RATING REPORT

Agriauto Industries Limited

REPORT DATE:
November 16, 2023

RATING ANALYST:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-1	A-	A-1
Rating Date	November 16, 2023		August 10, 2022	
Rating Outlook	Stable		Stable	

COMPANY INFORMATION	
Incorporated in 1981	**External Auditors:** A.F. Ferguson & Co. Chartered Accountants.
Public Listed company	**Chairman:** Mr. Yutaka Arae
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Fahim Kapadia
Thal Limited – 7.35% National Bank of Pakistan – 5.86% Robert Finance Corporation, AG. – 24.90%	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria:
Corporates (May 2023) ***https://docs.vis.com.pk/docs/CorporateMethodology.pdf***
Rating Scale & Definitions ***https://docs.vis.com.pk/docs/VISRatingScales.pdf***

Agriauto Industries Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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.

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 23 years. He is Chartered Accountant (FCA) and Certified Public Accountant (CPA) by profession. He also has a bachelor degree in Accounting.

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 Karachi.

Rating Drivers

Ratings take into account AGIL's strong sponsor profile.

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 (INDU), Thal Limited, AuVitronics Limited, Thal Boshoku Pakistan Private Limited), Building Materials (Shabbir Tiles and Ceramics Limited, Thal Laminates), Packaging (Paper sack, Jute), Plastics (AuVitronics Limited), Property (Habib Metro Pakistan Limited), Energy (Thal Nova Power Thar Private Limited, Sindh Engro Coal Mining Company) and Financial Services (Habib Insurance Company Limited).

Ratings incorporate AGIL's market positioning and key technical collaborations with international spare part manufacturers.

AGIL possesses more than four 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. Japan, Gabriel Ride Control Products Inc. USA, AISIN Corp. Japan, AISIN Shiroki Corporation Japan, SANNOU RIKEN Ltd. Japan, and KYB Motorcycle Suspension Japan. These collaborations translate in technological advantage and competitive edge to the company. Recently, the company has approached local steel manufacturers for the procurement of raw material to address disruptions due to imports and partly mitigate the impact of exchange rate fluctuations; such agreements are yet to be materialized. The company's clientele includes renowned domestic car, tractor, motorcycle and commercial vehicle assemblers; these companies include Indus Motor Company, Pak Suzuki Motors, Honda Atlas Cars, Atlas Honda Motorcycles, Yamaha Motorcycle, Master Motors, Hino, Millat Tractors, Al Ghazi Tractors and Sazgar. AGIL also sells its products in the aftermarket, as replacement parts for existing vehicles. The company has recently received approval from INDU – an associated company – to develop auto parts for HEV (hybrid electric vehicle), which is expected to be launched shortly.

Ratings take into account high to medium business risk profile of the company.

VIS classifies business risk profile of AGIL in the high to medium category, given historical volatility in gross margins. The volatility in gross margins is mainly an outcome of volumetric offtake and cost of raw material. The volumetric sales has been affected by high prices thus lower demand while exchange rate fluctuations adversely impacted costs of imported raw material. While business risk is considered elevated stemming from dampened demand of automobiles, the risk profile is somewhat supported by the fact that the company is the sole producer of cars shock absorbers & struts in the local market. The local manufacturing industry is supported by regulations, which promote localization of vehicles. As indicated in the Auto Industry Development and Export Policy (AIDEP) 2021-26, local value addition requirement for auto assemblers has been fixed at 30%. In the case of non-compliance, the manufacturer shall not be eligible for concessionary import and custom duties on remaining components or sub-assemblies.

AGIL sells Shocks & Struts, Steering Boxes, Door & Hood Hinges, Two-Wheeler Components, Two-Wheeler Shocks, Three-Wheeler Shocks, Camshafts, Window Regulatory Assembly and Stamping parts to automobile assemblers and aftermarket. While import restrictions hampered automobile production of AGIL, the contribution of two-wheeler products to net sales was higher given the relatively higher localization in the two-wheeler automobiles segment. Shocks & Struts contributed 62% (FY22: 69%) and Two-Wheeler Components contributed 17% (FY22: 9%) to net sales during FY23. In line with other auto parts manufacturers, the company's sales emanated largely from institutional customers – with very low credit risk – and depict counterparty concentration. However, the concentration risk is addressed by the binding contracts in place with clients. AGIL's top five customers contributed 92.5% net sales during FY23. INDU is the leading client, wherein more than half of AGIL's net sales is to that company.

