Procon Engineering (Private) Limited

REPORT DATE:
April 9, 2018

RATING ANALYSTS:
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RATING DETAILS

	Initial Rating	
Rating Category	**Long-term**	**Short-term**
Entity	A	A-2
Rating Outlook	Stable	
Rating Date	*April 6, 2018*	

COMPANY INFORMATION

Incorporated in 1988	**External auditors:** RAO & Company Chartered Accountants
Private Limited Company	**Chairman of the Board:** Mr. Naveed Malik
	Chief Executive Officer: Mr. Nadeem Malik

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria Methodology – Industrial Corporates (May 2016)
http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf

Procon Engineering (Pvt.) Ltd

OVERVIEW OF THE INSTITUTION

Procon Engineering Private Limited (PEPL) was established on 13th October, 1988 as a private limited company. PEPL is the leading market player in the manufacturing of car seats, interior and other related components. PEPL has three production plants; two are located in Karachi while the other is in Lahore. External audit of the company for FY17 was conducted by Rao & Company Chartered Accountants.

Profile of Chairman & CEO:

Mr. Nadeem Malik is a seasoned businessman with extensive experience in the automobile and foam products industry. Mr. Nadeem has been associated with Master group for the past three decades and is currently serving as Chairman of various associate companies. He holds a Bachelor's degree in Business Administration from the University of Southern California.

RATING RATIONALE

Procon Engineering Private Limited (PEPL) is primarily engaged in manufacturing of automobile seats for passenger and commercial vehicles along with auto parts including cargo deck, chassis frame, and sheet metal/body parts. The company falls under the umbrella of 'Master Group of Industries' which has presence in different business sectors including textile, foam and spring mattresses, engineering, power and automobiles.

Key Rating Drivers:

Business Mix: The company enjoys a prominent position in car seats manufacturing with PEPL contributing more than 60% of total industry sales. The company is the sole supplier of seats to Honda Atlas Cars (HAC) and has a significant market share in supplies to other two substantial players of the automobile industry - Indus Motors Company (IMC) and Pak Suzuki (PS).

Strategic Alliances & Inventory Management: PEPL has signed technical collaborations with Japanese and Thai brands, namely TS Tech and TCH Suminoe for assistance in operations and maintenance of quality; assistance is in the form of process streamlining along with strategic recommendations. The company follows the philosophy of 'Just-In-Time' delivery and maintains minimum level of finished goods inventory, resulting in increased operational efficiency.

Sales: Net sales of the company have witnessed a substantial growth on the back of volumetric increase in local demand of vehicles; sales amounted to Rs. 8.2b (FY16: Rs. 6.9b) in FY17. Top 10 customer wise sales of the company stood at 92.1% given the oligopolistic nature of the local industry. However, with the expected arrival of new players in automobile sector in the coming years, client concentration may be improved on a timeline basis along with projected growth in top line.

Profitability: Financial profile of the company has depicted improvement in FY17 with a higher bottom line. Moreover, gross margins have improved on account of favorable demand during the outgoing year. Given that selling prices are indexed to input cost, margins are expected to remain secured. Going forward, profitability is projected to grow on account of increased sales.

Capitalization & Funding: Capitalization levels of the company are considered adequate with total equity amounting to Rs. 1.4b at end-June 2017. Debt profile of the company largely comprises a running finance. Short term debt of the company also includes an interest free facility of Rs. 274.5m acquired from directors and related parties; remaining loan of Rs. 146.3m from directors was reclassified as equity during FY17. The company also procured a foreign currency loan amounting Rs. 517.1m from an investment company in United Arab Emirates. This debt carries significant currency risk on PEPL's books. Furthermore, gearing and leverage were reported at 1.22x (FY16: 1.12x) and 2.13x (FY16: 2.30x) respectively in FY17, comparing less favorably to peers.

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

Medium 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: JCR-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.jcrvis.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.jcrvis.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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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	Procon Engineering (Pvt) Limited
Sector	Automobiles
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
Instrument Structure	N/A
Statement by the Rating Team	JCR-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	JCR-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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
09-Apr-18	A	A-2	Stable	Initial