RATING REPORT

Indus Motor Company Limited

REPORT DATE:
June 29, 2022

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	*16 June, 2022*		*07 June, 2021*	
Rating Action	*Reaffrimed*		*Reaffrimed*	

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/Companies ~ 81.04%	
-Overseas Pakistan Investor AG ~ (34.8%)	
-Toyota Motor Corporation ~ (24.9%)	
-Toyota Tsusho Corporation~ (12.5%)	
Associated Companies ~ 6.25%	
General Public ~ 5.91%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Industrial Corporates (August 2021)   **https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf**

Indus Motor Company Limited

RATING RATIONALE

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.

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 52 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

FY21 proved to be a strong year of performance for the automobile sector. The local car industry including Cars, LCVs; 4x4 & Pick-Ups recorded an increase of 62% Year on Year basis (YoY). This was attributable to the low interest rate environment and economic recovery experienced in post ease in COVID period. Historically, the industry has been dominated by 3 major players namely, Toyota, Honda and Pak Suzuki. However, the local industry landscape has changed with entrance of new entrants (Lucky Motors, Changan) making it more competitive. They have been able to carve out a new segment of SUV Crossover through introduction of new variants in the category. While new manufacturers were unable to make any significant dent in the market share of the old ones amidst operating in a different segment, it is expected that older player's market share may decrease by 5-10% due to advent of the SUV Crossover segment and entry of new manufacturers in sedan category. Meanwhile, Pakistan's auto industry has also been affected by the global chip shortage due to which several car bookings have been halted with overall average booking period of 1-4 months extended to 2-8 months. This is evident from higher advances held by companies. Prices of cars have increased as a result of increasing commodity prices and freight costs, coupled with devaluation of rupee. The government has increased regulatory duty on imported cars from ~15% to ~35% to 50%, which will benefit local industry to grow. On the other hand, higher registration tax and advance tax on cars above 1600cc coupled with other taxes announced in Budget FY23 for Autos is likely to hurt sales volumes.

Going forward, while improved economic conditions in rural areas due to higher prices of agricultural products, the bumper output of major crops, and improved purchasing power are expected to support sector's expansion, higher inflationary pressures together with rising interest rates is expected to slow down the demand in medium to long term.

Automobile Offtake (Units)	FY19	FY20	FY21	9M'FY22
Cars, LCV's, 4x4 & Pick-Ups	240,646	111,962	181,397	205,381
Tractors	50,405	32,727	50,921	41,603
Trucks	5,828	3,088	3,695	4,493
Buses	935	559	652	4,951

Operational Update;

Akin to the industry, auto sales volumes of IMC recorded hefty growth of 100.2% in 2021 vis-à-vis 2020. Overall exuberant auto sales growth within the industry was supported by low interest rates and upbeat auto financing policies.

Units	FY18	FY19	FY20	FY21	9M'FY22
Capacity*	54,800	66,000	66,000	66,000	66,000
Production	62,886	65,346	28,519	59,187	55,192
Utilization	114.8%	99.0%	43.2%	97.5%	
Sales**	63068	65,399	28,837	57,731	57,367

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

The healthy growth trend in auto sales continued in 9M'FY22 despite turn of events including rising interest rates, overall jump in commodity prices and currency devaluation leading to massive surge in car prices.

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, KIA Sportage, MG HS, Tucson, X70

IMC's market share improved to 31.8% (FY20: 25.3%) in FY21, while reduced to 27.9% during 9MFY22 with the onset of new players in the market. VIS expects market share to remain in the range of 25-30% given its strong brand positioning.

The Company is currently operating at double shift capacity and customer order book is considered to be fully booked stretching till mid of FY23 given significant amount of customer advances as of Mar'22 (Rs. 99b). With the enhanced focus on digitalization across the country, IMC introduced initiatives like Toyota Smart Purchase; an end to end online booking and payment portal and Toyota Smart Purchase-one stop solution for all financing needs.

Key Rating Drivers

Strong sponsor profile

Assigned ratings incorporate strong financial profile of the sponsors. IMC is joint venture between Toyota Motor Corporation (TMC) and Toyota Tsusho Corporation (TTC) of Japan and certain associated Companies of House of Habib (Thal Limited and Habib Insurance Company Limited). TMC, headquartered in Japan, is the world's largest auto manufacturer. 'Toyota Motor Corporation' has been assigned long-term credit ratings of 'A+' on the international scale, by Standard & Poor's (S&P). The other prominent partner, House of Habib (HOH), is an established conglomerate in Pakistan engaged in diversified businesses. In addition, majority of directors on the board of IMC are from HOH.

