RATING REPORT

Automobile Corporation of Pakistan

REPORT DATE:

July 07, 2022

RATING ANALYST:

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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	Stable		Stable	
Rating Date	07 July, 2022		22 April, 2021	

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

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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 FY21 were audited by Ibrahim Shaikh and Co. Chartered Accountants who belong to category 'C' on the approved list of auditors published by the State Bank of Pakistan (SBP).

Automobile Corporation of Pakistan (AUTOCOM) is a family owned business with around three fourth of the shareholding vested with Mr. Khayam Hussain, while the remaining ownership is divided among three 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. Product portfolio of the company comprises varying Categories of tankers and trailers.

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).

In comparison to the other formal competitors, AUTOCOM has the largest automated assembly line for oil tankers at Port Qasim comprising 80 units per month. Consolidated capacity of other players is estimated at 40-50 units per month. Moreover, a new assembly for trailers is also being established currently. AUTOCOM manufactures oil tankers as per OGRA standards. Competitive advantage stems from long-term association with foreign technology partner- Industries 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.

AUTOCOM holds long-term investment in Lucky Cement Limited and Ibrahim Fibres Limited to the tune of Rs. 12.7m (including fair value adjustment) and Rs. 0.3m at end-Mar'22.

Key Rating Drivers:

Business risk profile is considered to be moderate supported by strong market presence and competitive edge against other formal and informal players; however the industry remains exposed to foreign currency risk and overall slowdown in the domestic economy.

Business risk profile of the company is considered moderate supported by strong market presence and competitive edge against other formal and informal players due to being OGRA certified. Assigned ratings take into account fragmented nature of the trucking industry comprising large number of informal and un-organized players yielding high competition. These informal players dominate the overall trailer and tanker market. Demand risk for the company is considered manageable given the Government's increased focus on shifting towards standardized tankers and trailers. In view of the same, the company has been working prudently in attaining government contracts to cater to the replacement demand and consequently mitigate demand risk.

Despite strong demand outlook of the corporate segment (trailers), downward pressure is expected, on account of recent increase in interest rates by SBP and more stringent automobile financing regulations. The industry remains exposed to key risks manifesting the short-run economic developments in Pakistan including the following:

- Continued persistence of COVID-19 affecting trade volumes,
- Impact of consistent rupee devaluation on imported components comprising around 60% of the total raw material utilized,
- Import restrictions imposed by the Government
- Successful implementation of IMF program, recommended actions, and structural benchmarks.

Growth in sales revenue attributable to higher capacity utilization levels due to higher orders from the corporate segment in the ongoing year. Net profitability profile witnessed weakening due to higher finance charges. On account of sizeable order base and inventory gains in 11MFY22, overall profitability profile strengthened in the period.

With global macro environment recovery post COVID-19, the company witnessed an uptick in demand emanating from the corporate segment. Management had shifted their business strategy by targeting corporate clients and government contracts to secure confirmed business orders. Acquisition of orders from commercial clients enabled the company to increase its topline to Rs. 2.1b (FY21: Rs. 1.30b, FY20: Rs. 1.29b) during 11MFY22.

Sales Mix	FY20	FY21	HY22
Tankers	64%	75%	8%
Trailers and Others	36%	25%	92%

Tankers continued to form the major portion of sales revenue till FY21. However, during the contribution of the same plunged in the ongoing year with greater quantum of orders from the corporate segment, particularly National Logistics Company (NLC). Sales from the commercial segment encompassing tankers for OMCs reduced in the ongoing year due to construction of underground pipelines for transmission of fuel and requirement of smaller vehicles for transporting from depot to petrol stations. Sales of the company are directed towards the local market with major customers comprising Logistic companies (NLC, J Holding, Rasch Private Limited, and Asif Jadoon) and OMCs (Shell, Total Parco, PSO, and Puma). Client concentration in the ongoing year is on the higher side with around 75% of sales mix contributed by NLC. Diversification in the same going forward is considered important. The Company follows a Made to Order business model with around three month orders in hand at all times.

With greater increase in topline of the company and inventory gains, gross margins of the company increased to 18.5% (FY21: 17.0%, FY20: 16.7%) in 11MFY22. However, net margins and profit after tax for FY21 were reported lower at 3.0% (FY20: 4.0%) and Rs. 38.5m (FY20: 51.4m), respectively due to higher financial expenses and lower other income (one-off profit on sale of assets recorded in FY20).

The management is currently negotiating government contracts and aims to grow the trailer vehicle business, post installation of additional trailer assembly line. With higher orders in hand, double-digit revenue Based on projected orders from NLC, management projects double-digit growth in sales in FY23. Going forward, future profitability is contingent upon the projected growth in volumetric sales. The risk of currency devaluation impacting profitability over the medium to long-term remains along with risk of continuation of import restrictions by the Government, given reliance of the Company on imports (60% imported components) and strong competitive environment.

