VIS
Credit Rating Company Limited

RATING REPORT

PROCON ENGINEERING (PVT) LIMITED

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RATING DETAILS				
RATINGS CATEGORY	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A+	A1	A+	A1
OUTLOOK/RATING WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Upgrade	
RATING DATE	August 31, 2026		July 18, 2025	

Shareholding (5% or More)	Other Information
N. M. Holding (Pvt) Limited - ~33.3%	Incorporated in 1988
Najeeb Holdings (Pvt) Limited - ~33.3%	Private Limited Company
Nadeem Malik - ~33.3%	Chief Executive: Mr. Nadeem Malik
	External Auditor: Rao & Company Chartered Accountants

Applicable Rating Methodology

VIS Entity Rating Criteria Methodology – Corporates Ratings
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

Rating Scale

https://vis.com.pk/docs/VISRatingScales.pdf

Rating Rationale

The assigned ratings reflect the Company's association with the Master Group of Companies, its established position as a leading Tier-1 automotive components manufacturer, and its diversified product portfolio encompassing seating systems, carpets, sheet metal components, exhaust systems, and interior trims. The Company maintains longstanding relationships with a broad base of original equipment manufacturers (OEMs) operating in Pakistan, supporting business volumes across multiple vehicle segments and models, thereby providing revenue diversification and reducing dependence on any single customer or platform.

The ratings also incorporate the recovery in Pakistan's automotive sector during CY25, which supported higher production volumes, improved capacity utilization, and stronger financial performance. The resultant improvement in earnings and internal cash generation has strengthened the Company's capitalization profile, while debt coverage indicators and liquidity remain comfortable. Financial flexibility is further supported by low leverage and prudent working capital management. Over the medium term, increasing localization initiatives by OEMs, new model launches, and continued expansion of domestic manufacturing are expected to create additional growth opportunities for established local auto parts manufacturers.

The ratings continue to reflect the cyclical nature of the automotive industry and the Company's exposure to macroeconomic conditions, exchange rate movements, raw material prices, and regulatory changes. Going forward, the ratings will remain dependent on sustained business growth, profitability, cash flow generation, further strengthening of the Company’s governance framework, and the maintenance of a strong financial risk profile.

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Company Profile

Procon Engineering (Pvt) Limited ('PEPL' or 'the Company') was incorporated 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 and S.I.T.E, Karachi and Raiwind, Lahore. The registered office is in Karachi.

Management and Governance

GROUP PROFILE

Master Group of Industries is one of Pakistan's well-established, family-owned business conglomerates with a diversified presence across multiple sectors, including textiles, foam and spring mattresses, automotive components, engineering, and power generation. Over the years, the Group has built a strong market position. In the automotive sector, the Group has established itself as a leading supplier of components to major original equipment manufacturers (OEMs) operating in Pakistan through its specialized subsidiaries. The Group is owned and managed by the Malik family and benefits from experienced leadership, operational synergies across its businesses, and a long operating track record, which collectively support its business stability and financial strength.

BOARD & MANAGEMENT

The Company's governance framework reflects its status as a closely held, family-owned enterprise, with strategic oversight and management vested in the sponsoring Malik family. The Board is chaired by the principal sponsor, Mr. Nadeem Malik, who also serves as the Chief Executive Officer, ensuring continuity in strategic direction and decision-making. Mr. Malik has led the Group's automotive business for several decades and possesses extensive industry experience. He holds a Bachelor's degree in Business Administration from the University of Southern California. The Company's governance profile benefits from its long-standing leadership and active involvement in the Group's operations. Nevertheless, the governance framework has scope for enhancement through the induction of independent directors, the establishment of formal Board committees, and further strengthening of the overall control and governance framework.

AUDITOR

The CY25 annual financial statements were audited by Rao & Company Chartered Accountants, a QCR-rated audit firm. The auditors expressed an unqualified opinion.

