman Fibre Limited (240,000 tons per annum – 38.41%) - has remained completely shut down since January 2009. The country's current demand is ~480,000 tons out of which 120,000 tons is being imported to fill the supply gap. Meanwhile, IFL currently caters more than 40% of the county's PSF demand.

▪ IFL's production capacities constitute two elements: PSF and Spinning. The company's topline mainly comprises a higher proportion of PSF – 75% - 80%. During 9MFY11, IFL produced 159,958 tons of PSF at 98% capacity utilization (9MFY10: 82% - low due to planned maintenance shutdown). Furthermore, there was slight increase in production of blended yarns of different counts (9MFY11: 24,457 tons; 9MFY10: 23,399 tons). Resultantly, the company's sales experienced a substantial growth. However, owing to more than proportionate increase in the raw material cost, the company witnessed a modest dip in its gross margin. Nevertheless, IFL's lower finance cost and sustained share of associated profit beefed up the bottom-line.

▪ The company is in the process of expanding its capacity by 227,500 tons per annum, capitalizing on the current vacuum existing in the industry. The estimated project cost is ~ PKR 20bln. Hereof, the company plans to finance ~PKR 13bln through borrowing while the remaining through internal resources. IFL has signed an agreement with the supplier of existing polyester plants now known as Lurgi GmbH (formerly Zimmer AG), Germany, for import of state of the art polyester staple fibre plant. The project is expected to commence its operations during 1HFY13, with three years mechanical guarantee covering both quality and efficiency. The new plant would be operating at 75% capacity during its first full year of operation in FY14 in accordance with the prevailing supply demand dynamics.

▪ Internal cash generation of IFL during the implementation period of Expansion Project amounting to PKR 6,729 million would be injected into IFL in three ways: firstly through internal profitability of the company; secondly by transferring dividend inflows of Sponsors from their investment in Allied Bank Limited (ABL) into IFL by way of purchase of ABL shares from IFL and thirdly from constant dividend inflows of IFL from its investment in ABL. As per this plan, IFL's current shareholding of around 37% in ABL would be reduced to 27% and personal holding of sponsors would increase to 53%.

▪ Working capital requirements of IFL is primarily a function of its inventory, for which the company resorts to short term credit lines. The company's short-term assets exceed its short-term obligations, signifying room for further borrowing. Nevertheless, the company's cash flow coverages, though presently strong, may come down as repayments on project loan begin. However, comfort can be drawn from stable dividend stream and the expected sale inflows of ABL.

▪ IFL currently has a low leveraged capital structure. The company's capital structure in terms of Total Debt/Total Debt + Equity – currently at 23% – is not expected to go beyond manageable level (47%) despite upcoming expansion.