

## IPO— Panther Tyres Limited: Subscribe up to PKR 60/sh.

Fresh Money— Automobile parts & Accessories

### About 'Panther Tyres Limited'

- › Panther Tyres Limited, formerly known as Mian Tyre and Rubber Company Limited, was founded in 1983 as a tyres and tubes manufacturing company.
- › In 2011, the Company changed its name from Mian Tyre and Rubber Company Limited to Panther Tyres Limited.
- › Location: Sheikhpura, spanning over an area of 168.6 kanals.
- › Panther Tyres Ltd. is now a major player in tyres and tubes industry of Pakistan. Moreover, in an attempt to enhance its product portfolio, the Company penetrated into trading business of automobile lubricants and motorcycle spare parts in April, 2018.
- › The Company also sells motorcycle engine oil and diesel engine oil for tractors, heavy transport vehicles, lifters and generators under its automobile lubricants segment.

### Operating Segments

- › The Company's major topline contribution is derived from the sales of Tyres and Tubes segment.
- › Automobile Lubricants & Spare Parts segment contributes 1.5% to sales.
- › Panther Tyres procures automobile lubricants and spare parts from different suppliers and sells them under its own brand name, "Panther Power". Whereas, it manufactures the tyres and tubes.

### Purpose of the Issue

- › The new issue is to partially fund the Company's expansion project to increase production capacities of Tyre Sets and Tubes.
- › The Company intends to import latest and state of the art 4 Roll Calender Line from Comerio Ercole (Italy) to produce fine quality products with a high product thickness accuracy, while reducing wastage.
- › The new line will also be used to produce radial tyres in the future.
- › Panther Tyres also intends to import fully automated Banbury Mixer from Farrel Limited (UK).



**PANTHER**

Issue Details	
Floor Price	PKR 47/Share
Price Band (Ceiling)	PKR 65.8/Share
	No. of Ordinary Shares
Through Book Building Process	30,000,000
Through Public Offering	10,000,000
<b>Total Offering</b>	<b>40,000,000</b>

Key Dates	2021
Registration of Eligible Investors	22 <sup>nd</sup> - 28 <sup>th</sup> Jan
Bidding Period Dates	27 <sup>th</sup> - 28 <sup>th</sup> Jan
Date of Public Subscription	3 <sup>rd</sup> and 4 <sup>th</sup> Feb

Product Portfolio	
Products	Vehicle Types
Bias Tyres	Two & Three Wheelers, LCVs, Tractor & Trolleys and OTRs
Butyl Tubes	Two & Three Wheelers, LCVs, Tractor & Trolleys, Trucks & Buses, Passenger Cars and OTRs
Automobile Lubricants & Spare Parts	Two & Three Wheelers, HTVs, Lifters and Generators

Source: Company Prospectus

	Tyres & Tubes	Auto Lubricants & Spare Parts
<b>Segment-wise Revenue (PKR Mn)</b>		
FY18	8,566	9
FY19	9,653	126
FY20	11,417	168
1QFY21	4,351	986
<b>Segment-wise Revenue Contribution (%)</b>		
FY18	99.9%	0.1%
FY19	98.7%	1.3%
FY20	98.5%	1.5%
1QFY21	98.6%	1.4%

Source: Company Prospectus

Mustafa Mustansir <sup>AC</sup>

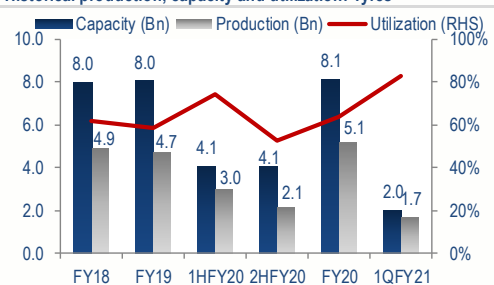
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# IPO – Panther Tyres Limited

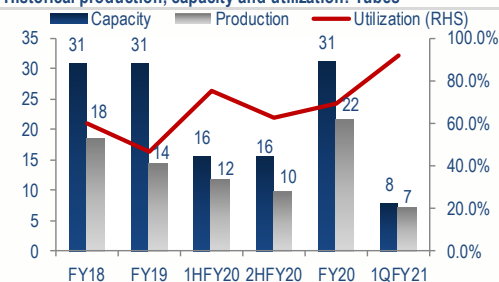
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Historical production, capacity and utilization: Tyres



