

# RATING REPORT

## Sazgar Engineering Works Limited

### REPORT DATE:

February 12, 2025

### RATING ANALYST:

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RATING DETAILS				
Rating Category	Latest Rating		Initial Rating	
	Medium to Long-term	Short-term	Medium to Long-term	Short-term
Entity	A	A1	A	A2
Rating Date	February 12, 2025		January 25, 2024	
Rating Outlook/Watch	Positive		Stable	
Rating Action	Upgrade		Initial	

### COMPANY INFORMATION

Incorporated in 1991	External Auditors: Crowe Hussain Chaudhury & Co. Chartered Accountants
Public Limited Company	Chairperson: Saira Asad Hameed
Key Shareholders (with stake 5% or more):	CEO: Mian Asad Hameed
Mian Asad Hameed – 37.43%	
Saira Asad Hameed – 6.41%	
Mubammad Ali Hameed – 11.61%	
Local public – 17.18%	
Joint Stock Companies – 11.05%	

### APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria:

Corporates <https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

Rating Scale & Definitions <https://docs.vis.com.pk/docs/VISRatingScales.pdf>

**Sazgar Engineering Works Limited**

**OVERVIEW OF THE INSTITUTION**

*Sazgar Engineering Works Limited was established on September 21, 1991 as a private limited Company and converted into a public limited Company on November 21, 1994. The Company is engaged in the manufacturing and selling of automobiles, auto parts and household appliances. The Company's manufacturing plant is located in Rainind, Lahore and the registered office is located in Thokar Niaz Baig, Lahore.*

**Profile of CEO:**

*Mr. Mian Asad Hameed graduated from the United States and has been on the Company's board of directors since inception. In 1980, he began his career as an Assistant Area Manager for Burma Shell. He joined M/S Ciba Enterprises (Private) Limited in 1984 as a director and was later named as the Company's Chief Executive in 1986, a position he held until 2008. He has been involved in the creation of wheel rim dies, production machinery, and the development and design of the Mini cab three-wheel rickshaw. He is a pivotal figure contributing significantly to the success of four-wheeler project.*

**RATING REPORT**

Sazgar Engineering Works Limited ('SAZEW' or 'the Company') was established on September 21, 1991 as a private limited Company and converted into a public listed Company on November 21, 1994. The Company is engaged in the manufacturing and selling of automobiles, auto parts and household appliances. The Company's registered office and manufacturing facilities are located in Lahore.

**Corporate profile:** SAZEW began as a manufacturer of household items and tractor rims in 1991. The Company entered the three-wheel industry in 2004 and became one of the prominent assemblers in Pakistan and also started exporting its products in more than 25 countries. The Company's major ownership has largely rested with Hameed family since inception. SAZEW established its name in the three-wheeler products segment before entering the SUV and HEV segment as the Company, along with 20 other companies, was awarded Greenfield Status in the Automotive Development Policy (2016-21).

**Table 1: Product Portfolio**

Product segment	Variants
<b>Four-Wheeler</b>	Haval H6 (1.5L, 2.0L, 1.5L HEV), Haval Jolion (1.5L, 1.5L HEV), BAIC BJ40 Jeep, GWM Tank HEV, Ora-3 EV, Ora-7 EV
<b>Three-Wheeler</b>	Deluxe Mini Cab, 7-Seater, 6-Seater, Cargo Loader, EV Rickshaw and Multi-Purpose Rickshaw
<b>Automotive Parts</b>	Fiat Rims, Massey Ferguson Rims

SAZEW's management team includes professionals with extensive experience. The management team is spearheaded by Mr. Mian Asad Hameed. Mr. Saeed Iqbal Khan serves as the COO of Three-Wheeler and Automotive Parts Division while Mian Muhammad Ali Hameed has been appointed as the COO of Car Division for a period of three years with effect from March 28, 2023. The total number of permanent employees were 1,392 (Jun'23: 1,197) as of Jun'24. The status and names of directors is shared below:

**Table 2: Board of Directors**

Status	Names of Director(s)
<b>Independent Directors</b>	Mr. Umair Ejaz, Mr. Taha Mahmood, Mr. Muhammad Omer Saeed
<b>Non-Executive Directors</b>	Mrs. Saira Asad Hameed (Chairperson), Mrs. Sana Suleyman, Mr. Humza Amjad Wazir
<b>Executive Directors</b>	Mr. Mian Asad Hameed (CEO), Mr. Saeed Iqbal Khan (COO), Mr. Mian Muhammad Ali Hameed
<b>Female Directors</b>	Mrs. Saira Asad Hameed, Mrs. Sana Suleyman

Of the nine directors, all have successfully completed the Directors' Training Program from SECP-approved institutions as of June 30, 2024. Additionally, two directors qualify for

exemption under the Listed Companies (Code of Corporate Governance) Regulations 2019 and have obtained formal exemption from the SECP. The Board has established key committees, including the Audit Committee, HR and Remuneration Committee, Sustainability Committee, Nomination Committee, and Risk Management Committee, to effectively oversee the Company's operations.

