RATING REPORT

Master Motor Corporation (Private) Limited

REPORT DATE:
October 28, 2021

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	A	A-2
Rating Outlook	Stable	
Rating Date	October 28, 2021	

COMPANY INFORMATION

Incorporated in 2002	**External auditors:** Kreston Hyder Bhimji & Co.
Private Limited Company	**Chairman of the Board:** Mr. Naveed Malik
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Nadeem Malik
Mr. Nadeem Malik – 33%	
M/S N.M Holding (Pvt.) Ltd. – 33%	
M/S Najeeb Holding (Pvt.) Ltd. – 33%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Master Motor Corporation (Private) Limited

OVERVIEW OF THE INSTITUTION

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 FY20 were audited by Kreston Hyder Bhimji & Co. Chartered Accountants.

Profile of Chairman & CEO:

Mr. Naveed Malik holds an undergraduate degree in Business Management from the U.S.A. He has an extensive experience in the foam products industry, and has been successfully running the business since more than three decades. Furthermore, he is the chairman of several other companies under the ambit of Master Group of Companies.

Mr. Nadeem Malik has an extensive experience in

RATING RATIONALE

Corporate Profile: Incorporated in 2002; Master Motor Corporation (Private) Limited is primarily engaged in the assembly, progressive manufacturing, and sale of trucks and buses in Pakistan. The company is the sole provider of Yutong, Foton, Fuso, and Changan brands to the domestic industry which are leading names in the international markets. Alongside, MMCL is ISO9001 certified; thus operations are at par with international quality standards. Buses are sold directly to the customers, while sales channels of trucks incorporate both direct and widespread dealership networks. The company has six distribution centers, and sales and services units are spread all across the country for extensive outreach. The registered office is located in Shahrah-e-Faisal, Karachi, whereas the plant is situated in Port Qasim, Karachi.

Product Portfolio	
Foton M280	Light Duty Trucks
Foton BJ1041	
M-400	
M600	Heavy & Medium Duty Trucks
MP-600	
MP640 / M-640	
BJ1056	
MP-870	
MP-900	
YL-41T	
BJ1169	
Yutong Bus	Luxury Bus
Foton CS2	Van

The company is part of Master Group of Companies, which has diversified presence in automobile, auto parts, mattresses & upholstery, home fashion, textile, power, and chemical. There are seven associate companies of Master Motor Corporation (Private) Limited along with one subsidiary (Master Changan Motors Limited (MCML) having investment stake of 69.89%. MCML was established in July 2017 as a public limited company, and is principally involved in the assembling, progressive manufacturing, and sale of Changan vans, pickups, and cars in Pakistan with technical collaboration with Changan International Corporation.

Rating Drivers

Positive momentum in the industry

Ratings draw comfort from the positive outlook of the automobile industry in Pakistan. Demand drivers of the bus and truck segments includes inauguration of new motorways coupled with new and under-way motorway projects; low interest rates leading to increase in automobile and foam products industry. Mr. Nadeem has been associated with Master Group since more than 25 years. He holds a Bachelor's degree in Business Administration from the University of Southern California.

consumer car financing; growth in agriculture and industrial sectors on the back of government's incentives for boosting the economy amid pandemic; expected growth in tourism and higher liquidity available to consumers due to decrease in international travel since beginning-2020. Moreover, tax and duty incentives provided in FY22 budget have further improved the industry outlook; incentivizing assemblers to lower prices going forward. The same would allow players to capitalize on the un-captured industry volumes, and create opportunities for new entrants in the medium term.

Alongside, GDP growth stood above expectations at 3.9% during FY21 and is forecasted to be to 4.1% during FY22. The same will further boost the industry's prospects going forward. However, the industry remains exposed to key risks manifesting the short-run economic developments in Pakistan including the following:

- Continued persistence of COVID-19 with spread of delta variant,
- Consistent rupee devaluation which has depreciated by 4.9% since beginning-FY22
- Geo-political developments in Afghanistan,
- Implementation of IMF program, recommended actions, and structural benchmarks,
- Interest rate environment

Trucks and buses industry is oligopolistic in nature with few large players dominating the market namely Hinopak Motors, Ghandara Nissan, Ghandara Industries and Master Motors. During FY21, bus and truck segment posted growth of 16.6% (FY20: -40.2%) and 19.7% (FY20: -47.0%) respectively.

