

# RATING REPORT

## Indus Motor Company Limited (INDU)

**REPORT DATE:**

November 15, 2024

**RATING ANALYSTS:**

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### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Medium to Long-term	Short-term	Medium to Long-term	Short-term
Entity	AA+	A1+	AA+	A1+
Rating Outlook/Watch	Stable		Stable	
Rating Date	November 15, 2024		October 02, 2023	
Rating Action	Reaffirmed		Reaffirmed	

### COMPANY INFORMATION

<b>Incorporated in 1989</b>	<b>External Auditors:</b> A.F Ferguson & Co.
<b>Public Limited Company</b>	<b>Chairman of the Board:</b> Mohamedali R. Habib
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Ali Asghar Jamali
<i>Overseas Pakistan Investors AG ~ 34.8%</i>	
<i>Toyota Motor Corporation ~ 25.0%</i>	
<i>Toyota Tsusho Corporation ~ 12.5%</i>	
<i>Thal Limited ~ 6.2%</i>	
<i>Insurance Companies ~ 5.7%</i>	
<i>General Public ~ 5.6%</i>	

### APPLICABLE METHODOLOGY (IES)

**VIS Entity Rating Criteria: Corporates**

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

**Rating Scale & Definitions**

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

**Indus Motor Company Limited (INDU)**

**OVERVIEW OF THE INSTITUTION 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 ('INDU' or 'the company') is the sole importer, assembler, manufacturer and distributor of Toyota vehicles in Pakistan. As a Joint Venture between Toyota Motor Corporation (TMC), Toyota Tsusho Corporation (ITC) and House of Habib (HoH), 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. It operates through 3S (sales, service and spare parts) distribution network that spans 57 (Jun'24: 57, Jun'23: 55) independent dealerships nationwide as of Sep'24. The company incorporates Kaizen (continuous improvement) concepts within the organization and follows just-in-time manufacturing method to avoid excess inventory. The product portfolio and competitors' products are as follows:

Segment	Toyota	Major Competition
<b>Passenger Cars</b>	Fortuner, Corolla Cross HEV Corolla Grande, Corolla Altis & Yaris	City, Civic, Elantra, Swift, Alsvin, BRV, Sorento, Sportage, MG HS, Tucson, X70, Jolion, Haval H6, Oshan, Sonata, Peugeot 2008, HRV, Stonic & ORA 3.
<b>Light Commercial Vehicles</b>	Hilux	DMAX, Porter, JAC, & Shehzore.

**Sector Update**

Amid economic slowdown during FY23 and FY24, automobiles sales have witnessed a sharp decline, wherein volumetric sales of passenger cars (PC) have registered a drop of 59% Y/Y in FY23. With the continuation of weak economic indicators, car sales have further declined by 16% Y/Y in FY24. During 2MFY25, with the rebound in the economic indicators amid decline in interest rates, car sales increased by 28% Y/Y compared to SPLY. Unit sales in PC segment are expected to increase by ~10% in FY25 on account of decline in inflationary pressure and policy rate. Automobile sales of key segments are as tabulated:

Automobile Offtake (Units)	FY22	FY23	FY24
<b>Passenger Cars</b>	234,180	96,812	81,577
<b>Tractors</b>	43,981	30,942	45,494
<b>Trucks</b>	5,669	3,182	2,210
<b>Buses</b>	661	654	454

Source: PAMA

In FY24, market share remained mostly unchanged as Pak Suzuki Motor Company Limited (PSMC) remained the market leader in PC segment followed by INDU and Honda Atlas Cars (Pakistan) Limited (HCAR). 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, and Sazgar Engineering Works Limited (SAZEW) have made substantial investments in local HEV production to capitalize on government incentives.

**Utilization and Market share**

The Company has been operating in single shifts amid lower demand for cars. Moreover, the Company halted its plant production Twelve times for a total period of 50 non-production

days (NPD) during FY24, amid low demand and supply chain challenges, leading to a decline in utilization levels.

Operational metrics are tabled as follows:

Operational metrics	FY23	FY24
<b>Annual Capacity on double shift basis (Units)</b>	66,000	66,000
<b>Production on single shift basis (Units)</b>	32,696	19,599
<b>Utilization</b>	49.5%	29.7%
<b>Sales (Units)</b>	31,602	21,063
<b>Sales to Production</b>	96.6%	107.7%

*Source: INDU Annual Report FY24*

In Dec'23, the company launched Toyota Corolla Cross which has ~50% localization factor, highest for a hybrid vehicle in Pakistan's auto market. Market share of INDU has inched down due to incoming of new brands in the market. With the launch of Corolla Cross in FY24, management expects a nominal increase in the market share of the company.