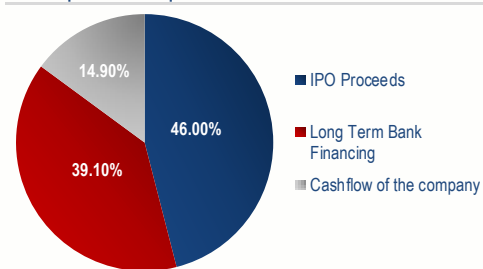
Source: Company Prospectus

Historical production, capacity and utilization: Tubes



Source: Company Prospectus

Break-Up of Fund Requirement



Source: Company Prospectus

### Pre and Post Expansion Capacity

Units ('000)	Current Capacity	Post Expansion Capacity	% Increase
Tyre Sets	8,100	9,800	21%
Tubes Packed	31,200	42,000	34.60%
Mixing Department	45,000	72,000	60.00%
Calender*	9,000	20,000	122.20%

\*Pre and Post expansion capacity has been determined in equivalent units of tyres based on the current and future product mix of the Company

## Sources of Funding Expansion

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Break up of fund requirement	Fund (PKR)	% Contribution
IPO Proceeds	1,410,000,000	46.00%
Long Term Bank Financing	1,200,000,000	39.10%
Cashflows of the company	456,173,839	14.90%
<b>Total Funding Requirement</b>	<b>3,066,173,839</b>	<b>100.00%</b>

### Utilization of Proceeds

Description	Funds Required	% Allocation	Already Incurred (PKR)	% Complete
Plant and Machinery	2,320,876,472	75.70%	238,852,721	10.30%
Duties & Other Expenses	223,037,137	7.30%	0	0
Freehold Land & Development Expenses	127,200,000	4.10%	27,200,000	21.40%
Building & Civil Works	395,060,230	12.90%	0	0
<b>Total Funding requirement</b>	<b>3,066,173,839</b>	<b>100.00%</b>	<b>266,052,721</b>	<b>8.70%</b>

### Break up of IPO Proceeds Utilization

	PKR	%
<b>Plant and Machinery</b>		
-- 4 Roll Calender Line	586,310,000	42%
-- Banbury Tangential Mixer	328,629,670	23%
<b>Freehold Land &amp; Development Expenses</b>	100,000,000	7%
<b>Building and Civil Works</b>		
-- Building for Calender Department	166,780,230	11.80%
-- Building for Mixing Department	567,880,000	11.90%
-- Building for Tube Department	60,400,000	4.30%
<b>Total</b>	<b>1,410,000,000</b>	<b>100%</b>

Source: Company Prospectus

## About the Issue

- › The Issue comprises of 40,000,000 Ordinary shares of face value worth PKR 10/- each. Out of total issue size, 30,000,000 new ordinary shares are being issued and 10,000,000 are being offered by sponsor of Panther Tyres Limited i.e. Mian Iftikhar Ahmed from his current shareholding.

### Pre and Post Issue Shareholding of Sponsors

Sponsors	Pre Issue		Post Issue	
	Shares	% of Shareholding	Shares	% of Shareholding
Mian Iftikhar Ahmed	76,999,560	69.99%	66,999,560	47.86%
Mian Faisal Iftikhar	22,000,000	20.00%	22,000,000	15.71%
Ms. Samina Iftikhar	11,000,000	10.00%	11,000,000	7.86%
<b>Total</b>	<b>109,999,560</b>	<b>99.99%</b>	<b>99,999,560</b>	<b>71.43%</b>

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### End user, demand for the product and major competitors

- › Demand for tyres and tubes in Pakistan is generated by Original Equipment Manufacturers (OEMs) sales and the replacement market sales.
- › The Company derives ~25% of its total sales from supplies to OEMs.
- › Whereas, contribution of replacement market sales in total sales of the Company is ~75%.
- › The Company caters to the replacement market through its 500 direct business partners in capacity of distributors and dealers and 40,000 indirect business partners
- › They have maintained long standing relationships with its wholesalers, distributors and retailers.

