

RATING REPORT

Procon Engineering (Pvt.) Limited

REPORT DATE:

May 29, 2020

RATING ANALYST:Talha Iqbal
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-2	A	A-2
Rating Outlook	Rating Watch-Negative		Stable	
Rating Date	May 21, 2020		August 27, 2019	

COMPANY INFORMATION

Incorporated in 1988	External auditors: Kreston Hyder Bhimji & Co. Chartered Accountants
Private Limited Company	Chairman of the Board: Mr. Nadeem Malik
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Nadeem Malik
Mr. Nadeem Malik – 33.3%	
M/s N.M Holding (Pvt.) Ltd. – 33.3%	
M/s Najeeb Holding (Pvt.) Ltd. - 33.3%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria *Industrial Corporates (May 2016)*<http://www.vis.com.pk/docs/Corporate-Methodology-201605.pdf>

Procon Engineering (Pvt.) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p><i>Procon Engineering Private Limited (PEPL) was incorporated on 13th October, 1988 as a private limited company. The company is engaged in manufacturing of automotive parts and components. PEPL has three production plants; two are located in Karachi while the other is in Lahore. External audit of the company for FY19 was conducted by Kreston Hyder Bhimji & Co. Chartered Accountants.</i></p> <p>Profile of Chairman & CEO:</p> <p><i>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.</i></p>	<p>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. PEPL also has a subsidiary company – Master Auto Engineering (SMC-Pvt.) (MAE) Limited.</p> <p>Key Rating Drivers:</p> <p>Sound sponsor profile</p> <p>PEPL is a part of ‘Master Group of Industries’, which has diversified presence across various business sectors including vertically integrated textile unit, foam and spring mattresses, engineering and automobile sectors. The sponsor depicted financial support for PEPL through injection of interest free loan long term loan in FY19. Going forward, VIS expects technical and financial support from the sponsor to continue in case a need arises.</p> <p>Competitive market position</p> <p>The assigned ratings incorporate prominent position of the company in car seats manufacturing as it contributes more than 60% of the total industry car seat sales. The company is the sole supplier of seats to Honda Atlas Cars (HAC) and has a sizeable market share in seat supplies to other two major market players namely Indus Motors Company (IMC) and Pak Suzuki (PS). Moreover, the company also generates significant revenue from sheet metal products. Due to oligopolistic nature of the industry, concentration is witnessed in the company’s sales. However, the concentration risk is partly mitigated on account of long term relationships with clients. Furthermore, the management has also established relationship with some new market players and is in negotiations with others, which is expected to reduce client wise concentration as well as support business volumes over long term. Impact, if any, due to competition from existing and new competitors will be an important rating consideration.</p> <p>Strong Strategic Alliances & Inventory Management practices</p> <p>PEPL has 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 implements the philosophy of ‘Just-In-Time’ delivery and maintains optimum level of finished goods inventory, resulting in increased operational efficiency.</p> <p>Weakening in Industry Dynamics</p> <p>The revision in rating outlook reflects prevailing uncertainty in auto sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand and challenging economic environment. Status of the assigned rating is therefore uncertain as an event of deviation from expected trend has occurred; additional information will be necessary to take any further rating action, warranting a ‘Rating Watch’ status. Given the compression in demand and expected impact on cash flows, ratings are being placed on ‘Negative’ outlook. Ratings remain dependent on maintaining cash flow coverages and prudent leverage indicators. VIS will closely monitor and will accordingly take action to resolve the outlook status.</p>

ISSUE/ISSUER RATING SCALE &DEFINITIONS

Appendix I

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: 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 DISCLOSURE		Appendix II			
Name of Rated Entity	Procon Engineering (Pvt) Limited				
Sector	Automobiles				
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				
	29-May-20	A	A-2	Rating Watch-Negative	Maintained
	27-Aug-19	A	A-2	Stable	Reaffirmed
09-Apr-18	A	A-2	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
	N/A				