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).

Moving into FY23 would be a challenging year to maintain similar level volumes for the Company given rising commodity prices, rising freight costs, currency devaluation and rising interest rates along with SBP's stringent auto financing impacting overall auto sales volume.

Higher volumetric sales in FY21 and 9MFY22 supported revenue base. Going forward, increased prices of autos is expected to support overall topline of the Company.

Topline of the Company has registered massive growth of 107.9% to Rs. 179.1b (FY20: Rs. 86.1) in FY21 and crossed Rs. 200b mark during 9M'FY22 to stand at Rs. 203.4b. Growth in sales has been function of volumetric growth and effect of higher car prices as well moving into FY22. Net profit increased significantly to 15.3b (FY21: Rs. 12.8b; FY20: Rs. 5.1b) in 9M'FY22. The increase in profitability is mainly due to higher volumetric sales and increase in other income due to higher fund size on account of increase in advances from customers.

Gross margins depict a declining trend on a timeline (9MFY22: 8.6%; FY21: 9.3%; FY20: 8.6%; FY19: 12.1%) incorporating impact of persistent rupee devaluation and lately the impact of higher commodity prices and rising freight charges. We expect margins to remain on the lower end, going forward.

Ratings draw support from strong liquidity profile and balance sheet.

Assessment of liquidity profile incorporates healthy cash flows, efficient working capital cycle and sizeable liquidity holding. Sizeable internal capital generation continued to reinforce capital buffers as Net Equity grew to Rs. 55.5bn as at Mar'22 (Jun'21: Rs. 48.2bn, Jun'20:Rs. 41.2bn). Net cash (Cash + ST Inv. – Advances) jumped up to Rs. 31.6bn as of Mar'22. (Jun'21: Rs. 32.8bn, Jun'20: Rs. 17.8bn)), while liquid assets comprised 67.22% of the total assets as of Mar'22 (Jun'21: 62.8%, Jun'20: 52.8%). The Company invests this surplus liquidity in TDRs, PIBs and T-Bills which aid in generating handsome amount of interest income.

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

Indus Motor Company Limited Appendix I

Financial Summary (Rs. in m)				
Balance Sheet	**FY19**	**FY20**	**FY21**	**9MFY22**
PPE	13,804.5	16,501.6	15,769.9	14,867.7
Stock-in-Trade	13,560.4	15,932.8	22,289.0	27,943.5
Trade Debts	2,547.9	1,141.7	517.1	1,858.5
LT Investments	-	-	3,127.2	9,897.6
Cash and Bank Balances	3,281.8	1,171.1	2,039.8	7,720.1
Short Term Investments	23,402.5	41,194.9	82,052.4	123,115.5
Total Assets	64,783.1	80,278.6	133,905.8	194,832.0
Trade and other Payables	15,950.2	13,593.5	30,288.2	34,164.1
Advances from customers	7,929.7	24,533.7	51,266.8	99,207.2
Long Term Debt (including maturity)	137.5	625.0	1,007.6	697.9
Total Debt	137.5	625.0	1,007.6	697.9
Total Liabilities	24,737.8	39,109.2	85,704.4	139,276.6
Paid Up Capital	786.0	786.0	786.0	786.0
Equity-excluding surplus reval.	40,045.3	41,169.9	48,201.5	55,555.4
Income Statement	-	-	-	-
Revenue	157,996.2	86,167.0	179,161.7	203,407.3
Gross Profit	19,191.7	7,450.9	16,653.7	17,567.6
Profit Before Tax	18,975.9	7,287.4	18,199.2	21,191.9
Net Profit After Tax	13,715.0	5,082.1	12,828.6	15,292.5
Ratio Analysis				
Gross Margin	12.1%	8.6%	9.3%	8.6%
Net Margin	8.7%	5.9%	7.2%	7.5%
FFO	10,219	4,777	14,250	14,243*
FFO To Total Debt (%)	7430%	764%	1414%	
Debt Servicing Coverage Ratio (x)	144.25	54.64	52.22	
Gearing (x)	0.00	0.02	0.02	0.01
Leverage (x)	0.62	0.95	1.78	2.51
Current Ratio (x)	2.10	1.65	1.35	1.22
ROAA (%)	18.7%	7.0%	12.0%	12.4%*
ROAE (%)	35.7%	12.5%	28.7%	39.3%*

**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				
	29/06/2022	AA+	A-1+	Stable	Reaffirmed
	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	05/25/2022		
	Arif Anzer	General Manager			