### Sector update

- Amid economic slowdown during FY23 and FY24, automobiles sales have witnessed a sharp decline, wherein sales of Jeeps & Pickups (excluding commercial vehicles) have registered a drop of 34% YoY in FY23.
- With the continuation of weak economic indicators, Jeeps & Pickups sales have further declined by 20% YoY in FY24.
- During 5MFY25, with the rebound in the economic indicators amid decline in interest rates, sales of Jeeps & Pickups increased by 51% YoY compared to SPLY.
- On the 3-wheeler front, sales of the segment dropped by 53% YoY in FY23 but recovered by 26% YoY in FY24.
- During 5MFY25, sales of 3-wheelers rose by 104% YoY amid stability in economic indicators and lower financing rates. Automobile sales of relevant segments are as tabulated below:

**Table 3: Industry Offtake (Jeeps & Pickups)**

Jeeps and Pickups Off-Take* (units)	FY22	FY23	FY24	5MFY24	5MFY25
<b>INDU</b>	18,005	12,266	4,465	1,789	2,409
<b>Hyundai</b>	4,895	4,774	5,071	1,856	1,334
<b>SAZEW</b>	453	1,826	5,374	1,257	4,191
<b>PSMC</b>	14,230	3,808	2,731	1,220	1,876
<b>HCAR</b>	4,255	4,056	1,713	833	540
<b>Others</b>	1,404	2,018	881	246	493
<b>Total</b>	<b>43,242</b>	<b>28,748</b>	<b>20,235</b>	<b>7,201</b>	<b>10,843</b>

Source: PAMA

\*Excluding Commercial Vehicles (Porter and Shabzore)

Note: Non-PAMA members are not included in above analysis.

**Table 4: Industry Offtake (Three-Wheeler)**

Three-Wheeler Off-Take (units)	FY22	FY23	FY24	5MFY24	5MFY25
<b>Qingqi</b>	13,935	6,564	5,977	1,910	4,178
<b>SAZEW</b>	15,683	9,381	15,014	4,653	9,812
<b>Road Prince</b>	8,361	1,677	1,303	393	645
<b>United</b>	3,156	1,708	2,095	379	322
<b>Total</b>	<b>41,135</b>	<b>19,330</b>	<b>24,389</b>	<b>7,335</b>	<b>14,957</b>

Source: PAMA

Note: Non-PAMA members are not included in above analysis.

Moreover, the Government of Pakistan (GoP) offers protection for production of HEVs (hybrid electric vehicles) under AIDEP 2021-26 (Automotive Industry Development and Export Plan) in line with shift in global market towards HEVs. INDU, HCAR, HYUNDAI,

KIA and SAZEW have made substantial investments in local HEV production to capitalize on government incentives.

### Operational Update

SAZEW's yearly installed capacity is 24,000 units for the four-wheelers and 20,000 units for the three-wheelers. Production levels across all segments improved amid higher volumetric off-take. Total automobiles produced by SAZEW increased by 92% to 21,092 (FY23: 11,002) in FY24.

**Table 5: Capacity Utilization**

Units	FY23	FY24
Four-wheelers capacity	24,000	24,000
Four-wheelers produced	1,861	5,414
<b>Four-wheelers utilization</b>	<b>8%</b>	<b>23%</b>
Three-wheelers capacity	20,000	20,000
Three-wheeler production	9,141	15,678
<b>Three-wheeler utilization</b>	<b>46%</b>	<b>78%</b>
Sales – Four-wheeler (units) – PAMA	<b>1,827</b>	<b>5,374</b>
Sales – Three-wheeler (units) – PAMA	<b>9,381</b>	<b>15,014</b>

During FY24, capacity utilization of three-wheelers increased to 78% (FY23: 46%), while capacity utilization of four-wheelers improved to 23% (FY23: 8%).

- Total automobiles produced by SAZEW increased by 92% to 21,092 (FY23: 11,002) in FY24.
- During the period under review, SAZEW introduced the GWM Tank and Ora EV models.
- Furthermore, SAZEW maintained its position as the market leader in three-wheelers with 66% (FY24: 62%, FY23: 49%) market share in 5MFY25.
- While in SUV/Crossover segment (Jeeps & Pickups), the company came out as a dominant player in terms of volumetric offtake in 5MFY25 with 39% market share (FY24: 27%, FY23: 6%).

