

RATING REPORT

Master Motor Corporation (Private) Limited

REPORT DATE:

May 21, 2020

RATING ANALYSTS:

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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	21 st May, 2020		26 th August 2019	

COMPANY INFORMATION

Incorporated in 2002	External auditors: Kreston Hyder Bhimji & Co.
Private Limited Company	Chairman of the Board: Mr. Nadeem Malik
	Chief Executive Officer: Mr. Nadeem Malik

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates (April 2019)

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Corporate-Methodology-201904.pdf>

Master Motor Corporation (Private) Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Master Motor Corporation (Private) Limited (MMCL) was incorporated as a Public Limited Company in 2002.

During 2010, the company's status was converted from being an unquoted public company to a private limited company.

Financial Statements of the company for FY18 were audited by Kreston Hyder Bhimji & Co. Chartered Accountants.

Profile of Chairman & CEO:

Mr. Nadeem Malik has an extensive experience in automobile and foam products industry. Mr.

Nadeem has been associated with Master Group from past 27 years. He holds a Bachelor's degree in Business Administration from the University of Southern California

Group Profile

Master Motor Corporation (Private) Limited (MMCL) is part of Master Group of Companies. Amongst others, the group has diversified presence in mattresses & upholstery, home fashion, textile, chemical, power, automobile and auto part sectors.

Master Group of Companies	Year of Incorporation
Master Enterprises (Private) Limited	1963
Procon Engineering (Private) Limited	1988
Master Textile Mills Limited	1992
Master Celeste (Private) Limited	1996
Master Foam (Private) Limited	1998
Master Offisys (Private) Limited	2000
Master Motor Corporation (Private) Limited	2002
Fuso Master Motors (Private) Limited	2013
Master Wind Energy Limited	2015
Master Motors Limited	2018

Product Portfolio

MMCL is involved in the assembly of trucks and buses at Port Qasim, Karachi. The company is ISO9001 certified for both its assembly plant & after sales services & marketing, hence meeting international quality standards. The company's product portfolio is as follows:

Product Portfolio	
Foton M280	Light Duty Trucks
Foton BJ1041	
M-400	
M600	Medium Duty Trucks
MP-600	
MP640 / M-640	
MP-900	Heavy Duty Trucks
Yutong Bus	Luxury Bus

The company sells trucks through both direct sales and 12 dealers across Pakistan. However, buses are sold directly to customers. MMCL has a marketing team overseeing marketing operations of MMCL and Fuso Master Motors (Private) Limited.

Investment

MMCL has made investment in a subsidiary company Master Motors Limited (MML). MML is a joint venture between MMCL and Changan Automobile Investment (Shenzhen) Corporation Limited (Changan). MML has a design capacity to assemble/manufacture 15,000 units annually on a single shift basis.

Production Capacity and Capacity Utilization

Trucks			
	FY17	FY18	FY19
Design Capacity (units)	4,500	4,500	4,500
Operational Capacity (units)	1,400	2,000	2,000
Actual Production	1,295	1,898	1,313
Capacity Utilization	92.5%	94.9%	65.7%
Buses			
	FY17	FY18	FY19
Design Capacity (units)	360	360	360
Operational Capacity (units)	160	300	300
Actual Production	139	261	268
Capacity Utilization	87.0%	87.0%	89.3%

MMCL has a design capacity of 4,500 units for trucks and 360 units for buses, respectively. However, operational capacity was lower and is calculated based on workforce employed given demand dynamics. MMCL production capacity also includes the assembly of trucks and buses for Fuso Master Motors (Private) Limited. Capacity utilization for the ongoing year is expected to be adversely impacted given the sharp slowdown in demand due to challenging macroeconomic environment and coronavirus outbreak.

Industry Dynamics

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.

Financial Summary (amounts in PKR millions)				Appendix I
	FY16	FY17	FY18	FY19
<u>BALANCE SHEET</u>				
Property Plant and Equipment	652.0	801.9	789.8	819.4
Other Fixed Assets	2.2	2.3	554.4	1,032.0
Stock-in-Trade	559.9	1,255.7	2,102.4	2,818.4
Trade Debts	166.4	165.5	468.0	393.5
Cash & Bank Balances	12.6	8.6	24.8	9.5
Total Assets	1,635.9	2,604.5	4,411.5	5,857.0
Trade and Other Payables	336.8	1,356.3	2,344.9	1,832.2
Long Term Debt (including current maturity)	-	-	-	-
Short Term Debt	329.2	145.0	557.3	1,811.9
Total Debt	329.2	145.0	557.3	1,811.9
Total Liabilities	712.0	1,539.9	2,940.5	3,721.3
Paid-Up Capital	100.0	100.0	100.0	100.0
Total Equity	923.9	1,064.6	1,471.0	2,135.6
<u>INCOME STATEMENT</u>				
Net Sales	1,613.9	3,001.9	5,807.6	7,255.2
Gross Profit	241.8	420.7	787.0	819.5
Profit Before Tax	59.7	151.7	776.9	209.9
Profit After Tax	45.4	113.2	686.8	120.1
<u>RATIO ANALYSIS</u>				
Gross Margin (%)	15.0%	14.0%	13.6%	11.3%
Net Profit Margin	2.8%	3.8%	11.8%	1.7%
Current Ratio	1.4	1.2	1.1	1.1
Net Working Capital	291.1	289.0	158.8	318.3
Funds From Operations (FFO)	32.0	49.6	242.6	140.9
FFO to Total Debt (%)	9.7%	34.2%	43.5%	7.8%
FFO to Long Term Debt (%)	N/A	N/A	N/A	N/A
Debt Servicing Coverage Ratio (x)	2.1	3.0	5.6	2.2
ROAA (%)	4.6%	5.3%	19.6%	2.3%
ROAE (%)	5.9%	11.4%	54.2%	6.7%
Gearing (x)	0.4	0.1	0.4	0.8
Leverage (x)	0.8	1.4	2.0	1.7

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

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.

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.

(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 DISCLOSURES				Appendix III	
Name of Rated Entity	Master Motor Corporation (Pvt) Limited				
Sector	Automobile				
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				
	21-May-20	A-	A-2	Rating Watch-Negative	Maintained
	26-Aug-19	A-	A-2	Stable	Re-affirmed
	06-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
	1		N/A		