VIS
Credit Rating Company Limited

RATING REPORT

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APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology – Industrial Corporates:
(https://docs.vis.com.pk/docs/CorporateMethodology.pdf)

RATING SCALE:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

PROCON ENGINEERING (PRIVATE) LIMITED

Chairman & Chief Executive: Nadeem Malik

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Medium to Long-term	Short-term	Medium to Long-term	Short-term
ENTITY	**A+**	**A1**	A	A2
RATING OUTLOOK/ WATCH	**Stable**		Stable	
RATING ACTION	**Upgrade**		Maintained	
RATING DATE	**July 18, 2025**		May 22, 2024	

RATING RATIONALE

Procon Engineering (Pvt.) Limited ('PEPL' or 'the Company') is engaged in the manufacture of automotive seats for passenger and commercial vehicles, auto parts including cargo deck, chassis frame, and sheet metal/body parts and has also diversified into foam and synthetic (F&S) products. The ratings derive comfort from the strong sponsorship profile of the Master Group, one of the country's leading business conglomerates with diversified presence across various business sectors including mattresses, textile, automobiles and energy.

The assigned ratings incorporate the ongoing recovery in the automotive sector and sustained demand from OEMs, underpinned by improving macroeconomic fundamentals. Despite the inherently high business risk of the sector, driven by the cyclical nature of the automobile industry and its resulting impact on the topline and profitability of auto-parts manufacturers, the Company has effectively mitigated this risk by expanding its presence in the non-OEM segment. This segment accounted for over 48% of total revenue in 1HFY25 (FY24: 50%, FY23: 42%, FY22: 24%), reflecting the success of its diversification strategy aimed at supporting long-term profitability. Additionally, within the OEM space, PEPL has broadened its client base by onboarding new Korean and Chinese manufacturers.

The ratings also reflect the Company's improved capitalization profile over time, driven by reduced reliance on bank borrowings, sponsors working capital support, and consistent equity growth. Liquidity has remained satisfactory, with notable improvements in cash flow generation and debt coverage metrics. Looking ahead, the ratings remain supported by the continued availability of interest-free loans from the directors, reflecting an ongoing funding commitment, alongside the Company's intent to maintain a conservative capitalization strategy.

COMPANY PROFILE

Procon Engineering (Pvt.) Limited ('PEPL' or 'the Company') was established in 1988 and is engaged in the manufacture of automotive seats for passenger and commercial vehicles, auto parts including cargo deck, chassis frame, and sheet metal/body parts and has also diversified into foam and synthetic (F&S) products. The Company's manufacturing facilities are located at Port Qasim, Karachi; at SITE, Karachi; and in Raiwind, Lahore. The registered office is located at Shahrah-e-Faisal, Karachi. PEPL has acquired a plot at Port Qasim, Karachi, for future expansion.

The ratings derive comfort from the strong sponsorship profile of the Master Group, one of the country's leading business conglomerates with diversified presence across various business sectors including mattresses (Master Foam), textile (Master Textile), automobiles (Master Motors Corporation Limited, Master Changan Motors Limited) and energy (Master Wind).

In addition, the Company has provided a cross-company guarantee amounting to Rs. 10.5b (end-FY23: Rs. 11.7b) to a lender of two associated companies - Master Motor Corp (Pvt.) Ltd. and Foamco (Pvt.) Ltd.; the same creates a potential financial risk exposure to PEPL.

INDUSTRY PROFILE & BUSINESS RISK

Amid economic slowdown during FY23 and FY24, automobiles sales have witnessed a sharp decline, wherein sales of passenger cars (PCs) and Jeeps & Pickups have particularly witnessed significant decline of 15.7% and 26.0% respectively in FY24 compared to the previous year. However, during 9MFY25, with the rebound in the economic indicators amid decline in interest rates combined with introduction of new models, PCs sales boosted by 39.2% whereas off-take in Jeeps & Pickups segment improved by 69.9% in comparison with 9MFY24. The following table shows sales volumes of selected automobile segments:

Automobile sales (*units*)*	FY23	FY24	9MFY24	9MFY25
Passenger Cars	96,811	81,579	54,091	75,265
Jeeps & Pickups	30,067	22,250	14,990	25,471
Major PEPL clients:				
Indus Motor Company	31,104	20,772	13,703	21,618
Honda Atlas Cars	16,879	13,214	9,929	12,776
Pak Suzuki Motors	65,362	54,428	35,533	49,946
Atlas Honda (two-wheelers)	1,005,408	1,003,253	724,683	917,598

*These numbers are from PAMA (Pakistan Automotive Manufacturers Associated)

PEPL faces elevated business risk owing to significant reliance on imported components, an intensely competitive environment catering to a limited client base of local automobile manufacturers, and substantial dependence on the offtake of automobiles. While a recovery in auto sector is underway in the ongoing year, the same remains a critical factor influencing industry risk. However, as some of the Company's customers are related parties, the offtake risk is partially mitigated.

Product Profile & Capacity

PEPL produces auto parts including seats, doors, sun visors, sheet metal while also handles roof headlining and assembly of foam and non-woven fabric items of automobiles. Total power requirement of the Company is 11.5MW (megawatt) across all facilities. Power needs of production facilities in Karachi are met by sanctioned load from K-Electric and solar power while the Lahore plant's power requirements are arranged from LESCO (Lahore Electric Supply Company) and Master Power (Pvt) Ltd., an associated coal power plant company.

Rated production capacity varies on account of demand fluctuation in the automobile sector. The Company's manufacturing facilities are located closer to its major customers including Indus Motors Company and Pakistan Suzuki Motors in Karachi, and Honda Atlas Cars in Lahore.

