RATING REPORT

Agriauto Industries Limited

REPORT DATE:
November 26, 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	A-	A1	A-	A1
Rating Date	November 26, 2024		November 16, 2023	
Rating Action	Reaffirmed		Reaffirmed	
Rating Outlook/Rating Watch	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 – 5.94%* *Robert Finance Corporation, AG. – 24.90%*	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: ***Corporates*** ***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

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.

RATING RATIONALE

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.

Employee headcount decreased to 666 (Jun'23: 698) as of Jun'24. The Company's power requirement is 2.2 megawatt (MW), met through a mix of sanctioned load from K-Electric, solar power and back-up diesel generators.

Agriauto Stamping Company (Pvt) Limited (ASC) – Subsidiary of AGIL
AGIL's wholly owned subsidiary, Agriauto Stamping Company (Pvt) Limited (ASC), was established in 2012. 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. ASC's plant and registered office are located in Karachi.

The followings table represents dividend income received from ASC over the years:

Rs. in m	FY21	FY22	FY23	FY24
Dividend income from ASC	228	-	228	-

<u>**Rating Drivers**</u>

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 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.

The company's clientele includes leading OEMs (original equipment manufacturers) such as INDU, Pakistan Suzuki Motor Company Ltd (PSMC), Al-Ghazi Tractors

Limited (AGTL) and Atlas Autos Limited. AGIL's products in the aftermarket are sold as replacement parts for existing vehicles. The company utilizes the services of two licensed distributors, based in Karachi and Lahore, to facilitate the delivery of auto parts to OEMs and aftermarket suppliers.

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.

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 and limited client base. The volatility in gross margins is mainly an outcome of volumetric offtake and cost of raw material. The volumetric sales have been declining over the last two years primarily due to high prices of vehicles negatively impacting demand.

While the business risk is elevated, the Company being the sole producer of local car shock absorbers and struts offers some mitigation. Moreover, the shift towards automobile localization in Pakistan will lead to improvement in demand for auto parts, going forward.

Sales mix leaned somewhat towards two-wheeler parts and after-market on account of low demand from four-wheelers
Overall volumetric sales of AGIL have witnessed a decline of 1.6% Y/Y in FY24 as demand from core clients remained mostly suppressed with some improvement seen in 2HFY24. The Company implemented partial production shutdowns from September, to December of 2023, as well as in January 2024, to mitigate cost-pressures.

Product mix was largest similar as Shocks & Struts contributed 63% (FY23: 62%) of net sales followed by Two-Wheeler Components comprising 20% (FY23: 17%) of net sales during FY24.

In line with other auto parts manufacturers, the Company's sales emanate 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 that are well-established automakers. Sales mix in terms of customers is dependent on demand of automobiles in the country.

AGIL's top five customers accounted for 90% (Jun'23: 92%) of net sales by Jun'24. The contribution of two-wheelers (Atlas Autos and aftermarket segment) to net sales was higher in FY24 compared to previous years, this shift is attributed to a decrease in demand for parts of four-wheelers, notably from AGIL's single-largest customer, INDU.

Despite the Company reporting a net loss during the period under review, the management anticipates recovery in the ongoing year
Net sales increased to Rs. 5.9b (FY23: Rs. 5.4b) in FY24 and further rose to Rs. 1.5b (1QFY24: Rs. 1.2b) on account of pricing revisions. However, gross margin deteriorated

to 3.5% (FY23: 4.1%) during FY24 and continued to slide to 1.3% (1QFY24: 8.5%) in 1QFY25 as the company was unable to fully offset increased manufacturing costs by passing them on to buyers.

Operating expenses increased to Rs. 390.6m (FY23: Rs. 337.1m) in FY24 on account of higher advertising expenses and salaries. Other income, primarily consisting of income from ASC, decreased significantly to Rs. 32.5m (FY23: Rs. 261.6m) in FY24 since ASC experienced a net loss during the period under review.

Financial charges increased to Rs. 50.9m (1QFY24: Rs. 2.0m; FY24: Rs. 113.6m, FY23: Rs. 77.2m) in 1QFY25 on account of higher average borrowings and elevated policy rate.

The Company recorded a net loss of Rs. 275.5m in FY24 owing to absence of income from ASC, weakened gross margin and higher financial charges, a substantial increase from a net loss of Rs. 44.3m incurred in FY23. Net loss further rose to Rs. 128.9m in 1QFY25, up from Rs. 8.3m loss in 1QFY24.

The management has stated that they are exploring opportunities to expand product portfolio and add more OEMs to customer base.

Furthermore, auto sales have seen a significant YoY increase of over 50% during 4MFY25. Moving forward, rebound in demand of autos is expected to continue leading to higher demand of auto parts amid economic recovery and declining interest rates. According to management, AGIL is poised to post higher net sales and a positive bottom-line in FY25 on account of higher topline, ongoing cost-rationalization measures and reduction in policy rates.

Cashflow & Debt coverages witnessed decline albeit remained at healthy levels in FY24. Liquidity profile remained strong

In FY24, FFO of AGIL decreased to Rs. 352.5m (FY23: Rs. 462.0m) owing to decreased profitability. FFO to long-term debt and FFO to total debt remained unchanged in FY24 from FY23.