Business Risk

INDUSTRY UPDATE

VIS assesses the overall business risk profile of Pakistan's automobile parts sector as medium to high, reflecting its dependence on domestic automobile production, which remains cyclical and sensitive to macroeconomic conditions, consumer purchasing power, availability of auto financing, exchange rate movements, and regulatory developments. The sector comprises a limited number of organized tier-1 vendors supplying OEMs, alongside fragmented base of SMEs primarily serving the replacement market. Key organized players include Thal Engineering, Procon Engineering, Loads Limited, Agriauto Industries, Agriauto Stamping and Omar Jibran Engineering.

Automobile Sales (Units)	FY24	FY25	9MFY25	9MFY26
Passenger Cars	81,579	112,203	75,397	109,655
Jeeps & Pickups	22,250	35,820	25,471	34,374
Top PEPL Clients				
Indus Motor Company	20,772	33,393	8,016	6,247
Honda Atlas Cars	13,214	18,296	12,776	17,713
Pak Suzuki Motors	54,428	72,685	17,604	65,706

Atlas Honda (two-wheelers)	1,003,253	1,278,424	917,598	1,224,260
Source: PAMA				

Following a slowdown during FY23 and FY24, the sector witnessed a notable recovery in FY25, supported by easing interest rates, improving macroeconomic conditions and gradual recovery in consumer demand. According to PAMA (Pakistan Automotive Manufacturers Association) data, passenger car sales increased to 112,203 units during FY25 from 81,579 units in FY24, while sales of jeeps and pickups also recorded healthy growth to 35,820 units, supporting demand for automotive components across multiple product categories. Despite the improvement, industry production remains below historical peak levels and installed capacity, indicating that capacity utilization and fixed-cost absorption have yet to fully normalize.

The sector continues to face structural challenges. Operating margins remain exposed to fluctuations in raw material prices and exchange rates due to continued reliance on specialized components and CKD inputs. In addition, the supplier base remains dependent on limited number of domestic OEM assemblers, resulting in customer concentration risk.

The regulatory environment remains a key determinant of the sector's long-term outlook. Implementation of the National Tariff Policy and the proposed AIDEP 2026-31 (Auto Industry Development and Export Policy) is expected to gradually rationalize import tariffs and reduce the level of protection historically afforded to domestic assemblers and auto parts manufacturers. While a more competitive operating environment may improve consumer choice and support long-term market efficiency, it is also expected to increase competitive pressures on local vendors, necessitating continued improvements in productivity, localization, quality standards and operational efficiency to maintain profitability.

Over the medium term, adoption of hybrid and electric vehicles is altering the domestic component mix and require investment in new technologies and manufacturing capabilities. However, the pace of this transition is expected to remain gradual given affordability constraints, limited charging infrastructure and the nascent stage of Pakistan's EV ecosystem.

Going forward, the sector's performance will remain contingent upon the sustainability of domestic automobile demand, interest rate and exchange rate stability, the pace of localization, and manufacturers' ability to adapt to a progressively liberalized regulatory framework.

PROFITABILITY

The Company's revenue increased to PKR 27.0 billion in FY25 (FY24: PKR 20.1 billion), supported by higher sales volumes amid recovery in the domestic automobile sector and contribution from newly localized products. PEPL maintains a diversified customer base comprising leading OEMs, including Indus Motor, Honda Atlas Cars, Pak Suzuki, Master Changan and Atlas Honda, which collectively accounted for around 50% of revenue (FY24: 47.8%). No single customer contributed more than 17% of revenue during the year, reflecting moderate customer concentration. The product mix also continued to diversify with increasing contribution from sheet metal and interior components alongside the traditional seating business.

Gross margin declined to 13.7% (FY24: 15.4%) due to cost pressures resulting in an operating margin of 6.1% (FY24: 7.5%). Although finance costs increased owing to higher utilization of working capital borrowings, net profit improved to PKR 1.2 billion (FY24: PKR 677 million), with net margin rising to 4.3% (FY24: 3.4%). The improvement in the bottom line was largely supported by higher other income, primarily comprising returns on bank deposits and dividend income from subsidiaries and associates, together with favorable tax adjustments. As a significant portion of this income is non-operating in nature, its recurrence may remain limited.

