

RATING REPORT

Agriauto Industries Limited

REPORT DATE:

August 10, 2022

RATING ANALYSTS:

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Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A-	A-1
Rating Outlook	Stable	
Rating Date	August 10, 2022	

COMPANY INFORMATION

Incorporated in 1981	External Auditors: EY Ford Rhodes Chartered Accountants
Public Listed Company	Chairman: Mr. Yutaka Arae Chief Executive Officer: Mr. Fahim Kapadia
Key Shareholders (with stake 5% or more):	
Robert Finance Corporation, AG. – 24.90% Thal Limited – 7.35%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporate Rating Methodology (August 2021)

<https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf>

Agriauto Industries Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>Agriauto Industries Limited is a public limited company incorporated in 1981. The company is one of the leading automotive components manufacturers in the private sector. The product range covers both original equipment manufacturers (OEM) and aftermarket.</p> <p>Profile of CEO Mr. Kapadia is the CEO of AGIL since January 2010. He has over 35 years of experience in the field of Finance, General Management and Business Development in Pakistan and abroad. He has been associated with the House of Habib (HoH) for the last 21 years. He is a Certified Chartered Accountant (FCA) and Public Accountant (CPA). Also, he has a degree in Bachelor of Science (BSC) in Accounting.</p>	<p>Agriauto Industries Limited (‘AGIL’ or ‘the Company’) was incorporated and listed on the Pakistan Stock Exchange (PSX) in 1981. AGIL is principally involved in manufacturing and selling of Automotive components. The production plant is located in Hub, Balochistan, and the registered office is located at Shahra-e-Faisal, Karachi.</p> <p><u>Rating Drivers</u></p> <p>Ratings take into account AGIL’s sponsor profile</p> <p>AGIL is part of House of Habib (HoH), an established conglomerate headquartered in Pakistan. HoH has diversified operations across different sectors including Automobile (Indus Motor Company Limited, Thal Limited, AuVitronics Limited, Thal Engineering, Thal Boshoku Pakistan Private Limited), Building Materials (Shabbir Tiles and Ceramics Limited, Thal Laminates), Packaging (Paper sack, Jute), Plastics (AuVitronics Limited), Wholesale (Habib Metro Pakistan Private Limited) and Financial Services (Habib Insurance Company Limited).</p> <p>Ratings incorporate AGIL’s market positioning and key technical collaborations with international spare part manufacturers</p> <p>AGIL possesses more than 4 decades of experience and holds an established track record in the auto parts industry, being the sole producer of car shock absorbers & struts in the domestic market. AGIL has long-term technological collaborations in place with international parts manufacturers. AGIL’s technical partners include KYB Corp., Gabriel Ride Control Products Inc., AISIN Corp., Shiroki Corporation Ltd., SANNOU RIKEN Ltd., and KYB Motorcycle Suspension. These collaborations translate in technological advantage and competitive edge to the Company.</p> <p>Rating incorporates high to medium business risk profile and low financial risk profile of the Company</p> <p>VIS classifies business risk profile of AGIL in the high to medium category, given historical volatility in gross margins. This volatility in gross margins is mainly a product of volumetric offtake, while volatility in exchange rate also affects the gross margin, given significant dependence on imported raw material as the same comprises roughly half of the product costing. The Company’s revenue base does depict counterparty concentration, albeit the same is largely addressed by the presence of long term binding contracts and the fact that major institutional clientele constitutes AGIL’s related parties. Furthermore, bottom line of the Company is supported by continuous dividend income in the last three years from AGIL’s subsidiary (ASC), wherein dividend yield for 2021 was 20% (2019-20: 10%).</p> <p>AGIL’s financial risk profile incorporates low gearing level, as the Company has historically operated debt-free. Recently, the Company has acquired debt, which is mostly short-term financing lines. Incorporating future debt projections, gearing is expected to rise in the range of 0.5-0.6 during the rating horizon.</p>

Rating takes into account strong cash flow coverage indicators, which are expected to remain strong through the rating horizon

Given strong growth in sales, the Company's cash flow coverage indicators are considered sound. There is an adequate buffer of coverage of short-term borrowings through inventory and trade debts. Going forward, cash flow coverage indicators will continue to stay intact, however, any debt mobilization on balance sheet will weaken the same.

Rating incorporates AGIL's Corporate Governance Profile

As a listed entity, AGIL has to comply with Corporate Governance regulations for listed entities, as a result of which the Company Corporate Governance Profile is superior, which has been incorporated into the assigned rating.

Financial Summary		<i>(Amount in Million)</i>				
BALANCE SHEET		Jun'18	Jun'19	Jun'20	Jun'21	Mar'22
Property, Plant & Equipment (Inc. Intangible)	-	675	793	983	1,001	1,115
Long Term Investments		1,144	1,144	1,144	1,144	1,144
Right of Use of Assets		-	-	15	19	12
Stock in Trade		964	1,085	1,385	1,057	2,317
Trade Debts		432	669	322	793	1,027
Short Term Investments		544	75	73	122	39
Cash & Bank Balances		230	136	71	166	50
Other Assets		361	767	689	1,108	1,159
Total Assets		4,350	4,669	4,682	5,409	6,862
Trade and Other Payables		436	490	724	891	1,395
Short Term Borrowings		-	-	-	37	80
Long-Term Borrowings <i>(Inc. current matur)</i>		-	-	15	21	56
Deferred Liabilities		17	6	-	-	4
Other Liabilities		26	30	32	71	60
Total Liabilities		479	526	771	1,019	1,595
Issued, Subs, and Paid Up Capital		144	144	144	144	144
Equity		3,871	4,143	3,911	4,390	4,538
INCOME STATEMENT		FY18	FY19	FY20	FY21	9M21
Net Sales		6,113	7,122	3,769	6,970	5,109
Gross Profit		1,116	1,079	170	937	705
Operating Profit		774	806	13	837	552
Profit Before Tax		773	805	10	834	549
Profit After Tax		520	603	(30)	651	497
RATIO ANALYSIS		FY18	FY19	FY20	FY21	9M22
Gross Margin (%)		18.3%	15.1%	4.5%	13.4%	11.6%
Net Margin (%)		8.5%	8.5%	-0.8%	9.3%	4.8%
FFO		516	454	-38	422	515
FFO to Long-Term Debt		NA	NA	-2.54	20.36	12.18
FFO to Total Debt		NA	NA	-2.54	7.36	5.03
Debt Servicing Coverage Ratio (x)		1,544.81	1,445.87	(43.87)	222.78	28.13
ROAA (%)		12.2%	13.4%	-0.6%	12.9%	5.2%
ROAE (%)		13.8%	15.0%	-0.7%	15.7%	7.2%
Gearing (x)		0.00	0.00	0.00	0.01	0.03
Debt Leverage (x)		0.12	0.13	0.20	0.23	0.35
Current Ratio		5.46	5.24	3.30	3.22	2.95
Inventory + Receivables/Short-term Borrowings		NA	NA	NA	50.47	41.80

RATING SCALE & DEFINITIONS: ISSUES / ISSUERSMedium 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	Agriauto Industries Limited				
Sector	Auto Parts				
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				
	10-Aug-22	A-	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		
	Mr. Fahim Kapadia	CEO	June 02, 2022		
	Mr. Hasan Ali Ghazi	CFO			