

# Rating Report

## Indus Motor Company Limited (IMC)

**REPORT DATE:**

October 02, 2023

**RATING ANALYST:**

Husnain Ali

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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	October 2nd, 2023		June 29th, 2022	
Rating Action	Reaffirmed		Reaffirmed	

**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):

Overseas Pakistan Investors AG ~ 34.8%

Toyota Motor Corporation ~ 25.0%

Toyota Tsusho Corporation ~ 12.5%

Thal Limited ~ 6.2%

General Public ~ 5.6%

**APPLICABLE METHODOLOGY**

VIS Entity Rating Criteria:

Corporates (May 2023) <https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

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

## Indus Motor Company Limited (IMC)

## RATING RATIONALE

*Indus Motor Company Limited is the sole importer, assembler, manufacturer and distributor of Toyota vehicles in Pakistan. The company was incorporated as a public limited company in December 1989 and started commercial production in May 1993. The company's head office and production facility are located in Port Qasim, Karachi.*

**Profile of CEO**

*Ali Asghar Jamali was appointed Chief Executive Officer in January 2017. He has been with the company since October 2000 and has served in significant capacities across multiple departments, giving him extensive knowledge in end-to-end management of corporate operations. He is a fellow of the Institute of Chartered Accountants of Pakistan and has completed the Advance Management Programme at Harvard University and the Accelerated Management Programme at the Wharton School of Business in the United States.*

Indus Motor Company Limited ('IMC' or 'the company') is the sole importer, assembler, manufacturer and distributor of Toyota vehicles in Pakistan. IMC was incorporated as a public limited company in December 1989 and started commercial production in May 1993. IMC, a Joint Venture between Toyota Motor Corporation (TMC), Toyota Tsusho Corporation (TTC) and House of Habib (HoH), operates through 3S (sales, service and spare parts) distribution network that spans 55 (Jun'22: 52) independent dealerships nationwide as of Jun'23. The company's head office and production facility are located in Port Qasim, Karachi. The company incorporates Kaizen (continuous improvement) concepts within the organization and follows just-in-time manufacturing method to avoid excess inventory.

**Sector Update:** The rally of auto industry in FY22 was halted in FY23 mainly on account of hike in policy rate, rupee depreciation and import restrictions which led to industry-wide curtailment in production. In FY23 car sales had decreased by 57% owing to sharp increase in prices and declining purchasing power of customers.

In FY23, Pak Suzuki Motor Company Limited was the market leader with 40.0% market share (FY22: 39.6%) followed by IMC with 19.3% (FY22: 19.9%) market share and Honda Atlas Cars (Pakistan) with 10.3% market share (FY22: 10.4%). During FY23, IMC sold 18,838 units of popular Toyota Corolla & Yaris combined, leading the sales of all 1300cc and above cars. While localization in the tractor segment has reached 90% in FY23, the same remains low for PC and LCV subsector. Auto import policies and foreign exchange rate therefore have significant impact on the business risk of car segment. Worldwide supply chain hurdles adversely impacted Pakistan's auto sector. Going forward, demand outlook will remain dependent on interest rate fluctuation, inflationary pressure and import policies of auto parts.

Automobile Offtake (Units)	FY21	FY22	FY23
PC and LCV	181,397	234,180	96,812
Tractors	55,663	43,981	31,728
Trucks	3,695	5,669	3,072
Buses	652	661	654

**Key Rating Drivers**

**Operational Update:** The company's CKD (completely knocked down) units, CBU (completely built-up) units and auto parts are sold through 55 dealerships. Since its inception, IMC has sold more than 1.06 million CBU and CKD units in Pakistan. The company's manufacturing plant is located on 109.5 acres of land powered by the largest commercial solar powered rooftop in Pakistan with aggregated installed power of 4.5MW.

	FY21	FY22	FY23
Capacity	66,000	66,000	66,000
Production	59,187	72,438	32,696
Annual Utilization	97.50%	109.70%	49.53%
Sales	57,731	75,611	31,602

The daily production capacity per unit (with overtime) remained at 288 vehicles (FY22: 288) in FY23. Reduction of carbon footprint is incentivized under Auto Policy 2021-26; IMC is investing ~ \$100m for local production of HEVs (hybrid electric vehicles) and plans to launch HEV Toyota Corolla Cross in 4QFY24. In addition, aiming to expand its international horizons, IMC made an agreement with Toyota Egypt to export products from July 2023 onwards; in this context minimal financial impact is

expected in FY24. IMC's employee headcount was 3,129 (FY22: 3,139) at end-FY23, despite direct and indirect layoffs reported across the sector.