Market share	FY21	FY22	FY23	FY24
<b>PSMC</b>	60%	53%	49%	52%
<b>HCAR</b>	13%	14%	13%	13%
<b>INDU</b>	26%	26%	25%	20%
<b>Others</b>	3%	6%	14%	15%

*Source: PAMA*

**Key Rating Drivers**

**Strong sponsor profile**

The sponsors' strong financial profile is reflected in the assigned ratings. INDU 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 is the world's top selling auto manufacturers with 11.23 million vehicle sales in 2023 and rated "A+" by Standard & Poor's (S&P) on international scale. HOH is also a well-established local conglomerate engaged in a broad range of industries in Pakistan.

**Margins experienced a resurgence owing to higher prices**

The Company's production levels dropped by 40%, and volumetric sales decreased by 33% year-on-year in FY24, mainly due to reduced consumer purchasing, which impacted demand, along with a shift towards newly introduced Chinese brands. As a result, net sales decreased by 14.2% to Rs. 152.5b (FY23: Rs. 177.7b) during FY24.

Gross profit increased to Rs. 19.4b (FY23: Rs. 7.9b) and gross margin improved to 12.7% (FY23: 4.5%) during FY24 mainly due to reduction in import material costs on account of positive exchange rate movement, cost reduction measures and additional localization of parts. . Operating expenses rose to Rs. 8.4b (FY23: Rs. 4.5b) primarily due to sizable increase in warranty provision of Rs. 3.3b (FY23: Rs. 336.9m) in FY24.

Net profit increased by 55.7% to Rs. 15.1b (FY23: Rs. 9.7b) on account of higher gross margin, healthy income from short-term investments (FY24: Rs. 13.7b, FY23: Rs. 14.2b) and

lower incidence of income tax of 35.4% (FY23: 42.5%), consequently leading to an uptick in net margin to 9.9% (FY23: 5.4%) during FY24.

Profit & Loss Extract (Rs. in m)	FY21	FY22	FY23	FY24
<b>Net Sales</b>	179,161.7	275,505.8	177,710.6	152,481.0
<b>Gross profit</b>	16,653.7	18,404.5	7,931.2	19,382.3
<b>Gross margin</b>	9%	7%	4%	13%
<b>Operating expenses</b>	3,083.7	4,342.9	3,972.0	8,184.8
<b>Operating margin</b>	10%	9%	9%	15%
<b>Other income</b>	5,579.3	12,935.7	14,179.4	13,656.2
<b>Profit before tax and levy</b>	18,199.2	25,452.6	16,797.2	23,327.5
<b>Net profit</b>	12,828.6	15,801.8	9,664.4	15,072.4
<b>Net margin</b>	7%	6%	5%	10%

INDU's profitability metrics have fared better than peers during the review period. However, sustaining profit margins hinges on the company's capacity to offset production costs by adjusting customer pricing.

#### Cash flows and debt coverages remain strong

Liquidity profile is supported by sizable liquid assets and healthy cash flows. Net cash (Cash + Short-term Investments – Advances) increased significantly to Rs. 80.8b (end-FY23: Rs. 35.4b) while liquid assets comprised 57.5% (end-FY23: 41.1%) total assets at end-FY24. The company invests surplus liquidity in T-Bills and mutual funds helping in generating handsome amount of interest income.

Liquidity profile is further supported by a sizable increase in FFO (funds from operations) to Rs. 10.3b (FY23: Rs. 1.1b) on the back of higher profits from core operations during FY24. Given higher FFO and marginal finance cost, debt servicing coverage ratio increased to 49.50x (end-FY23: 2.63x) at end-FY24.

Trade debts increased sharply to Rs. 6.0b (FY23: Rs. 886.1m) at end-FY24 due to dealer installment sales program. Trade debts will remain rangebound during the course of ongoing year, as per management. Aging profile of trade debts remains manageable.

Aging of trade debts	FY23	FY24
<b>Not yet due</b>	97.5%	93.4%
<b>Up to 1 month</b>	0.0%	4.6%
<b>1 to 6 months</b>	0.0%	1.4%
<b>More than 6 months</b>	2.5%	0.6%

Current ratio showed mild reduction to 1.52x (end-FY23: 1.58x) at end-FY24 given the impact of sizable increase in customer advances and warranty provisions. Cash conversion cycle has improved on timeline basis and remains strong. Debt coverages and liquidity ratios remain above median range relative to peers.

