RATING REPORT

Indus Motor Company Limited

REPORT DATE:
June 07, 2021

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	AA+	A-1+	AA+	A-1+
Rating Outlook	Stable		Stable	
Rating Date	*07 June, 2021*		*12 June, 2020*	

COMPANY INFORMATION	
Incorporated in 1989	**External auditors:** A.F Ferguson & Co.
Public Limited Company	**Chief Executive Officer:** Ali Asghar Jamali
Key Shareholders (with stake 5% or more):	
Foreign Investor ~ 82.86%	
Associated Companies ~ 6.25%	
Individuals (General Public) ~ 5.35%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Industrial Corporates (April 2019)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

Indus Motor Company Limited

OVERVIEW OF THE INSTITUTION

Indus Motor Company was incorporated in Pakistan as a public limited company in December 1989 and started commercial production in May 1993. The company is listed on the Pakistan Stock Exchange

Profile of CEO

Ali Asghar Jamali was appointed as Chief Executive Officer in January 2017. He has been with the Company since October 2000 and has served in key roles in various departments, owing to which he has acquired rich experience in end to end management of company operations. He is a fellow of the Institute of Chartered Accountants of Pakistan and has attended the Advance Management Program at Harvard University and the Accelerated Management Program at Wharton School of Business in the USA.

RATING RATIONALE

Indus Motor Company Limited (IMC), a Joint Venture between Toyota Motor Corporation (TMC), Toyota Tsusho Corporation (TTC) and House of Habib (HoH), is a sole manufacturer, assembler, distributor and importer of Toyota vehicles in Pakistan.. The company has a strong (3S - sales, service and spare parts) distribution network of 50 independent dealers spread nationwide. Registered head office and production facility is located in Port Qasim, Karachi. Since its inception, IMC has effectively adopted Kaizen (continuous improvement) concepts within the organization and follows just-in-time manufacturing method to avoid excess inventory.

Sector Update

- Automobile sector posted adverse performance during the year FY20, wherein sales of Cars, LCVs, 4x4 & Pick-Ups experienced a YoY decline of 53%.
- This was attributable to the pandemic-induced lockdown implemented by the Government of Pakistan (GoP) in Q4'FY20.
- However, even prior to the lockdown, the prevailing economic slowdown and high interest rates had restricted the sales volumes of the auto industry.
- As a result of the slowdown during the last two fiscal years, automobile assembler's working capital cycle came under pressure, which led auto players to mobilize debt on their balance sheet.
- During H1'FY21, sales of Cars and LCV's started to rebound gradually as lockdown was eased, economic conditions started to improve and interest rates bottomed out at 7%.
- Going forward, we foresee the demand to register slow but steady growth on the back of improvement in economic conditions, while low interest rates would continue to support automobile sales.

Automobile Offtake (Units)	FY19	FY20	H1'FY20	H1'FY21
Cars, LCV's, 4x4 & Pick-Ups	240,646	111,962	67,494	79,954
Tractors	50,405	32,727	15,234	21,765
Trucks	5,828	3,088	1,704	1,650
Buses	935	559	373	297

Operational Update

Utilization, offtake and market share

- Akin to the industry, IMC observed higher Non-Production Days (NPDs) during FY20. As per management, observance of NPD's rationalizes operational costs and is required for optimal inventory management.

Units	FY18	FY19	FY20	H1'FY20	H1'FY21
Capacity*	54,800	66,000	66,000	33,000	33,000
Production	62,886	65,346	28,519	14,520	26,119
Utilization	114.8%	99.0%	43.2%	44.1%	79.9%
Sales**	63068	65,399	28,378	14,175	26,139
Growth (%)	5%	-4%	-57%	-	84%

**Capacity is based on double shift basis*
***Sales units based on PAMA numbers*

- Units' sales declined by 53% during FY20 vis-à-vis drop in industry sales of 49% during SPLY.
- Unit sales have witnessed a reversal during H1'FY21. Sales volume improved in all segments mainly due to demand pick-up after lockdown and lower interest rates prevailing during the period.
- The company introduced "Toyota Yaris" in Mar'20 with upgraded product & safety features and fuel efficiency, replacing the Xli and Gli variants of Corolla, which have been discontinued. In addition, the company has also launched 'Toyota Cross' in CBU segment.