FINANCIAL RISK

Capital Structure

PEPL's equity base stood at Rs. 7.3b (end-FY24: Rs. 6.7b, end-FY23: Rs. 5.8b) by end-1HFY25 due to sustained profit retention. Equity is supported by an unsecured, interest-free director's loan, payable at the Company's discretion, amounting to Rs. 1.4b at end-1HFY25 (end-FY24: Rs. 1.4b, end-FY23: Rs. 1.2b).

Long-term financing mostly comprises SBP TERF loans (Temporary Economic Refinance Facility) from various commercial banks, taken at SBP rate + ~1 to 3% per annum. Outstanding balance of long-term borrowings slightly reduced to Rs. Rs. 2.1b at end-1HFY25 (end-FY24: 2.1b, end-FY23: Rs. 2.2b) at end-1HFY25.

The Company notably decreased reliance on short-term bank borrowings (end-FY24: Rs. 158.10m, end-FY23: Rs. 3.34b), to minimize the impact of high financing rates in FY24. Subsequently, to support working capital needs, the Company utilized non-interest-bearing short term sponsor loans, that are repayable on demand of directors. These short-term sponsor loans increased to Rs. 3.73b at end-FY24 from Rs. 1.45b at end-FY23.

As the short-term loan from sponsor is interest-free, it is not considered part of the debt, which resulted in gearing and leverage declined to several-year lows of 0.39x (end-FY23: 1.02x, end-FY22: 1.99x) and 1.62x (end-FY23: 2.15x, end-FY22: 3.22x) at end-FY24 due to a combination of notable decrease in bank borrowings and higher equity. Gearing slightly increased due to an increase in short-term borrowings from banks while leverage continued to decline by end-1HFY25.

Overall, PEPL also changed its capitalization strategy, relying on non-interest-bearing sponsor loans to manage working capital needs, resulting in a notable improvement in gearing and leverage ratios during the review period.

Profitability

Net sales decreased by 13.3% in FY24 due to lower volumetric off-take of four-wheel seats, foam mattresses, sheet metal and spring mattresses in tandem with weak demand from auto manufacturers. The four-wheel seats comprised majority of the topline in terms of products, followed by non-woven fabrics, sheet metal and foam mattresses.

Majority of sales emanate from automotive clients, creating concentration risk, although the same risk is mitigated by the long-term nature of contracts with clients along with strong customer relationships. The contribution to total sales from OEM products is on a downward trend, reflecting the diversification of the product line amidst contraction in demand of passenger cars parts (mainly 4-wheeler seats). This recent diversification of sales mix is part of Company strategy to mitigate pressures from volatility in automobile segment and sustain margins. Furthermore, adoption of Korean and Chinese auto manufacturers, mitigates business risk coming from OEM segment.

Ratings take into account improvement in profit margins during the review period. Gross margin slightly improved (FY24: 15.4%, FY23: 15.1%) as the Company passed on the increasing production costs to customers. Operating expenses were largely intact in FY24. The Company recorded notably lower finance cost in FY24 due to lower average borrowings. Other income increased in FY24 on account of foreign exchange gain, increase in income from government grant and higher profit on bank deposits. Moreover, share of profit from Master Wind Energy Limited (a renewable energy project in which PEPL has 15% stake) increased in FY24. Net profit notably increased while net margin improved to 3.4% (FY23: 2.2%) in FY24, reflecting stable gross margin, higher other income and decreasing finance costs.

In 1HFY25, net sales rose by 15.8%, attributable to higher volumes while gross margin also improved (1HFY25, 14.2%, 1HFY24: 12.6%). Consequently, net profit increased, leading to a higher net margin of 6.3% (1HFY25: 5.0%) in 1HFY25. The management expects net sales to increase by 10-15% for FY25, this increase combined with a higher gross margin will result in improvement in profitability in the ongoing year.

Debt Coverage & Liquidity

Assigned ratings reflect enhancement in debt servicing profile and liquidity profile improvement in the review period. FFO was up in FY24 from FY23 mainly due to higher profitability. In FY24, FFO to debt coverage increased to 0.59x (FY23: 0.48x) and DSCR rose to 2.27x (FY23: 1.43x) on account of higher FFO and lower long-term repayment obligations. In 1HFY25, DSCR further increased to 2.70x, attributable to an improvement in FFO. For FY25, debt servicing metrics are anticipated to improve due to declining financial charges and lower long-term debt repayments. Debt servicing profile is anticipated to strengthen owing to higher profits and reduced finance costs in the coming year.

Current ratio increased (end-FY24: 1.40x, end-FY23: 1.09x) and short-term debt coverage strengthened (end-FY24: 52.52x, end-FY23: 2.58x) on account of higher trade debts in concurrence with a decrease in short-term borrowings. Cash conversion cycle shortened in FY24 due to an increase in days payable. Current ratio and short-term debt coverage further enhanced by end-1HFY25 while cash conversion cycle slightly improved as well. The Company maintains good terms with its customers, characterized by a low trade receivable to sales ratio (1HFY25: 9.8%; FY24: 10.5%, FY23: 8.0%). Liquidity metrics will remain intact by end-FY25.

REGULATORY DISCLOSURES	Appendix I
Name of Rated Entity	Procon Engineering (Private) Limited
Sector	Auto Parts
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see below

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
RATING TYPE: ENTITY				
18-Jul-25	A+	A1	Upgrade	Reaffirmed
22-May-24	A	A2	Stable	Maintained
26-Jan-23	A	A2	Negative	Maintained
21-Oct-21	A	A2	Stable	Maintained
21-May-20	A	A2	Rating Watch – Negative	Maintained
27-Aug-19	A	A2	Stable	Reaffirmed
09-Apr-18	A	A2	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
	Naveed Alam	CFO	14-May-25