Top Customers	FY21	FY22	FY23
Indus Motors	64.9%	65.2%	51.4%
Atlas Autos	12.1%	11.1%	17.3%
Suzuki	6.3%	8.7%	10.1%
Abdullah Enterprise	6.4%	6.1%	9.4%
Millat Tractors	4.0%	1.8%	4.3%
Yamaha	4.0%	2.0%	2.9%

Lower sales and stressed margins resulted in loss during the outgoing year.

The demand for automobiles declined in FY23 as customers' purchasing power was adversely impacted. The company's volumetric off-take decreased by 46.3% during FY23 on account of lower demand of auto parts from major customers. AGIL's net sales decreased to Rs. 5.3b during FY23 which depicted 40.3% decline from the previous year. AGIL's net sales decreased to Rs. 1.2b (1QFY23: Rs. 1.4b) in 1QFY24.

The company's raw material is roughly 80% import-based. The cost of sales therefore increased significantly mainly on account of exchange rate fluctuation. Hence, gross margins declined to 4.1% (FY22: 11.4%) during FY23. The company also recorded Rs. 261.6m (FY22: Rs. 31.8m) in other income mostly as dividend income from Agriauto Stamping Company (ASC) – a subsidiary of AGIL. Despite overall borrowings, finance cost increased to Rs. 77.2m (FY22: Rs. 53.0m) due to higher policy rate in FY23.

The company posted net loss of Rs. 44.3m (FY22: Rs. 304m profit) in FY23. AGIL posted a net loss of Rs. 8.3m during 1QFY24. Given the distressed outlook of auto sector, the management does not expect significant change in profit margins in FY24.

Weakened debt service coverages.

Cash flow coverages were stressed in FY23. Owing to lower profit from core operations, FFO was negative in FY23. Resultantly, FFO to total debt coverage and DSCR were also reported in negative in FY23. However, FFO increased on account of higher non-cash adjustments and lower finance cost paid in 1QFY24, FFO to total debt coverage and debt servicing coverage improved.

Trade debts declined to Rs. 505.5m (FY22: Rs. 742.9m) on account of lower advances booked by customers against sales. Trade debts that are neither past due nor impaired accounted for 99.4% (FY22: 98.5%) of total trade debts. Advances, deposits, prepayments and other receivables stood lower at Rs. 339.9m (FY22: Rs. 645.2m) comprising mainly amounts against opening of LCs. As the company settled the entire short-term borrowings, current ratio improved slightly to 2.1x (FY22: 2.0x) by end-FY23.

The company's business model requires inventory holding of 45 days as safety stock. Lately, due to supply chain disruptions, AGIL's cost of stock holding increased despite lower inventory levels of Rs. 1.8b (FY22: Rs. 2.2b) at end-FY23. As a consequence of stock-holding and decreased off-take, cash conversion cycle increased to 83 days (FY23: 65, FY22: 72) in 1QFY24. Overall cash conversion cycle is viewed as moderate and manageable.

Ratings take into account low gearing.

The company's paid-up capital increased to Rs. 180m (FY22: Rs. 144m) on account of issuance of bonus shares in FY23. The equity base decreased to Rs. 4.47b (FY22: Rs. 4.52b) due to loss during outgoing year.

Short-term borrowing of Rs. 67.3m was outstanding at 1QFY24. Long-term borrowing increased to Rs. 449.5m (FY22: Rs. 58.0m) by end-FY23; mobilized to finance capital expenditure to meet a customer's requirement. With principal repayments, long-term borrowings decreased to Rs. 397.7m by end-1QFY24.

Total borrowings decreased to Rs. 449.5m (FY22: Rs. 800.5m) by end-FY23. As a result, gearing and leverage ratio improved slightly to 0.10x (FY22: 0.18x) and 0.42x (FY22: 0.48x) respectively. Leverage indicators are expected to remain in similar range, going forward.

