RATING REPORT

Master Motor Corporation (Private) Limited

REPORT DATE:
January 26, 2023

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	Negative		Stable	
Rating Date	January 26, 2023		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: Corporate Rating Methodology (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

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 FY22 were audited by Kreston Hyder Bhimji & Co. Chartered Accountants.

RATING RATIONALE

Master Motor Corporation (Private) Limited ('MMCL' or 'the Company') incorporated in 2002. The Company is primarily engaged in the assembly, progressive manufacturing, and sale of trucks and buses in Pakistan. The Company is the sole provider of Yutong and Foton 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. MMCL's current product portfolio is as follows:

Table 1: Product Portfolio

Foton Family	Yutong Family
Auman EST Euro II	Nova
Heavy Duty Trucks	Grand Saloon
Medium Duty Trucks	Charisma
Light Duty Trucks	Grand Tourist
Passenger Vehicles	

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 passenger cars in Pakistan with technical collaboration with Changan International Corporation.

<u>Sector Update</u>

- Despite surging prices, increasing fuel prices and hikes in interest rates, the sales of Cars and LCV & Pickup posted an all-time high in FY22.
- Passenger cars registered a 55% year on year increase in FY22. One of the reason includes pre booking of cars which has been made few months back before the delivery time.
- Overall total volume of the industry including all categories witnessed an increase of 46% Y/Y in FY22.

- The highest increase of 57% Y/Y was displayed by the Trucks segment during FY22 followed by Cars and LCV & Pickup with 55% and 49%.

- During the current fiscal year, sales of automobiles started to slow down mainly due to weak macro-economic conditions, further increase in fuel prices and interest rates.

- Overall industry offtake (including all segment) down by 47% during 4MFY23 compare to corresponding period last year while individual categories declines ranging from 40-47% Y/Y.

- Going forward, during FY23, GoP restriction on CKD imports continue to impede the automotive industry's access to raw materials. Also, the offtake is forecasted to remain under stress amid weak macro-economic conditions and recent hikes in interest rates (Current SBP rate: 16%).

Table 2: Industry Offtake

Offtake (Units)	FY19	FY20	FY21	FY22	4MFY22	4MFY23
Cars	207,630	96,455	151,182	234,180	74,952	39,700
LCV & Pickup	33,016	15,507	30,215	45,087	14,969	8,234
Trucks	5,828	3,088	3,695	5,802	2,011	1,109
Buses	935	559	652	696	184	210
Tractors	50,405	32,727	50,920	58,947	17,386	9,258

Source: Pakistan Automotive Manufacturers Association (PAMA)
These numbers only include the companies which are PAMA members

Operational Update

Utilization, offtake and market share

Table 3: Operations

(Units)	FY19	FY20	FY21	FY22	1QFY23
			Trucks		
Design Capacity	4,500	4,500	4,500	4,500	1,125
Operational Capacity	2,000	1,440	1,830	2,240	5,60
Production	1,313	359	1,168	1,491	291
Utilization	***65.7%***	***24.9%***	***63.8%***	***66.6%***	***52.0%***
			Buses		
Design Capacity	360	360	360	360	90
Operational Capacity	300	300	360	360	90
Production	268	190	305	362	89
Utilization	***89.3%***	***63.3%***	***84.7%***	***101.0%***	***98.9%***
Total Volumetric Sales	**1,292**	**488**	**947**	**1,461**	**172**

- With the increase in demand of Trucks and Buses during FY22, the Company has increased its production resulting in increased utilization level during the year.

- The Company's Bus segment depicted strong demand during FY22. Consequently, the plant ran at more than the full capacity.

- The increase in volumetric offtake of the Company was in line with the 54% Y/Y increase in overall Buses & Truck offtake of the industry.

- Yutong remained the leading brand in buses segment of the automobile industry with 59% and 57% market share during FY22 and 5MFY23.

- Market share of MMCL is forecasted to remain in the same range during the rating horizon.

- Overall automobile industry offtake is expected to decline by 45-50% in FY23 while we expect the Company's volumetric offtake to down by 35-40% wherein decline in buses demand is expected to stay slower than the overall industry mainly due to intercity travelling of passengers.

- While cyclicality of the automobile industry remains high on account of sensitivity to economic cycles; overall business risk is considered medium on account of high entry barriers leading to low competitive pressure, high capital intensity and medium regulatory risk.