### Major OEM Customers



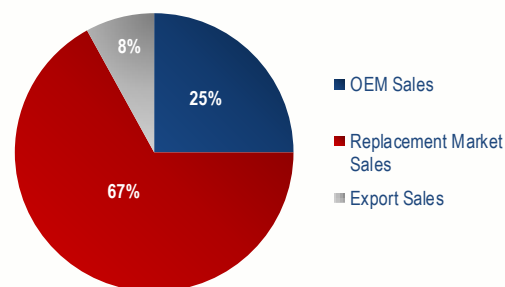
### Major Competitors

- › Service Industries Limited
- › The General Tyre and Rubber Company of Pakistan Limited
- › Diamond Tyres Limited
- › Ghauri Tyres & Tube (Pvt.) Limited
- › Crown Tyres Limited

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Segment-wise Revenue Contribution (%)

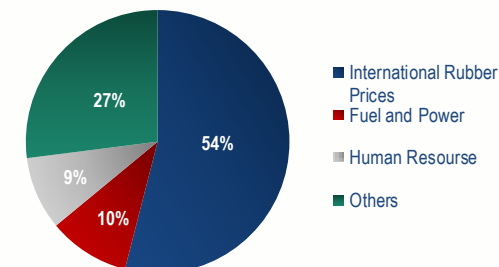


Source: Company Prospectus

	Export Sales	% of Sales
FY17	365	5.0%
FY18	446	5.2%
FY19	446	4.6%
FY20	878	7.6%
1QFY21	348	7.9%

Source: Company Prospectus

Major Cost Drivers



Source: Company Prospectus

## Revenue Drivers

### OEM Sales:

- › In the OEM segment, the Company supplies tyres and tubes to local assemblers of 2 wheelers, 3 wheelers, LCVs and tractors. 25% of its total sales are from OEMs. Revenue from this segment is highly dependent on growth in OEM sales.

### Replacement Market Sales:

- › The replacement market is the secondary market for tyre manufacturers and comprises of distributors, wholesalers and retailers. The Company caters to replacement market through its 500 direct business partners: distributors, dealers and 40,000 indirect business partners. The domestic replacement market sales in total sales of the company is 67%.

### Export Sales:

- › The Company exports motorcycles, tractors, rickshaws, LCVs and truck and bus bias tyres and tubes to replacement markets of around 12 countries in the world. Export sales in the total sales of the Company have increased from 5.0% in FY17 to 7.6% in FY20.
- › Recent devaluation of the rupee of 38% over the last two years (FY19 & FY20) has made the Company's product pricing competitive in international market and the Management of the Company believes that the growth momentum in export sales of the Company will continue in foreseeable future.

## Cost Drivers

### International Rubber Prices:

- › Rubber is the primary raw material and accounts for 54% of total cost of raw material. Price of rubber in international market is important to overall cost of manufacturing since all these materials are imported from different parts of the world.

### Fuel and Power:

- › This accounts for 10% of total cost of manufacturing for the Company and includes electricity cost of 4.85MW from LESCO and from the procurement of coal used for steam generation.

### Human Resource:

- › Salaries and wages are as high as 9% of the total cost of manufacturing.

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## Takeaways from Management Briefing

- › Management claim the market share to be 40 – 45% of the local market.
- › Furthermore, Panther Tyres is the fastest growing company in automobile parts and accessories sector, with annual growth in sales of 18.5% in FY20; and 41.8% growth forecast for FY21.
- › According to the management, the Tyre and Tube market is worth PKR 130Bn with only Panther Tyres, Service Tyres and General Tyres catering to 70% of it. While other players continue to operate at full capacity, Panther Tyres Limited remains the first one to announce an expansion and is expected to grab the growing market demand before any other players do.
- › The management believes that expansion in the calendaring depart is the most important milestone as it will lay the groundwork for further expansion in later years.
- › Moreover, the Company intends to pay dividend in a combination of cash and issue bonus shares.
- › The expansion is expected to reflect in the company's topline by July, 2022.

## Subscribe up to PKR 60/share.

- › We attribute Panther Tyres a Fair Value of PKR 69/sh. based on a blend of comparable Price-to-sales (x) and Price-to-book (x) multiples. We have selected these multiples due to availability of normalized peer data in these categories.
- › We used a median P/B (x) of 1.27x and P/Sales (x) of 0.86x, as benchmark multiples, shown in the table.
- › Post-IPO book value for Panther was forecasted using the latest available book value plus IPO proceeds of PKR 1.4bn.
- › Panther's sales were forecasted in accordance with Management guidance for FY21, amounting to PKR 16.4Bn.
- › Our Fair Value provides an upside of 47% over the floor price of PKR 47/sh. We recommend "BUY" up to a price of PKR 60/sh., assuming minimum upside of 16%.
- › With auto sales expected to grow at a CAGR of 11.9% and overall economic growth; prospects for Panther seem bright, being the first mover in terms of expansion.