**Table 6: Market Share – PAMA**

Market Share	FY22	FY23	FY24	5MFY25
<b>Three-wheelers</b>	38%	49%	62%	66%
<b>Jeeps/Pickups</b>	1%	6%	27%	39%

### Key Rating Drivers

#### Ratings incorporate key technical partnerships with leading Chinese automobile players and prominent auto parts companies

SAZEW has international partnerships with two Chinese automobile groups - Beijing Automotive Group Company Ltd. (BAIC) and Great Wall Motor Company Ltd. (GWM). BAIC is a state-owned automobiles manufacturer established in 1958 and headquartered in Beijing, China, carrying a 'A-' credit rating from an international credit rating agency. GWM is the largest SUVs manufacturer in China with a registered headquarters in Baoding, Hebei, China.

Major international suppliers are Chinese including GWM, BAIC for Four Wheelers Kits and Parts, Chongqing D Pok Import and Export Co. Ltd. and Chongqing Zonsen Engine Manufacture Co. Ltd. for three-wheeler parts. SAZEW's major local suppliers of three-wheeler and four wheelers auto parts/consumables, are well-established companies Services Industries Limited, Procon Engineering (Pvt) Ltd, Panther Tyres Limited, Automotive Engineering Pvt Ltd., Nippon Paint, Total Parco Pakistan Limited, Projection Engineering Pvt Ltd. and Z.N.M Engineering Works.

#### **Dominant position amid significant increase in volumetric-offtake**

The Company experienced a substantial 82% year-on-year (YoY) growth in volumetric sales during FY24, driven by a 1.94x YoY increase in four-wheeler offtake and a 60% YoY rise in three-wheeler sales. In 5MFY25, sales volumes surged by 1.37x YoY, with four-wheeler and three-wheeler sales rising by 2.3x and 1.1x YoY, respectively.

Consequently, the Company's market share in both segments has seen a significant increase overtime (refer to Table 6). SAZEW emerged as a dominant player in the four-wheeler segment, specifically in Jeeps and Trucks, during FY24 and 5MFY25 (refer to Table 3).

This was mainly due to Haval's competitive pricing, feature-rich models, growing consumer preference for SUVs, advanced hybrid technology, effective marketing and distribution strategies by SAZEW, favorable government policies for hybrids, limited competition in the hybrid SUV segment, and positive customer feedback driving brand acceptance.

Additionally, the Company retained its leadership position in the three-wheeler segment, capturing a 66% market share in 5MFY25 (FY24: 62%). SAZEW also exported Rs. 70.01m (FY23: Rs. 40.78) worth of three-wheeler during FY24.

#### **Ratings take into account significant improvement in profit margins during the review period**

Net sales surged by 2.17x to PKR 57.6b (FY23: PKR 18.2b), driven by increased volumes. The increase in volumes is mainly due to growing customer preference for Chinese automobiles and improving brand image. With momentum in volumes, SAZEW's net sales increased by more than three times to PKR 26.3b (1QFY24: PKR 8.0b) in 1QFY25.

Gross margin increased to 27.1% in FY24, up from 14.0% in the previous year, driven by increased four-wheeler sales and curtailment in overheads. Operating expenses more than doubled to PKR 2.2b (FY23: PKR 930.6m) in FY24 owing to an increase in distribution and marketing costs. Finance cost remained largely unchanged at PKR 168.9m (FY23: PKR 168.4m) in FY24.

Net profit increased significantly to PKR 7.9b (FY23: PKR 995.1m) on account of noticeably higher sales and strong gross margin while net margin rose to 13.8% (FY23: 5.5%) in FY24. Net margin further improved in 1QFY25 compared to SPLY and was better than industry peers.

The management projects net sales will reach PKR 90-100b, considering the net sales in 1QFY25 and advance bookings of PKR 12-13b at end-1QFY25.

#### **Strong debt coverage; liquidity profile depicts improvement**

Debt coverages and liquidity profile strengthened during the review period. In FY24, FFO increased to PKR 11.0b (FY23: PKR 1.2b) on account of higher profitability. FFO to debt

coverage increased to 30.49x (FY23: 2.35x) with no short-term debt, while DSCR rose to 30.85x (FY23: 4.19x) due to higher FFO in FY24.