Market Share	FY19	FY20	FY21	FY22	5MFY23
TRUCKS					
HINO	1,808	1,038	668	889	362
MASTER	1,219	424	897	1,731	856
ISUZU	2,801	1,582	1,907	2,893	1,194
JAC	-	44	223	289	91
TOTAL	**5,828**	**3,088**	**3,695**	**5,802**	**2,503**
BUSES					
HINO	442	262	184	160	66
MASTER	274	177	355	413	127
ISUZU	219	120	113	123	31
TOTAL	**935**	**559**	**652**	**696**	**224**
Market Share – Master's					
Trucks	***20.9%***	***13.7%***	***24.3%***	***29.8%***	***34.2%***
Buses	***29.3%***	***31.7%***	***54.4%***	***59.3%***	***56.7%***

**Source: PAMA*

<u>Rating Drivers</u>

Strong group with diversified businesses

- MMCL is a part of Master group of Companies, an established conglomerate in Pakistan.

- Master group 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%.

- Being part of a diversified group, having interests in diverse industries provides support in terms of group strength.

Drop in volumetric offtake is expected amid weak macro-economic conditions. Margins are also expected to remain constrained due to higher finance cost

- With the 54% increase in volumetric offtake of the Company, along with increased prices, net sales of MMCL grew by 52% Y/Y to Rs. 12.6b (FY21: Rs. 8.3b).

- During 1QFY23, net sales remained suppressed to clock in at Rs. 2.0b driven by weak volumes.

- Yutong buses remained the largest contributor with average around 3rd/4th of the total sales.

- During FY23, net sales of MMCL is forecasted to witness a decline due to weak auto industry demand.

- Gross margin witnessed a drop in FY22 to 9.7% (FY21: 13.65) as the Company was not able to pass on the full impact of rupee devaluation.

- During FY22, Other income has increased to Rs. 42.5m (FY21: 19.6m) mainly due to exchange gain while the hefty increase in total debt and higher interest rates also resulted in increase in finance cost to Rs. 239m (Rs. 51.8m). Consequently, net margins has dropped to 2.1% (FY21: 4.8%).

- In 1QFY23, gross margins remained intact, however, with higher financial cost, operating margins further decline to 2.8% while the Company posted a net loss of Rs. 104.9m.

- Going forward, overall profitability profile is expected to stay under pressure.

Cashflow & Liquidity indicators are under pressure

- During FY22, FFO of the Company came in at Rs. 455.1m (FY21: 514.8m) due to the decline in profitability.

- This along with increase in debt levels resulted a drop in FFO to debt coverages.

- Debt Servicing remained intact at 4.0x as at Jun'22 (Jun'21: 4.2x).

- Current ratio of MMCL continued to remain tight to stand at 1.0x as at Jun'22 and inched down to 0.9x as at Sep'22.

- During 1QFY23, negative profitability resulted in negative FFO and DSCR. Profitability is expected to remain under pressure in FY23 which will be resulting in pressure on Company's cashflow and liquidity profile.

- The Company has transferred to Sight LC from DA LC due to which the MMCL's Days Payable Outstanding depicted a notable decline resulting in higher liquidity needs. Consequently, ST borrowings registered a significant increase during the period under review.

- Going forward, rebound in profitability, comfortable cashflow coverages, increase in liquidity and maintenance of DSCR remains important from the ratings perspective.

Elevated Capitalization indicators

- During FY22, MMCL has paid back Rs. 941m of the director's loan resulting in drop in Equity to Rs. 2.15b as at Jun'22. (Jun'21: 2.83b).

- As at Sep'22, Equity further declined to Rs. 1.8b due to negative profitability and further repayment of director's loan.

- MMCL availed Rs. 125.03m under SBP refinance scheme for renewable energy taking the long term debt to Rs. 141.7m as at Jun'22 (Jun'21: 50.6b). As at Sep'22, long term debt stood at Rs. 132.8m.

- The Company has mobilized notable short term borrowings during FY22 to finance its working capital requirements. ST borrowings stood at Rs. 3.7b as at Sep'22 (Jun'22: 3.8b, Jun'21: 925.5m).

- Consequently, gearing and leverage increased to 2.1x and 3.5x as at Sep'22. (Jun'22: 1.9x & 3.1x, Jun'21: 0.3x, 1.6x).

- Going forward, maintaining low gearing and leverage levels will be important for maintaining assigned ratings.

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
26-Jan-23	A	A-2	Negative	Maintained
28-Oct-21	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.
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Due Diligence Meetings Conducted	

Name	Designation	Date
Muhammad Imran	Chief Financial Officer	04 Nov 2022
Muhammad Asif	Senior Manager – Finance	04 Nov 2022