Peer Companies	P/B(x)	P/Sales(x)
General Tyre	2.46	0.83
Service Industries	2.54	0.56
Loads Limited	0.68	0.59
Synthetic Products Enterprise Limited	1.28	1.19
Baluchistan Wheels	0.63	0.89
Exide Pakistan Limited	0.54	0.15
Agriauto Industries Limited	1.34	1.38
Thal Limited	1.26	1.60
<b>Median</b>	<b>1.27</b>	<b>0.86</b>

Source: Company Financials and TSL Research

(\*) Based on latest annual financial statements

	Weight	Value	Weighted Value
Value as per P/B(x) basis	50%	45	22
Value as per P/Sales (x) basis	50%	94	47
Panther Fair Value	100%		69
Floor price			47
Upside to Floor Price			47%
Subscribe up to			60

Source: Company Financials and TSL Research

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## Historical Financial Snapshot

Income Statement (PKR mn)	FY16	FY17	FY18	FY19	FY20	1QFY21
Sales	5,599	7,259	8,574	9,779	11,585	4,411
Gross Profit	803	1,018	1,133	1,338	1,677	684
Finance Cost	165	211	288	404	598	100
Profit After Taxation	224	294	362	214	252	254

Balance sheet (PKR Mn)	FY16	FY17	FY18	FY19	FY20	1QFY21
Non-current Assets	2,895	3,843	3,955	3,996	4,130	4,313
Current Assets	2,157	3,934	4,140	3,756	4,975	4,608
Total Assets	5,052	7,777	8,095	7,752	9,105	8,921
Total Equity	2,070	2,804	3,209	3,340	9,612	3,870
Non-current Liabilities	1,077	1,376	1,100	980	1,009	1,243
Current Liabilities	1,905	3,597	3,786	3,432	4,484	3,807
Total Liabilities & Equity	5,052	7,777	8,095	7,752	9,105	8,921

Key Metrics	FY16	FY17	FY18	FY19	FY20	1QFY21
Gross Margin	14.4%	14.0%	13.2%	13.7%	14.5%	15.50%
Net Margin	8.1%	7.6%	8.4%	7.5%	8.4%	10.20%
Sales Growth	3.1%	29.7%	18.1%	14.1%	18.5%	30.90%
EBITDA Margin	11.5%	10.4%	11.6%	10.3%	11.3%	12.00%
EPS	3.8	4.9	6.1	2.1	2.5	2.3
Break-up Value/Share	34.8	47.2	54	33.4	36.1	35.2
Receivable Turnover	47	53.8	59.1	61.9	68.3	N/A
Inventory Turnover	44.2	62.7	83	68.7	59.6	N/A
Payable Turnover	21.9	19.5	21	20.8	23.6	N/A
Current Ratio	1.1	1.1	1.1	1.1	1.1	1.2
ROA	4.6%	4.6%	4.6%	2.7%	3.0%	N/A
ROE	11.4%	12.1%	12.0%	6.5%	7.2%	N/A
Debt to Equity	1.1x	1.4x	1.2x	1.0x	1.1x	0.9x

Source: Company Prospectus

## Important Disclosure

### SECP Research Entity Notification Number: REP-040

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## Valuation Methodology

To arrive at our period end target prices, TSL uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Justified price to book (JPB)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

SECP JamaPunji Portal link: <https://jamapunji.pk/>

## Frequently Used Acronyms

<b>TP</b>	Target Price	<b>DCF</b>	Discounted Cash Flows	<b>FCF</b>	Free Cash Flows
<b>FCFE</b>	Free Cash Flows to Equity	<b>FCFF</b>	Free Cash Flows to Firm	<b>DDM</b>	Dividend Discount Model
<b>SOTP</b>	Sum of the Parts	<b>P/E</b>	Price to Earnings ratio	<b>P/Bv</b>	Price to Book ratio
<b>P/S</b>	Price to Sales	<b>EVA</b>	Economic Valued Added	<b>BVPS</b>	Book Value per Share
<b>EPS</b>	Earnings per Share	<b>DPS</b>	Dividend per Share	<b>DY</b>	Dividend Yield
<b>ROE</b>	Return on Equity	<b>ROA</b>	Return on Assets	<b>JPB</b>	Justified Price to Book