While DSCR declined to 3.62x (FY23: 6.81x) in FY24 due to an increase in finance cost paid, the same remains at healthy levels from the given ratings perspective. FFO has turned negative during 1QFY25 due to net loss, however, comfort has drawn from satisfactory liquidity available and expected increase in profitability during the remaining 9-months of on-going year.

Current ratio decreased to 1.52x (end-FY24: 1.74x, end-FY23: 2.13x) by end-1QFY25 due to the impact of increase in short-term debt, however the same has considered satisfactory. Aging profile of trade debts was satisfactory with no bad debts reported. Cash conversion cycle decreased to 68 days (FY23: 96) in FY24 on account of significant decrease in inventory days.

Conservative capitalizing profile; however, gearing and leverage registered a marginal uptick during review period

Equity decreased to Rs. 4.1b (end-FY24: Rs. 4.2b, end-FY23: Rs. 4.5b) by end-1QFY25 due to consecutive net losses over the review period.

	Short-term borrowings increased notably to Rs. 911.7m (end-FY24: Rs. 341.4m, end-FY23: Rs. 2.2m) at end-1QFY25 amid higher working capital requirements and drop in cash flows. As a result, total borrowings increased to Rs. 1.3b (end-FY24: 721.9m, end-FY23: Rs. 474.7m) at end-1QFY25. Subsequently, gearing and leverage increased to 0.32x (end-FY24: 0.17x, end-FY23: 0.11x) and 0.65x (end-FY24: 0.52x, end-FY23: 0.42x) respectively by end-1QFY25. The management plans to pay-off significant portion of long-term debt in the ongoing period, hence capitalization indicators are projected to decline in FY25.

Agriauto Industries Limited — Appendix I

FINANCIAL SUMMARY					*(Rs in m)*
BALANCE SHEET	**FY21**	**FY22**	**FY23**	**FY24**	**1QFY25**
Operating Assets	1,000.7	1,311.3	1,860.0	1,789.2	1,762.2
Long Term Investments	1,144.0	1,144.0	1,144.0	1,144.0	1,144.0
Stock in Trade	1,056.9	2,221.5	1,788.7	1,518.5	1,821.7
Trade Debts	792.5	742.9	505.5	803.1	803.5
Advances, Deposits, Prepayments and Other Receivables	552.3	645.2	339.9	294.7	312.4
Taxation - net	438.3	328.0	317.5	344.7	389.5
Cash & Bank Balances	165.5	67.1	89.5	131.0	87.6
Total Assets	**5,408.9**	**6,695.5**	**6,366.4**	**6,380.8**	**6,725.5**
Trade and Other Payables	890.6	1,308.1	1,359.7	1,234.5	1,180.0
Short-Term Borrowings	36.6	742.5	2.2	341.4	911.7
Long-Term Borrowings	20.7	58.0	472.5	380.5	378.9
Total Borrowings	**57.4**	**800.5**	**474.7**	**721.9**	**1,290.6**
Total Liabilities	**1,018.9**	**2,174.3**	**1,889.7**	**2,179.8**	**2,653.2**
Issued, Subs, and Paid-Up Capital	144.0	144.0	180.0	180.0	182.0
Equity	**4,390.0**	**4,521.2**	**4,476.9**	**4,201.2**	**4,072.4**
INCOME STATEMENT	**FY21**	**FY22***	**FY23***	**FY24**	**1QFY25**
Net Sales	6,970.0	8,957.5	5,336.1	5,927.2	1,487.4
Gross Profit	936.5	1,018.5	218.8	207.8	19.0
Finance Cost	(3.1)	(53.0)	(77.2)	(113.6)	(50.9)
Profit/(Loss) Before Tax	834.0	458.4	(32.6)	(267.2)	(138.3)
Profit/(Loss) After Tax	**651.4**	**304.0**	**(44.3)**	**(275.7)**	**(128.9)**
RATIO ANALYSIS	**FY21**	**FY22***	**FY23***	**FY24**	**1QFY25**
Gross Margin	13.4%	11.4%	4.1%	3.5%	1.3%
Net Margin	9.3%	3.4%	(0.8%)	(4.7%)	(8.7%)
FFO	422.0	551.8	462.0	352.5	(250.9)
FFO to Long-Term Debt (x)**	20.36	9.52	0.98	0.93	N/A
FFO to Total Debt (x)**	7.36	0.69	0.97	0.49	N/A
Debt Servicing Coverage Ratio (x)**	222.78	16.50	6.81	3.62	N/A
Short-Term Debt Coverage (x)	50.47	3.99	1,066.6	6.80	2.88
Current Ratio (x)	3.22	1.99	2.13	1.74	1.52
Cash Conversion Cycle (days)**	73	56	96	68	78
Trade Debts/Sales**	11.4%	8.3%	9.5%	13.5%	13.5%
ROAA**	12.9%	5.0%	N/A	N/A	N/A
ROAE**	15.7%	6.8%	N/A	N/A	N/A
Gearing (x)	0.01	0.18	0.11	0.17	0.32
Leverage (x)	0.23	0.48	0.42	0.52	0.65

Some figures in Income Statement and Cash Flow Statement were restated
*****Annualized***
N/A = Not Applicable

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 Watch	Rating Action
RATING TYPE: ENTITY				
26-Nov-2024	A-	A1	Stable	Reaffirmed
16-Nov-2023	A-	A1	Stable	Reaffirmed
10-Aug-2022	A-	A1	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	31-Oct-2024