			TRUCK		
		FY18	**FY19**	**FY20**	**FY21**
Hino	Volumetric Sales	3,874	1,808	1,038	668
	Market Share	**42%**	**31%**	**34%**	**18%**
Nissan	Volumetric Sales	18	-	-	-
	Market Share	**0.2%**	**0.0%**	**0.0%**	**0.0%**
Master	Volumetric Sales	1,561	1,219	424	897
	Market Share	**17%**	**21%**	**14%**	**24%**
Isuzu	Volumetric Sales	3,878	2,801	1,582	1907
	Market Share	**42%**	**48%**	**51%**	**52%**
JAC	Volumetric Sales	-	-	44.00	223
	Market Share			**1.4%**	**6.0%**
Total	Volumetric Sales	9,331	5,828	3,088	3,695
		100%	100%	100%	100%
			BUS		
		FY18	**FY19**	**FY20**	**FY21**
Hino	Volumetric Sales	334	442	262	184
	Market Share	**44%**	**47%**	**47%**	**28%**
Nissan	Volumetric Sales	-	-	-	-
	Market Share	**0%**	**0%**	**0%**	**0%**
Master	Volumetric Sales	306	274	177	355
	Market Share	**40%**	**29%**	**32%**	**54%**
Isuzu	Volumetric Sales	122	219	120	113
	Market Share	**16%**	**23%**	**21%**	**17%**
Total	Volumetric Sales	762	935	559	652
		100%	100%	100%	100%

Group strength and stronger competitive position is a rating driver

Being part of a diversified group, having interests in diverse industries provides support in terms of group strength. Group support was evident by the timely financial assistance extended to the company amid pandemic slowdown which provided due balance sheet support during difficult times. Additionally, .MMCL has been able to capture a sizable market share in both the truck and bus segments during the outgoing year, with 24% (FY20: 14%) and 54% (FY20: 32%) share respectively, placing the company in a leading position. However, sustainability of market shares remains a key risk as new entrants are expected to enter in the medium term on the back of favorable industry dynamics. Likewise, existing players will also strive for shares going forward. While cyclicality of the automobile industry remains high on account of sensitivity to economic cycles; overall business risk is considered medium on positive industry outlook.

Strong revenue and profitability growth

Sales of the company increased to Rs. 8.4b during FY21* (FY20: Rs. 4.1b); recording a healthy growth of 104% primarily driven by volumes, on the back of demand revival post pandemic slowdown in FY20. During FY21, the bus and truck segment posted volumetric growth of 101% and 112% respectively. Yutong buses continued to remain the top revenue contributor followed by Foton light duty trucks. Also, truck segment continued to comprise bulk of volumetric sales while buses segment represented major portion of revenues on the back of higher unit prices. Going forward, on account of increased economic activity and opening up of intra-city travel; company is projecting a strong growth of 30% in revenues in FY22.

During FY21, gross margins of the company increased on the back of higher unit prices (FY21*: 14.0%; FY20: 6.5%). FY20 had been a challenging year for the industry due to pandemic and the company had to offer substantial discounts; evident through downtick in gross margins. The improvement in gross margins has translated into higher operating and net margins which stood at 8.7% (FY20: -2.6%) and 5.7% (FY20: -7.2%) during FY21*, respectively, despite increase in operating expenses on account of higher freight charges on imports. Freight charges have risen globally on account of pandemic related disruptions. Net margin improvement was also facilitated by decrease in finance cost by 78% due to lower short term borrowings and decrease in interest rates during FY21*. Going forward, management expects some pressure on margins due to devaluation and competitive pressures, however greater volume growth is expected to support higher profitability. Achievement of projected growth will be important for ratings going forward.

**As per management accounts - FY21*

Improvement in cash flow coverage indicators

Funds from Operations (FFO) increased to Rs. 851m during FY21* (FY20: Rs. (298m)) on the back of increased profitability. As a result, cash flow coverage indicators including FFO/Total Debt and FFO/Long-Term Debt remained on the higher side thus providing comfort to the ratings. Debt Servicing also remained strong at 12.6x during FY21* (FY20: (0.3x)).

Working capital cycle of the company improved on account of strong demand and higher customer advances resulting in healthy cash balances amounting to Rs. 806m (FY20: Rs. 43m) at end-FY21*. Overall, the liquidity profile of the company remains satisfactory with current ratio at 1.1x (FY20: 1.1x) at end-FY21*.

Capitalization indicators depict an improving trend

In FY20, sponsors had extended Rs.1.1b to support the balance sheet on account of losses posted amid difficult times. With uptick in profitability in FY21, the director loan was repaid resulting in equity base remaining unchanged at Rs. 2.9b (FY20: Rs. 2.9b) at end-FY21*. Sponsor support amid difficulty has been a comforting factor for ratings on a historical basis resulting in capitalization indicators remaining on the lower side. The debt profile of the company encapsulates long-term financing undertaken from SBP for employee salaries, and short-term borrowing which reduced by 66% owing to improved working capital management post pandemic turbulences. As a result, gearing and leverage ratios stood at 0.3x (FY20: 0.9x) and 1.6x (FY20: 1.5x) during FY21*. Adjusting for debt financing undertaken by subsidiary (MCML) where Master Motor Corporation (Private) Limited has given a cross corporate guarantee for the entire facility amount; adjusted leverage stands at 2.2x (FY20: 1.7x) during FY21*, albeit remaining within manageable levels. Going forward, maintaining low gearing and leverage levels will be important for maintaining assigned ratings.

**As per management accounts - FY21*

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: 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 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	See table below
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	See table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
28-Oct-21	A	A-2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Omair Asghar	Acting Chief Financial Officer	Sep 03, 2021
Muhammad Asif	Senior Manager – Finance	Sep 03, 2021