RATING REPORT

Automobile Corporation of Pakistan

REPORT DATE:

May 29, 2020

RATING ANALYST:

Talha Iqbal
talha.iqbal@vis.com.pk

Asfia Aziz
asfia.aziz@vis.com.pk

RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB	A-2	BBB	A-2
Rating Outlook	Rating Watch-Negative		Stable	
Rating Date	21 May, 2020		25th July 2019	

COMPANY INFORMATION	
Incorporated in 1968	**External auditors:** Ibrahim Shaikh and Co. Chartered Accountants
Private Limited Company	**Chairman and CEO:** Mr. Khayam Husain
Key Shareholders (with stake 5% or more):	
Mr. Khayam Husain- 75% *Mrs. Nighat Husain- 7%* *Mrs. Aamana Husain- 9%* *Mr. Omar Khayam- 9%*	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria *Industrial Corporates (May 2016)* ***http://www.vis.com.pk/docs/Corporate-Methodology-201605.pdf***

Automobile Corporation of Pakistan

OVERVIEW OF THE INSTITUTION

Automobile Corporation of Pakistan was incorporated in 1968 as a Private Limited Company under the Companies Ordinance, 1984. Principal activities of the company include fabrication, designing, repairing and servicing of trailers, tankers and other heavy vehicles.

Financial Statements of the company for FY18 were audited by Ibrahim Shaikh and Co. Chartered Accountants. Auditors belong to category 'C' on the approved list of auditors published by the State Bank of Pakistan (SBP).

RATING RATIONALE

Automobile Corporation of Pakistan (AUTOCOM) is a family owned business with around three fourth of the shareholding resting with Mr. Khayam Hussain. Remaining ownership is vested with other family members. Principal activities of the company include fabrication, designing, repairing and servicing of trailers, tankers and other heavy vehicles through two facilities at West Wharf and Port Qasim. The company commenced operations in 1970s with the import of Cometto trailers as CBUs and catered largely to Government and Military segment. After developing necessary expertise, the company then started manufacturing UNADR compliant petroleum tanks for Shell Pakistan in 1998. Currently, the product line of the company comprises petroleum tanks, trailers and other specialized vehicles (refuelers, garbage compactors, and municipal vehicles).

Given growing demand to manufacture tankers as per OGRA standards, AUTOCOM installed an automated assembly line for oil tankers at Port Qasim of 60 units per month in 2017. Post expansion, AUTOCOM has the largest manufacturing facility of 80 units per month in comparison with other formal competitors. Consolidated capacity of four other players is estimated at 40-50 units per month. Competitive advantage stems from long term association with foreign technology partner- Industrie Cometto of Italy, ISO 9001 certification, strength of a multi-disciplinary engineering team, a 24/7 after sales service and strict in-house engineering quality control.

Key Rating Drivers:

Business Risk Profile

The trucking industry comprises large number of informal and un-organized players yielding high competition. These informal players dominate the overall trailer and tanker market. To formalize the industry, the Government of Pakistan introduced Trucking Policy in 2008 which laid incentives for trailer manufacturers in order to encourage the use of modern prime movers/multi-axle, Euro standard trucks. Under the policy, the GoP rationalized tariff structure on heavy vehicles. For enhanced use of long haulage, duty of prime movers of HP>280 was cut down to 15% on CBUs from 30% and to 0% from 10% on CKDs. Furthermore, given increasing trend in containerized traffic, duty on CBU trailers was brought down to 15% from 60% while on CKD, 5% duty was imposed. Moreover, to encourage the local trailer manufacturing, sales tax exemption was allowed to bring them at par with the Trucks and Prime movers. In light of the aforementioned incentives, demand for trailer and tanker manufacturers has witnessed an increasing trend. However, weak macroeconomic environment and slowdown in oil sector, VIS expects demand risk to remain.

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.

Automobile Corporation of Pakistan **Appendix I**

FINANCIAL SUMMARY				*(amounts in PKR millions)*	
BALANCE SHEET	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**
Fixed Assets	63	70	235	300	422
Long term Investments	8	10	12	8	6
Stock-in-Trade	186	229	410	650	799
Trade Debts	49	30	46	64	54
Cash & Bank Balances	5	20	2	12	6
Total Assets	416	498	896	1,267	1,543
Trade and Other Payables	116	153	313	569	844
Long Term Debt	1	3	84	74	54
Short Term Debt	23	21	83	115	21
Total Debt	25	24	167	190	75
Paid Up Capital	7	7	7	107	107
Total Equity	239	280	328	404	437
INCOME STATEMENT					
Net Sales	701	837	1,018	1,491	1,293
Gross Profit	129	169	196	282	222
Profit Before Tax	59	63	66	120	69
Profit After Tax	38	43	47	88	33
RATIO ANALYSIS					
Gross Margin (%)	18.4%	20.2%	19.2%	18.9%	17.2%
Net Margin	5.4%	5.1%	4.6%	5.9%	2.6%
Trade debts/Sales	7%	4%	5%	4%	4%
Current Ratio	2.1	2.1	1.5	1.3	1.2
Net Working Capital	181.9	219.2	218.7	214.5	204.2
FFO	33	23	21	62	20
FFO to Total Debt (%)	134%	95%	13%	33%	27%
FFO to Long Term Debt (%)	2512%	815%	25%	84%	37%
(Stock+Trade Debts)/ Short term borrowing	1004%	1232%	552%	619%	4046%
Debt Servicing Coverage Ratio (x)	NA	4.1	3.1	3.8	1.0
Gearing (x)	0.10	0.09	0.51	0.47	0.17
Leverage (x)	0.72	0.76	1.59	2.02	2.24
Dividend Payout Ratio (%)	0%	0%	0%	0%	100%
ROAA (%)	9%	9%	7%	8%	2%
ROAE (%)	16%	16%	15%	24%	8%

ISSUE/ISSUER RATING SCALE &DEFINITIONS — Appendix II

VIS Credit Rating Company Limited

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	Automobile Corporation of Pakistan				
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				
	5/21/2019	BBB	A-2	Rating Watch-Negative	Maintained
	7/25/2019	BBB	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.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2020 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
Due Diligence Meetings Conducted	Name	Designation	Date		
	N/A				