**Strong sponsor profile:** The sponsors' strong financial profile is reflected in the assigned ratings. IMC is a joint venture between Toyota Motor Corporation (TMC) and Toyota Tsusho Corporation (TTC) of Japan, as well as House of Habib (HOH) connected companies (Thal Limited and Habib Insurance Company Limited). TMC is headquartered in Japan and sold 10.5 million vehicles in 2022, maintaining its title for the world's top-selling auto manufacturer. Standard & Poor's (S&P) has assigned a long-term credit rating of 'A+' to TMC on an international scale. HOH is a well-established conglomerate engaged in a broad range of industries in Pakistan.

**Supply chain hurdles caused by import compression in FY23:** IMC maintains strong franchise, high brand value and strong competitive position in the product segment. Inventory levels were cut short by IMC due to interruptions in supply chain of auto parts caused by import restrictions by the State Bank of Pakistan (SBP). The company normally maintains 15-30 days of stock at one time, following the just-in-time manufacturing method, hence shortage of inventory levels meant lower production volume in FY23. Import restrictions during FY23 forced the company to shut down the plant. The most recent plant shutdown was enforced from July 21, 2023 to August 3, 2023. As a consequence of increase in overall cost due to higher cost of raw material, increase in import duties and adverse exchange rate fluctuation, product prices were also increased. Average sales price of all IMC vehicles increased by 57% during FY23. Price fluctuations in FY24 will remain dependent on dollar/rupee parity. The management expects improvement in inventory levels, as imports restrictions were eased-off in Mar'23 and relatively higher expected demand is the election year may have positive impact in FY24.

Rs. in m	Avg Price FY21	Avg Price FY22	Avg Price FY23
Corolla	3.50	3.70	5.15
Yaris	2.75	2.75	4.25
IMV	5.20	5.65	8.50
Fortuner	8.70	9.40	15.80
Average	5.04	5.38	8.43
Change (%)	-	6.7%	67.2%

**Profitability profile was stressed due to lower off-take:** IMC divides its operating segments in manufacturing and trading. The manufacturing segment relates to locally manufactured cars and parts. The trading segment relates to the trading of CBU, motor oil and parts. The company's revenue is driven by Toyota brand name for many decades and strong dealership base. In FY23, net sales from manufacturing segment stood lower at Rs. 166.6b (FY22: Rs. 261.5b), while net sales from trading segment decreased to Rs. 11.1b (FY22: Rs. 14.0b). Total net sales declined by 36% to Rs. 177.7b (FY22: Rs. 275.5b). Further, the gross margin decreased to 4.5% (FY22: 6.7%) mainly due to considerably lower margins in the manufacturing segment in FY23.

Rs. in m	FY21	FY22	FY23
Manufacturing net sales	171,193	261,535	166,584
Manufacturing gross profit	14,352	14,955	4,770
Trading net sales	7,969	13,971	11,126
Trading gross profit	2,082	3,449	3,161

The quarterly segment-wise results highlighted that the manufacturing segment reported losses in the first and second quarters but reported profit in the third and fourth quarters. The recovery in 2HFY23 was mainly on account of improvement in sales mix, increase in product prices to partially offset cost escalation and reduction in operating costs. According to the management, sales volume may improve in FY24 given ease in import restrictions, though prices escalation of automobiles may continue to dampen the demand dynamics before customer price acceptability can be seen industry-wide.

In FY23, IMC's operating margin was 9.5% (FY22: 9.2%, FY21: 10.2%). The company's other income from financial assets continues to support profitability and was reported higher at Rs. 14.1b (FY22: Rs. 12.9b). The company's finance cost remained negligible, largely in line with historical levels.

Accounting for taxation, net profit declined to Rs. 9.7b (FY22: Rs. 15.8b, FY21: Rs. 12.8b). Despite increase in other income and rationalization of operating expense, net margins stood lower at 5.4% (FY22: 5.7%; FY21: 7.2%) in FY23 on account of lower gross margins and higher tax incidence.

**Liquidity profile partially impacted though still remained sound:** Net cash (Cash + ST Inv. – Advances) increased to Rs. 40.7b at end-FY23 (end-FY22: Rs. 35.8b; end-FY21: Rs. 32.8b). However, liquid assets to total assets decreased to Rs. 41.1% (FY22: 69.0%; FY22: 62.8%). The company capitalized property plant & equipment (PPE) mainly related to HEV (Hybrid Electric Vehicles); funded primarily by liquidation of long-term investments (FY22: Rs. 7.8b) and internal sources. The company invests surplus liquidity in TDRs, PIBs, T-Bills and mutual funds which help in generating handsome amount of interest income. Major portion of trade debts consist of receivables from government organizations that are normally paid within 180 days. Receivables from government organizations declined to Rs. 463.5m (FY22: 2.6b) by end-FY23. Loans and advances mainly consist of margins held with banks against imports as a regulatory requirement for opening of letters of credit (LCs); the same increased considerably to Rs. 12.3b (FY22: Rs. 8.1b).

