RATING REPORT

Master Motor Corporation (Private) Limited

REPORT DATE:
April 6, 2018

RATING ANALYSTS:
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RATING DETAILS

	Initial Rating	
Rating Category	**Long-term**	**Short-term**
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	*April 6, 2018*	

COMPANY INFORMATION

Incorporated in 2002	**External auditors:** RAO & Company Chartered Accountants
Private Limited Company	**Chairman of the Board:** Mr. Nadeem Malik
	Chief Executive Officer: Mr. Nadeem Malik

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria Methodology – Industrial Corporates (May 2016)
http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf

Master Motor Corporation (Private) Limited

OVERVIEW OF THE INSTITUTION

Master Motor Corporation (Private) Limited (MMCL) was incorporated as a Public Limited Company in 2002. During 2010, the company's status was converted from being an unquoted public company to a private limited company. Therefore, the entity was renamed from 'Master Motor Corporation Limited' to 'Master Motor Corporation (Private) Limited'. The company is ISO9001 certified for both its assembly plant & after sales services & marketing, hence meeting international quality standards. MMCL's plant is located at Port Qasim, Karachi.

Profile of Chairman & CEO:

Mr. Nadeem Malik is a seasoned businessman with extensive experience in the automobile and foam products industry. Mr. Nadeem has been associated with Master group for the past three decades and is currently serving as Chairman of various associate companies. He holds a Bachelor's degree in Business Administration from the University of Southern California.

RATING RATIONALE

Master Motor Corporation (Private) Limited (MMCL) falls under the umbrella of 'Master Group of Industries'. The group has exposure in diversified sectors such as automobiles, textile, chemicals, power generation etc. Primary business of the company includes assembling and manufacturing of commercial vehicles, including buses, trucks and prime movers. Customer base of the company is diversified with end users pertaining to different industries. Total installed capacity of MMCL includes 5,000 trucks in a year while it can assemble up to 25 buses in a month.

Key Rating Drivers:

Sponsor Support: Similar to other private companies, MMCL is a family owned business with shareholding equally distributed amongst an individual and two associate entities. The assigned rating to MMCL incorporates strong profile of its parent. Sponsors have continued to demonstrate commitment towards the company, in the form of financial support, since its establishment. JCR-VIS anticipates this support to prevail in future.

Business Risk: Automobile industry is characterized by technological barriers to entry. Market dynamics signified by presence of excess demand also make the industry economically attractive for potential new players. As a result, a number of new entrants have plans to start operations in Pakistan. Majority of the business of MMCL is in the form of contracts with price indexation clauses, which increases company's ability to pass on the increased input costs to end consumers. Furthermore, MMCL has sustained its leading position in the market for a considerable time period, hence, business risk is considered to be on the lower side.

Profitability: Net sales of the company have depicted an increasing trend on account of volumetric growth which enabled the company to maintain turnover and profitability. Presence of excess demand in the market has also exerted upward pressure on prices. Market prices of these vehicles varied amongst segments. Given that the industry functions on a cost plus pricing mechanism, margins of this company have largely remained stable. Moreover, bottom line of the company has more than doubled which has translated into higher net margins. Profitability of the company is expected to increase on the back of plans to expand its product line into medium sized Foton trucks & prime movers.

Capitalization & Funding: Debt profile of the company comprises short term borrowings only. Running finance facilities of the company carry parental guarantee, hence, risk on the same is considered to be low. As a result, leverage indicators of the company stand at lower levels than its peers. Debt leverage and gearing were reported at 1.5x and 0.1x respectively, at June 30, 2017. To date, the company has no plans for mobilizing fresh long term borrowings in near future. At current debt levels, debt servicing coverage remains comfortable with the company projecting further improvement in the same.

Liquidity: Aging profile of receivables indicates that majority of receivables are due within 6 months. Improvement was witnessed in funds generated from operations (FFO) on the back of higher sales. However, quantum of FFO was limited given the substantial amount of sales tax paid during FY17; the same is reimbursable from the government. Nonetheless, in view of these factors, overall liquidity profile of the company is considered sound.

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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	Master Motor Corporation (Pvt) Limited
Sector	Automobiles
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				
06-Apr-18	A-	A-2	Stable	Initial

Instrument Structure	N/A
Statement by the Rating Team	JCR-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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