Segment	IMC	Competition
1300-1800cc	Corolla, Yaris	City, Swift, Alsvin, Saga, Civic
SUV	Fortuner	-
Pickups	Hilux	DMAX, Porter, JAC, Ravi
Crossover	Corolla Cross	BRV, Sorento, Sportage, MG HS, Tucson, X70

- IMC's market share broadly remained intact during FY17-FY18, albeit improving since FY19.
- We expect market share to remain on higher side mainly in 1300-1800cc segment given the addition of Toyota Yaris in the product portfolio.
- Similarly, capacity utilization is likely to remain on the higher side during the rating horizon.

Market Share*	FY16	FY17	FY18	FY19	FY20	H1'FY21
1300-1800cc	66%	56%	52%	61%	60%	62%
Crossover/SUV	78%	39%	33%	37%	34%	30%
Pickups	17%	25%	26%	27%	31%	41%
Total	**52%**	**49%**	**45%**	**54%**	**52%**	**55%**

**Market share calculated on the basis of PAMA available data only*

Key Rating Drivers

Strong sponsor profile

- Assigned ratings incorporate strong financial profile of the sponsors. Toyota Motor Corporation (TMC), established in 1937 and headquartered in Japan, is the world's largest auto manufacturer, based on 2020 unit sales. 'Toyota Motor Corporation' has been assigned long-term credit ratings of 'A+' on the international scale, by Standard & Poor's (S&P).

Sound business risk profile

- Business risk profile is considered sound given solid franchise, high brand value and strong competitive position in the product segment in which IMC operates.

- Strong dealer network and declining trend in imported car sales further support the business risk profile whereas significant rupee devaluation is a drag on profitability (although prices have increased regularly to offset pressure on margins).

- Cyclicality in sales due to slowdown in GDP growth and frequent policy changes are key business risk factors. IMC's sales mix also benefits from healthy mix of urban and rural segment (where the agricultural economy has been relatively less impacted vis-à-vis large scale manufacturing).

- Going forward, competitive pressures are expected to intensify in the automobile industry as new players roll out product offerings. Higher penetration of new entrants will largely be in hatchback, light engine capacity sedans, SUVs and Crossovers segment.

- VIS expects limited similar vehicles to be introduced (in terms of engine capacity) to compete against IMC's flagship products in 2021.

Decline in sales bottomed out, topline is forecasted to display growth over the rating horizon while increasing margins will remain a key challenge

- The revenue number of the company declined significantly by 45% during FY20 on the back of a sharp decline in sales offtake numbers.

- The company was not able to pass on the full impact of mammoth rupee depreciation and other cost pressures during FY19, which compromised its margins (FY19: 12%; FY18: 17%). While in FY20, margins came under further pressure, dropping to 9%.

- Automobile demand started to pick up in H1'FY21 depicting an increase of 84% vis-à-vis SPLY, albeit gross margin remained under pressure at around 8%.

- Going forward, increase in sales will be key profitability driver while continued focus on cost controls and further enhancing efficiencies are expected to keep operating expenses within manageable levels.

Income Statement (Extract)	FY18	FY19	FY20	1HFY20	1HFY21
Sales	139,715	157,996	86,167	42,775	79,646
Gross Profit	23,885	19,192	7,451	3,767	6,011
Profit Before Tax	22,999	18,976	7,287	3,196	6,791
Profit After Tax	15,772	13,715	5,082	2,306	4,801
Gross Margin	*17.1%*	*12.1%*	*8.6%*	*8.8%*	*7.5%*
Operating Margin	*16.5%*	*12.1%*	*8.6%*	*7.6%*	*8.6%*
Net Margin	*11.3%*	*8.7%*	*5.9%*	*5.4%*	*6.0%*

Ratings draw support from robust balance sheet and ample liquidity providing financial freedom to adopt future strategy

- Assessment of liquidity profile incorporates healthy cash flows, efficient working capital cycle and sizeable liquidity holding.

- Net cash (Cash + ST Inv. – Advances) amounted to Rs. 30.2bn as of Dec'20. (Jun'20: Rs. 17.8bn, Jun'19: Rs. 18.8bn)), while liquid assets comprised 62% of the total assets as of Dec'20 (Jun'20: 51%, Jun'19: 36%). Short term investments are mainly placed in safe avenues including term deposits, government securities and mutual funds.