Current ratio improved to 1.58x (FY22: 1.19x) by end-FY23. Advances from customers declined to Rs. 9.7b (end-FY22: Rs. 112.0b) by end-FY23. Despite increase days to sell inventory, cash conversion cycle remained strong due to high payables days. However, funds from operations (FFO) declined to Rs. 1.1b (FY22: Rs. 9.5b) mainly on account of lower profitability from core operations. Debt service coverage, though still adequate, was significantly lower at 2.63x (FY22: 18.2x) in FY23.

**Adequate internal capital generation on the account of being one of the largest automobile companies in Pakistan:** The company's sound capitalization profile is reflected in the ratings. IMC's net equity increased to Rs. 60.1b (FY22: Rs. 54.0b, FY21: 48.2b) due to sustained profit retention in FY23. Gearing, in line with historical levels, remained minimal; leverage ratio declined on a timeline and improved to 1.04x (FY22: 2.96x) as total liabilities were reported lower. In the current macroeconomic environment, the business risk has enhanced while the company has been able maintain its low financial risk profile mainly on the back of operating model based on advances from customers.

<b>Financial Summary</b>			(Rs. in m)
<b>Balance Sheet</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>
PPE	15,769.9	15,040.5	24,375.4
Stock-in-Trade	22,289.0	26,454.4	28,733.4
Trade Debts	517.1	3,090.7	886.1
LT Investments	3,127.2	7,794.3	-
Loans and Advances	6,263.0	9,218.6	14,968.1
Short Term Investments	82,052.4	140,932.1	44,148.2
Cash and Bank Balances	2,039.8	6,793.8	6,262.6
Other Assets	1,847.4	4,640.9	3,390.5
<b>Total Assets</b>	<b>133,905.8</b>	<b>213,965.4</b>	<b>122,764.3</b>
Trade and other Payables	30,288.2	40,480.5	43,223.2
Advances from Customers	51,266.8	111,989.8	9,736.4
Long Term Debt (including maturity)	1,007.6	606.8	283.1
Taxation Provision (less payments)	2,620.3	5,423.3	5,475.0
Other Liabilities	521.5	1,453.7	3,976.7
<b>Total Liabilities</b>	<b>85,704.4</b>	<b>159,954.2</b>	<b>62,694.4</b>
Paid Up Capital	786.0	786.0	786.0
<b>Total Equity</b>	<b>48,201.5</b>	<b>54,011.1</b>	<b>60,069.9</b>
<b>Income Statement</b>			
	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>
Revenue	179,161.7	275,505.8	177,710.6
Gross Profit	16,653.7	18,404.5	7,931.2
Finance Cost	(133.6)	(114.3)	(140.7)
Profit Before Tax	18,199.2	25,452.6	16,797.2
<b>Net Profit After Tax</b>	<b>12,828.6</b>	<b>15,801.8</b>	<b>9,664.4</b>
<b>Ratio Analysis</b>			
	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>
Gross Margin	9.3%	6.7%	4.5%
Net Margin	7.2%	5.7%	5.4%
Liquid Assets to Total Assets (%)	62.8%	69.0%	41.1%
FFO (Funds from Operations)	14,250	9,483	1,085
FFO To Total Debt (%)	1414%	1563%	383%
Debt Servicing Coverage Ratio (x)	52.22	18.24	2.63
Gearing (x)	0.02	0.01	0.00
Leverage (x)	1.78	2.96	1.04
Current Ratio (x)	1.35	1.19	1.58
Cash Conversion Cycle (CCC) (days)	(4)	(13)	(24)
ROAA (%)	12.0%	9.1%	7.9%
ROAE (%)	28.7%	30.9%	16.1%

REGULATORY DISCLOSURES					Appendix II
<b>Name of Rated Entity</b>	Indus Motor Company Limited				
<b>Sector</b>	Automobile				
<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</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	02/10/2023	AA+	A-1+	Stable	Reaffirmed
	29/06/2022	AA+	A-1+	Stable	Reaffirmed
	07/06/2021	AA+	A-1+	Stable	Reaffirmed
	12/06/2020	AA+	A-1+	Stable	Reaffirmed
	17/06/2019	AA+	A-1+	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>		
	Mr. Arif Anzer	General Manager Finance	16-08-2023		
	Ms. Rizwana Khatoon	General Manager Finance	16-08-2023		
	Mr. Muzammil Hussain	Manager Finance	16-08-2023		
	Ms. Ayesha Shekhani	Deputy Manager Finance	16-08-2023		