Liquidity profile is considered adequate

In absolute terms, Funds from Operations (FFO) amounted to Rs. 78.2m (FY20: Rs. 26.2m) due to tax reimbursement during FY21. In line with gradual improvement in profitability in 11MFY22. Debt Service Coverage Ratio (DSCR) and FFO/ Total Debt are considered adequate at 3.52x (FY21: 1.80x, FY20: 1.10x) and 143% (FY21: 44.2%, FY20: 20.1%), respectively in 11MFY22. Inventory and trade debts coverage for short-term debt obligations remains sufficient. Current ratio was reported at 1.2x and 1.5x at end-June'21 and end-May'22, respectively. Liquidity profile of the company is slightly supported by exposure in short-term NBP fund to the tune of Rs. 1.1m. Sustainability of liquidity coverages over the rating horizon is considered important.

Capitalization indicators are expected to remain sound over the rating horizon

Equity base of the company has grown to Rs. 700.5 (FY21: Rs. 525.6m, FY20: Rs. 486.0m) at end-May'22 on account of profit retention. Long-term debt was reported higher at Rs. 77.8m (FY21: Rs. 77.3m, FY20: Rs. 48.1m) at end-May'22 on account of utilization of low cost refinance scheme offered by SBP for payment of wages and salaries of employees. This also consists of Rs. 11.4 term finance facility employed to fund acquisition of the new plant and Rs. 30m TERF finance facility to install the trailer assembly line. Further debt to the tune of Rs. 21m is expected to be drawn in FY23 comprising utilization of the remaining TERF facility line. Furthermore, the company also plans to continue BMR on its production units, expected to financed through internally generated funds. Short-term borrowings have been mobilized for working capital requirements and stood at Rs. 99.6m (FY20: Rs. 81.7m) at end-June 2021. Gearing and leverage indicators were reported at 0.21x (FY21: 0.34x, FY20: 0.27x) and 1.43x (FY21: 2.32x, FY20: 2.09x), respectively at end-May'22. Despite additional debt drawdown planned over the rating horizon, capitalization indicators are expected to remain sound through profit retention in equity base.

Automobile Corporation of Pakistan **Appendix I**

NANCIAL SUMMARY *(amounts in PKR milli*

BALANCE SHEET	**FY19**	**FY20**	**FY21**	**11M22**
Fixed Assets	422.0	407.1	439.7	471.8
Long term Investments	5.7	6.9	13.2	13.2
Stock-in-Trade	798.7	814.6	949.1	727.0
Trade Debts	54.2	77.9	43.5	56.4
Cash & Bank Balances	5.5	24.8	54.0	2.0
Total Assets	1,542.6	1,629.4	1,869.9	1,827.3
Trade and Other Payables	843.6	827.0	982.3	747.7
Long Term Debt	54.0	48.1	77.3	77.8
Short Term Debt	21.1	81.7	99.6	69.2
Total Debt	75.1	129.8	177.0	146.9
Total Liabilities	977.5	1,016.9	1,219.8	1,002.3
Paid Up Capital	107.4	107.4	107.4	107.4
Total Equity	436.7	486.0	525.6	700.5

INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**11M22**
Net Sales	1,293	1,291	1,300	2,136
Gross Profit	222	216	221	395
Profit Before Tax	69	74	60	246
Profit After Tax	33	51	38.5	175

RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**11M22**
Gross Margin (%)	17.2%	16.7%	17.0%	18.5%
Net Margin	2.6%	4.0%	3.0%	8.2%
Trade debts/Sales	4.2%	6.0%	3.3%	2.4%
Current Ratio	1.23	1.27	1.24	1.50
Net Working Capital	204.16	261.34	277.53	444.52
FFO	19.93	26.15	78.17	192.35
FFO to Total Debt (%)	26.5%	20.1%	44.2%	142.8%
FFO to Long Term Debt (%)	36.9%	54.4%	101.1%	269.9%
(Stock+Trade Debts)/ Short term borrowing	4046.1%	1092.7%	996.3%	1132.6%
Debt Servicing Coverage Ratio (x)	0.98	1.10	1.80	3.52
Gearing (x)	0.17	0.27	0.34	0.21
Leverage (x)	2.24	2.09	2.32	1.43
ROAA (%)	2.4%	3.2%	2.2%	10.3%
ROAE (%)	7.9%	11.1%	7.6%	31.1%

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				
7/7/2022	BBB	A-2	Stable	Reaffirmed
4/22/2021	BBB	A-2	Stable	Maintained
5/21/2020	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.
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Due Diligence Meetings Conducted	

S.No	Names	Designation	Date
1	Mr. Noor Sheikh	Chief Audit Executive/ Chief Financial Controller	June 07, 2022
2	Mr. Suneel Pitamber		June 07, 2022