- Sizeable internal capital generation continued to reinforce capital buffers as Net Equity grew to Rs. 44.5bn as at Dec'20 (Jun'20: Rs. 41.2bn, Jun'19:Rs. 40.0bn).

- At present, debt profile is very limited, with only long term loan being concessionary rate financing under SBP borrowing scheme for renewable energy project.

Balance sheet (Extract)	FY18	FY19	FY20	1HFY21
Cash+ST Inv.	57,231	26,684	42,366	65,338
Total Assets	81,922	64,783	80,279	104,030
Advances from customers	27,491	7,930	24,534	35,102
Long term loan	-	81	593	1,047
Total Liabilities	45,181	24,738	39,109	59,553
FFO	15,719	10,219	4,791	5,437
Leverage	1.23	0.62	0.95	1.34
Gearing	-	0.00	0.01	0.02
DSCR	-	-	-	86.24*

**Annualized*

Experienced and diverse board composition and senior management team. Overall governance level is considered strong

- Board of Directors (BoD) comprises ten members including Chairman, CEO, three representatives from JV partners (Toyota), two executive directors and three independent directors. Board meetings are convened regularly while scopes of these meetings largely pertain to financial performance and internal controls.

- IMC has in place a qualified senior management team with extensive experience in automobile sector. Additionally, the company also benefits from the support and guidance from its JV partner.

- The company has deployed fully integrated SAP (SAP HANA) to meet its business requirements.

Indus Motor Company Limited — Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**1HFY21**	**FY20**	**FY19**	**FY18**
Non-Current Assets	16,338	16,661	13,925	7,384
Stock-in-Trade	15,398	15,933	13,560	11,150
Trade Debts	675	1,142	2,548	1,453
Short Term Loans & Advances	5,463	2,991	3,728	3,714
Cash & Short Term Investments	65,338	42,366	26,684	57,231
Total Assets	104,030	80,279	64,783	81,992
Trade and Other Payables	22,230	13,593	15,950	15,731
Short Term Borrowings	-	-	-	-
Long Term Finances – Secured *(including current portion)*	1,047	593	81	-
Total Interest Bearing Debt	1,047	593	81	-
Advances From Customers	35,102	24,534	7,930	27,491
Total Liabilities	59,553	39,109	24,738	45,180
Paid-up Capital	786	786	786	786
Total Equity	44,477	41,169	40,045	36,744
INCOME STATEMENT	**1HFY21**	**1HFY20**	**FY20**	**FY19**
Net Sales	79,646	42,775	86,167	157,996
Gross Profit	6,011	3,767	7,451	19,192
Other Income	2,457	1,227	3,205	4,307
Finance Cost	58	38	86	67
Profit before Tax	6,791	3,195	7,287	18,976
Profit After Tax	4,801	2,304	5,082	13,715
RATIO ANALYSIS	**1HFY21**	**FY20**	**FY19**	**FY18**
Gross Margin (%)	7.5%	8.6%	12.1%	17.1%
PBT Margin (%)	8.5%	8.5%	12.0%	16.5%
Net Margin (%)	6.0%	5.9%	8.7%	11.3%
Current Ratio (x)	1.49	1.65	2.10	1.65
Net Working Capital	28,799	24,991	26,679	29,381
Working Capital Cycle (Days)	(3)	8	(5)	(5)
Gearing (x)	0.02	0.01	0.00	-
Leverage (x)	1.34	0.95	0.62	1.23
FFO	5,437	4,777	10,219	15,682
FFO to Total Debt (x)	10.38*	8.08	189.15	-
FFO/Long Term Debt (x)	10.38*	8.08	189.15	-
Debt Servicing Coverage Ratio (x)	86.24*	-	-	-
ROAA (%)	10.4%*	7.0%	18.7%	21.6%
ROAE (%)	22.4%*	12.5%	35.7%	46.4%

**Annualized*

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	Indus Motor Company Limited
Sector	Automobile
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				
07/06/2021	AA+	A-1+	Stable	Reaffirmed
12/6/2020	AA+	A-1+	Stable	Reaffirmed
17/6/2019	AA+	A-1+	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 Meetings Conducted	

Name	Designation	Date
Ibrar Khan	General Manager	05/04/2021
Arif Anzer	General Manager	