RATING REPORT

Master Changan Motors Limited

REPORT DATE:
January 31, 2025

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		**Previous Rating**	
	Medium to Long-term	**Short-term**	**Medium to Long-term**	**Short-term**
Entity	A-	A2	A-	A2
Rating Outlook/Watch	Positive		Stable	
Rating Date	January 31, 2025		January 23, 2024	
Rating Action	Maintained		Reaffirmed	

COMPANY INFORMATION	
Incorporated in 2017	**External auditors:** A. F. Ferguson & Co. Chartered Accountants
Public Unlisted Company	**Chairman of the Board:** Mr. Nadeem Malik
Shareholders (5% or more):	**Chief Executive Officer:** Mr. Nadeem Malik
Master Motor Corporation (Pvt.) Ltd. – 69.9%	
Changan Automobile Investment (Shenzhen) Corporation Limited – 30.0%	

APPLICABLE METHODOLOGY
Applicable Rating Criteria:
Corporates https://docs.vis.com.pk/docs/CorporateMethodology.pdf
Rating Scale & Definitions https://docs.vis.com.pk/docs/VISRatingScales.pdf

Master Changan Motors Limited

OVERVIEW OF THE INSTITUTION

Master Changan Motors Limited (MCML) was incorporated as a Public Unlisted Company Limited in 2017. Registered office of the company is based in Karachi. Financial Statements of the Company for FY24 are audited by A. F. Ferguson & Co. Chartered Accountants.

Profile of Chairman:
Mr. Nadeem Malik holds a graduate degree in Business Management from the U.S.A. He has an extensive experience in the Automotive Industry, and has been successfully running the business since more than two decades. Furthermore, he is the chairman of several other companies under the ambit of Master Group of Companies.

RATING RATIONALE

Master Changan Motors Limited ('MCML' or 'the Company') was incorporated in 2017 as a public unlisted company. MCML is a joint venture between Master Motor Corporation (Private) Limited (MMCL) and Changan Automobile Investment (Shenzhan) Corporation Limited (Changan) with shareholding of 69.9% and 30.0%, respectively. MCML is engaged in the assembly and progressive manufacturing and sale of pickups, vans, passenger cars and SUVs. The Company's head office and plant are located at Steel Mill, Karachi.

The business model encapsulates import of Completely Knocked Down Units (CKD's) and Completely Build-Up Units (CBU) from Changan International Corporation (CIC) and local assembly of units prior to sale. MCML began commercial production in January 2020, initially concentrating on the pickup/van category before eventually expanding its product line to include passenger cars.

The Company launched Deepal L07/S07 EV (electronic vehicle) in August 2024. Initially, CBU (Completely Built-Up Units) of Deepal will be sold locally while local CKD production will commence in due course of time. The Company's product portfolio at present is as follows:

Category	Product
SUV	Oshan X7, Deepal S07 EV
Sedan	Alsvin, Deepal L07 EV
Van	Karvaan
Pick-up	M9 Sherpa

Sector Update:

Amid economic slowdown during FY23 and FY24, automobiles sales have witnessed a sharp decline, wherein volumetric sales of passenger cars (PC) have registered a drop of 59% Y/Y in FY23. With the continuation of weak economic indicators, car sales have further declined by 16% Y/Y in FY24. During 4MFY25, with the rebound in the economic indicators amid decline in interest rates, PC sales increased by 47% Y/Y compared to SPLY. Further, sales of SUV segment also surged by 60% YoY in 4MFY25 from 4MFY24. Unit sales in of automobiles are expected to increase by ~10% in FY25 on account of decline in inflationary pressure and policy rate. Automobile sales of key segments are as tabulated below:

Automobile Offtake *(Units)*	FY22	FY23	FY24	4MFY25
Passenger Cars	234,180	96,812	81,577	30,625
SUVs/Crossover/Pickups	45,087	30,067	22,250	10,068
Tractors	43,981	30,942	45,494	6,939
Trucks	5,669	3,182	2,210	1,074

Source: PAMA

In FY24, market share remained mostly unchanged as Pak Suzuki Motor Company Limited (PSMC) remained the market leader in PC segment followed by Indus Motor Company Limited (INDU) and Honda Atlas Cars (Pakistan) Limited (HCAR).

<u>Operational Update</u>

MCML marked a significant breakthrough by achieving the production milestone of 50,000 vehicles produced in Pakistan by January 2025. However, the management kept production to a single-line shift given subdued market demand. Subsequently, production level and annual sales decreased in FY24. MCML maintained total market share of 4.9% (FY23: 4.6%, FY22: 5.5%) and relevant market share of 12.2% (FY23: 13.7%, FY22: 16.1%) in FY24. The Company's utilization levels dropped to 66% (FY23: 73, FY22: 80%) in FY24.