Agriauto Stamping Company Pvt. Ltd. (ASC)

Agriauto Stamping Company (Pvt) Limited (ASC) was established in 2012, as a wholly owned subsidiary of AGIL. ASC is engaged in the manufacture and sale of sheet metal stamping parts, sub-assembly operations, dies/checking fixtures/jigs. ASC specializes in assembling and stamping of high tensile parts for automobiles, with technical collaboration with M/S. Ogihara (Thailand) Co. Ltd. The plant is located at Bin

Qasim, Karachi and the registered office is located at Shahra-e-Faisal, Karachi. The followings table represents dividend income received from ASC over the years:

Rs. in Mn

	FY 19	FY 20	FY 21	FY 22	FY 23
Dividend income from ASC	114	114	228	0	228

Agriauto Industries Limited — Appendix I

FINANCIAL SUMMARY				(PKR in m.)
BALANCE SHEET	**FY21**	**FY22**	**FY23**	**1QFY24**
Property, Plant & Equipment (inc. Intangible)	1,000.7	1,311.3	1,914.4	1,918.1
Long Term Investments	1,144.0	1,144.0	1,144.0	1,144.0
Stock in Trade	1,056.9	2,221.5	1,788.7	1,781.3
Trade Debts	792.5	742.9	505.5	585.5
Short Term Investments	122.3	39.2	38.7	39.0
Advances, Deposits, Prepayments and Other Receivables	552.3	645.2	339.9	268.3
Taxation	438.3	328.0	317.5	294.9
Cash & Bank Balances	165.5	67.1	89.5	47.8
Other Assets	136.3	196.3	228.1	228.6
Total Assets	**5,408.9**	**6,695.5**	**6,366.4**	**6,307.4**
Trade and Other Payables	890.6	1,308.1	1,359.7	1,299.4
Short Term Borrowing	36.6	742.5	-	67.2
Long-Term Borrowing (inc. current maturity)	20.7	58.0	449.5	397.7
Total Borrowings	**57.4**	**800.5**	**449.5**	**464.9**
Other Liabilities	71.0	65.8	80.5	74.4
Total Liabilities	**1,018.9**	**2,174.3**	**1,889.7**	**1,838.8**
Issued, Subs, and Paid-Up Capital	144.0	144.0	180.0	180.0
Equity	**4,390.0**	**4,521.2**	**4,476.9**	**4,468.6**
INCOME STATEMENT	**FY21**	**FY22**	**FY23**	**1QFY24**
Net Sales	6,970.0	8,957.5	5,336.1	1,227.1
Gross Profit	936.5	1,018.5	218.8	103.9
Finance Cost	(3.1)	(53.0)	(77.2)	(3.2)
Profit Before Tax	834.0	458.4	(32.6)	9.3
Profit After Tax	**651.4**	**304.0**	**(44.3)**	**(8.3)**
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**	**1QFY24**
Gross Margin (%)	13.4	11.4	4.1	8.5
Net Margin (%)	9.3	3.4	(0.8)	(0.7)
FFO	422.0	551.8	(169.8)	72.3
FFO to Long-Term Debt	20.4	9.5	-	0.7
FFO to Total Debt	7.4	0.7	-	0.6
Debt Servicing Coverage Ratio (x)	222.8	16.5	-	20.2*
Inventory + Receivables/Short-term Borrowing	50.5	4.0	-	35.2
Current Ratio	3.2	2.0	2.1	2.1
Cash Conversion Cycle (days)	52	72	65	-
Trade Debts/Sales (%)	11.4	8.3	9.5	11.9*
ROAA (%)	12.9	5.0	-	-
ROAE (%)	15.7	6.8	-	-
Gearing (x)	0.01	0.18	0.10	0.10
Debt Leverage (x)	0.23	0.48	0.42	0.41

**Annualized*

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Agriauto Industries Limited				
Sector	Auto Parts				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: ENTITY				
	16-Nov-2023	A-	A-1	Stable	Reaffirmed
	10-Aug-2022	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.				
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Due Diligence Meetings Conducted	**Name**	**Designation**	**Date**		
	Mr. Fahim Kapadia	CEO	26-Oct-2023		