Current ratio increased to 1.35x (end-FY23: 1.18x) due to significant increase in higher stock-in-trade and cash reserves at end-FY24. Cash conversion cycle remained adequate due to sizable advances against sale of vehicles. Liquidity metrics remained strong as current ratio further increased to 1.50x by end-1QFY25.

**Assigned ratings take into account low financial risk**

Equity base increased substantially, reaching PKR 10.1b (end-FY23: PKR 2.9b) on account of healthy profitability at end-FY24. Further, the same trend continued, with equity base clocked in at Rs. 14.3b at end-1QFY25. Gearing ratio was negligible due to minimal borrowings while leverage increased to 1.89x (FY23: 1.64x) in FY24, primarily due to significant rise in customer advances towards booking for automobiles. These advance bookings are recognized as revenue over the subsequent year.

**Sazgar Engineering Works Limited**
**Annexure I**

<b>FINANCIAL SUMMARY</b> <span style="float: right;"><i>(PKR in millions)</i></span>					
<b><u>BALANCE SHEET</u></b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>1QFY25</b>
Property, plant and equipment	1,844.8	2,640.6	2,861.5	4,560.5	5,011.1
Stock-in-trade	817.9	1,741.8	2,711.1	14,318.1	16,686.1
Trade debts	116.9	179.8	270.3	133.0	143.9
Cash and bank balances	15.0	173.0	1,028.8	7,761.7	10,572.6
<b>Total assets</b>	<b>4,658.2</b>	<b>5,656.1</b>	<b>7,685.1</b>	<b>29,226.0</b>	<b>35,569.9</b>
Deferred liabilities	250.7	299.2	399.7	723.4	312.0
Trade payables	2,008.2	2,498.3	3,809.9	16,160.1	17,027.3
Long-term debt	438.5	738.36	553.44	361.99	351.5
Short-term debt	119.7	162.9	-	-	-
<b>Total debt</b>	<b>558.2</b>	<b>901.2</b>	<b>553.4</b>	<b>362.0</b>	<b>351.5</b>
<b>Total liabilities</b>	<b>2,818.5</b>	<b>3,702.1</b>	<b>4,770.1</b>	<b>19,121.9</b>	<b>21,248.4</b>
Paid-up capital	465.0	604.5	604.5	604.5	604.5
<b>Total equity</b>	<b>1,839.8</b>	<b>1,954.0</b>	<b>2,915.1</b>	<b>10,104.1</b>	<b>14,321.6</b>
<b><u>INCOME STATEMENT</u></b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>1QFY25</b>
Net sales	4,033.6	10,048.1	18,174.3	57,642.5	26,332.0
Gross profit	366.7	666.8	2,549.5	15,646.4	7,620.6
Finance cost	21.2	53.9	168.4	168.9	57.5
Profit before tax	104.5	263.5	1,481.5	13,115.8	6,615.5
<b>Profit after tax</b>	<b>75.8</b>	<b>117.9</b>	<b>995.1</b>	<b>7,935.7</b>	<b>4,217.5</b>
<b><u>RATIO ANALYSIS</u></b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>1QFY25</b>
Gross margin	9.1%	6.6%	14.0%	27.1%	28.9%
Net margin	1.9%	1.2%	5.5%	13.8%	16.0%
Net working capital	453.1	(83.4)	739.2	6,370.5	10,198.2
Cash conversion cycle (days)*	46	33	42	67	69
FFO	73.0	188.0	1,297.4	11,036.5	5,800.5
FFO to total debt (x)*	0.13	0.21	2.35	30.49	66.01
FFO to long-term debt (x)*	0.17	0.25	2.35	30.49	66.01
Debt servicing coverage ratio (x)*	0.81	0.87	4.19	30.85	84.34
Current ratio (x)	1.20	0.97	1.18	1.35	1.50
Cash conversion cycle (days)*	(108)	(23)	(20)	(15)	(1)
Leverage (x)	1.53	1.89	1.64	1.89	1.48
Gearing (x)	0.30	0.44	0.18	0.04	0.02
ROAA*	2.0%	2.3%	14.9%	43.0%	52.1%
ROAE*	4.2%	6.2%	40.9%	121.9%	138.1%

\*Annualized

REGULATORY DISCLOSURES					Appendix II
<b>Name of Rated Entity</b>	Sazgar Engineering Works Limited				
<b>Sector</b>	Automotive Assemblers				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Ratings				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook/Watch</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	2/12/2025	A	A1	Positive	Upgrade
	1/25/2024	A	A2	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>		<b>Date</b>	
	Muhammad Atif Rao	CFO		1 <sup>st</sup> Jan, 2025	
	Muhammad Usman	Senior Manager Finance and Accounts			