#### Adequate internal capital generation and low financial risk profile

Ratings reflect the sound capitalization profile of the Company. Total equity enhanced to Rs. 67.2b (end-FY23: Rs. 60.1b) at end-FY24 on account of sustained profit retention. Gearing, in line with historical levels, remained minimal; leverage was reported higher at 1.17x (end-FY23: 1.04x) at end-FY24 owing to the impact of increase in advances from customers and dealers. The Company's low financial risk compares favorably against peers.

#### Robust Corporate Governance framework

	<p>The Board of Directors (BoD) consists of ten members, nine male and one female. Of these, three are independent directors, four are non-executive directors, and three are executive directors. Mr. Asif Qadir was elected as an Independent Director on the Board with effect from October 31, 2023 in place of Mr. Azam Faruque. This composition aligns with the Code of Corporate Governance (CCG) 2019. The BoD also has three committees: the Audit Committee, the Human Resources &amp; Remuneration Committee, and the Ethics Committee. Attendance of members in board meetings and committees was satisfactory in the reporting period.</p>
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**Indus Motor Company Limited (INDU)**
**Appendix I**

<b>FINANCIAL SUMMARY</b>			
	<i>(Rs. in m)</i>		
<b>BALANCE SHEET</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>
Property, Plant & Equipment	15,040.5	24,375.4	23,480.8
Stock-in-Trade	22,289.0	26,454.4	28,733.4
Trade Debts	3,090.7	886.1	5,993.1
Long-Term Investments	7,794.3	-	-
Loans and Advances	9,218.6	14,968.1	2,976.7
Short Term Investments	140,932.1	44,148.2	76,540.8
Cash and Bank Balances	6,793.8	6,262.6	7,240.4
<b>Total Assets</b>	<b>213,965.4</b>	<b>122,764.4</b>	<b>145,819.8</b>
Trade and other Payables	40,480.5	41,033.6	42,274.0
Advances from Customers	111,989.8	9,736.4	22,040.6
Long Term Debt (including maturity)	599.8	279.9	239.9
<b>Total Debt</b>	<b>599.8</b>	<b>279.9</b>	<b>239.9</b>
Taxation Provision (less payments)	5,423.3	5,475.0	8,224.1
Warranty Obligations	-	2,189.6	5,380.0
<b>Total Liabilities</b>	<b>159,954.2</b>	<b>62,694.4</b>	<b>78,593.3</b>
Paid Up Capital	786.0	786.0	786.0
<b>Total Equity</b>	<b>213,965.4</b>	<b>122,764.4</b>	<b>145,819.8</b>
<b>INCOME STATEMENT</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>
Net Sales	275,505.8	177,710.6	152,481.0
Gross Profit	18,404.5	7,931.2	19,382.3
Operating Expenses	(4,342.9)	(3,972.0)	(8,184.8)
Other Income	12,935.7	14,179.4	13,656.2
Profit Before Tax	25,452.6	16,797.2	23,327.5
<b>Net Profit</b>	<b>15,801.8</b>	<b>9,664.4</b>	<b>15,072.4</b>
<b>RATIO ANALYSIS</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>
Gross Margin	6.7%	4.5%	12.7%
Net Margin	5.7%	5.4%	9.9%
Net Cash (Cash + ST Inv. – Advances)	138,507.3	35,442.6	80,804.6
Liquid Assets to Total Assets	69.0%	41.1%	57.5%
FFO (Funds from Operations)	9,482.9	1,085.3	10,272.7
FFO to Total Debt (x)	15.81	3.88	42.82
Debt Servicing Coverage Ratio (x)	18.24	2.63	49.50
Current Ratio (x)	1.19	1.58	1.52
Quick Ratio (x)	1.09	1.03	1.12
Cash Conversion Cycle (CCC) (days)	(13)	(25)	(39)
Asset Turnover	133.8%	128.8%	144.8%
Gearing (x)	0.01	0.00	0.00
Leverage (x)	2.96	1.04	1.17
ROAA	9.1%	7.9%	10.3%
ROAE	30.9%	16.1%	22.4%

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/Rating Watch</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	15/11/2024	AA+	A1+	Stable	Reaffirmed
	02/10/2023	AA+	A1+	Stable	Reaffirmed
	29/06/2022	AA+	A1+	Stable	Reaffirmed
	07/06/2021	AA+	A1+	Stable	Reaffirmed
	12/06/2020	AA+	A1+	Stable	Reaffirmed
	17/06/2019	AA+	A1+	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>		<b>Date</b>	
	Mr. Salman Ahsan	Senior Manager Finance		1 <sup>st</sup> Oct 2024	
	Mr. Arif Anzer	General Manager Finance			
	Ms. Rizwana Khatoon	General Manager Finance			