In 9MFY26, revenue reached PKR 25.0 billion, supported by continued recovery in automobile demand. Gross margin improved to 16.8% following price revisions, cost optimization initiatives and better operating efficiencies, translating into an operating margin of 9.0%. Lower finance costs further supported profitability, resulting in a net margin of 7.6%. Going forward, operating profitability is expected to remain supported by healthy demand in the domestic automobile sector, expansion of localized product offerings, continued cost optimization initiatives, and higher localization by OEMs.

Financial Risk

CAPITAL STRUCTURE

The Company's capital structure strengthened on the back of continued profitability, with the equity base increasing to PKR 7.7 billion at end-FY25 (FY24: PKR 6.7 billion) and further improving to PKR 9.6 billion by end-9MFY26. Equity continued to be supported by an unsecured, interest-free director's loan, payable at the Company's discretion, which amounted to PKR 1.2 billion at end-FY25 (FY24: PKR 1.4 billion).

Total debt marginally declined to PKR 6.2 billion at end-FY25 (FY24: PKR 6.4 billion). The debt mix reflected a continued reduction in long-term borrowings, comprising subsidized facilities under the TERF and Renewable Energy schemes, which declined to PKR 2.2 billion (FY24: PKR 2.5 billion) due to scheduled repayments. Short term funding primarily remains concentrated by related parties. This was partly offset by an increase in short-term borrowings to support higher working capital requirements associated with increased business volumes. Short-term borrowings increased further to PKR 2.1 billion by end-9MFY26, while partial repayment of the director's loan supported improvement in the overall profile.

As a result of improved profitability, gearing and leverage improved to 0.81x (FY24: 0.95x) and 1.42x (FY24: 1.62x), respectively, at end-FY25, with leverage further improving to 1.00x by 9MFY26.

DEBT COVERAGE & LIQUIDITY

The Company's liquidity profile remained satisfactory, supported by healthy cash generation and improved working capital management. The current ratio improved to 1.49x at end-FY25 (FY24: 1.41x) and further to 1.90x at end-9MFY26, while the operating cycle shortened to 110 days (FY24: 145 days) owing to prudent inventory management. Liquidity at end-FY25 was supported by higher bank balances of PKR 935 million (FY24: PKR 446 million), PKR 100 million in short-term mutual fund investments, and sizeable unutilized working capital lines. Although the short-term investments were liquidated during 9MFY26, healthy cash balances continued to provide adequate liquidity support.

Debt servicing capacity remained comfortable, with the Debt Service Coverage Ratio (DSCR) standing at 2.30x at end-FY25 (FY24: 2.38x) and improving to an annualized 8.78x at end-9MFY26, supported by healthy profitability and lower scheduled debt repayments. Going forward, maintaining liquidity within reasonable threshold amidst expansion plans in related companies will remain important for ratings.

REGULATORY DISCLOSURES — Appendix I

Name of Rated Entity	Procon Engineering (Private) Limited
Sector	Auto Parts
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
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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Rating History

Rating Date	Medium to Long Term	Short Term	Outlook/Rating Watch	Rating Action
RATING TYPE: ENTITY				
31/08/2026	A+	A1	Stable	Reaffirmed
18/07/2026	A+	A1	Stable	Upgrade
22/05/2024	A	A2	Stable	Maintained
26/01/2023	A	A2	Negative	Maintained
21/10/2021	A	A2	Stable	Maintained
21/05/2020	A	A2	Rating Watch – Negative	Maintained
27/08/2019	A	A2	Stable	Reaffirmed
06/04/2018	A	A2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Muhammad Naveed Alam	CFO	July 16, 2026
Mr. Naveed Qamar	General Manager Finance	
Mr. Farhan Qamar	D.G.M. Finance	
Mr. Ovais Hasan	Senior Manager Finance	