<u>Rating Drivers</u>

Strong sponsor profile

Changan is a Chinese state-owned enterprise with a strong competitive position in the auto sector, being one of the leading brands in China. The group operates in more than 60 countries and has more than 150,000 professional team members globally. It operates joint ventures with Ford (Changan Ford), Groupe PSA (Changan PSA), Mazda (Changan Mazda) and Suzuki (Changan Suzuki). The association with Changan as JV partners provides MCML access to technical knowledge as well as broad product line. MMCL is a part of Master Group of Companies. Master Group is a diversified business group with presence in mattresses & upholstery, home fashion, textile, chemical, power, automobile and auto part sectors. Diversified businesses of the sponsor also provide financial strength to MCML.

Despite decline in unit sales in FY24, profitability margins improved during the review period. However, strong recovery in sales during 5MFY25 was witnessed

MCML's volumetric sales declined by 22.3% YoY in FY24, on account of weakened demand and increasing competitive pressure. Oshan, MCML's highest-margin and top-selling vehicle, saw 10.5% decline in FY24 volumetric sales. As a result, net sales decreased slightly by 6.0% in FY24. Meanwhile, the Company made revenue from exports of Rs. 80.7m (FY23: nil) for the first time in history, from sales of Oshan to Kenya. In terms of composition of sales volumes, the proportion of Oshan units increased further in FY24, followed by Karvaan and Alsvin.

Gross margin improved to 21.5% (FY23: 15.8%) in FY24 on account of favorable pricing revisions and decrease in production costs. Operating expenses increased to Rs. 2.1b (FY23: Rs. 1.8b) owing to higher marketing and logistics expenses, and salaries and wages in FY24.

The Company's other income, emanating from interest on bank deposits and returns on mutual fund investments, increased significantly to Rs. 757.3m (FY23: Rs. 276.1m) in FY24 mainly owing to increase in investment portfolio and higher interest rates. Financial charges decreased to Rs. 740.9m (FY23: Rs. 1.0b) in FY24 mainly owing to decrease in average borrowings.

In FY24, MCML's net margin surged to 9.9% (FY23: 4.7%) on account of uptick in gross margin, higher other income contribution, and lower financial charges. Higher sales volume, pricing revisions and lower financing costs led to improved profit margins in 1QFY25 compared to 1QFY24.

The Company's profit margins were relatively higher than industry peers in the period under review. In 5MY25, MCML registered 116.2% increase in sales of passenger cars, elevating topline by 90.0%. Moreover, gross margin improved while net profit increased by 208.0% in 5MFY25 compared to the SPLY.

As per management's projections, MCML will double its unit sales on account of anticipation in rebound in demand while favorable sales mix and lower financial charges will boost overall profitability in FY25. To mitigate threat from competition, MCML has introduced the CBU/imported Deepal vehicles and made facelifts/revamp to both Oshan and Alsvin. Furthermore, sufficient working capital and inventory is available to meet projected recovery in demand. The management is confident in retaining its position as the largest Chinese auto manufacturer in Pakistan and fifth largest auto manufacturer behind Suzuki, Toyota, Honda and Hyundai.

Cash flows surged and liquidity profile strengthened.
MCML's cash flows have surged during review period mainly due to higher profitability. FFO increased on a timeline basis to Rs. 3.8b (FY23: Rs. 1.9b) in FY24 on the back of growing profits from core operations.

With lower borrowings, FFO to total debt and FFO to long-term debt stood considerably higher at 0.98x (FY23: 0.32x) and 1.02x (FY23: 0.42x) respectively in FY24. DSCR also increased to 3.28x (FY23: 2.14x). DSCR also increased in 1QFY25, reaching 6.46x (1QFY24: 3.72x). Stock-in-trade and trade debts continued to provide ample coverage against short-term borrowings.

Current ratio increased to 1.53x (end-FY23: 1.22x) on the back of higher short-term investments at end-FY24. Liquidity risk was mitigated by consistent increase in net working capital (end-FY24: Rs. 4.8b, end-FY23: Rs. 2.0b, end-FY22: Rs. 855.8m). Moreover, cash conversion cycle decreased to 96 (FY23: 105) days owing to higher days payables at end-FY24. Trade debts were minimal in comparison to topline (FY24: 1.9%, FY23: 0.8%); aging of trade debts was manageable with no bad debts reported during the review period. The Company's current ratio is above the peer median in auto sector. Debt coverage profile strengthened and liquidity indicators improved in 5MFY25.

Projected debt coverage and liquidity metrics are as tabled below:

Debt coverage and liquidity metrics	
Rs. in millions	**FY25 (P)**
FFO	10,232.4
FFO/Total Debt (x)	3.22
FFO/Long-term Debt (x)	3.22
DSCR (x)	**8.42**
Current ratio (x)	**1.71**
Cash conversion cycle (days)	**75**

Low financial risk owing to low gearing and leverage.
Equity increased to Rs. 8.5b (end-FY24: Rs. 7.5b, end-FY23: Rs. 4.9b) at end-1QFY25 on account of sustained profit retention.

The assigned ratings take into account low financial risk of the Company as gearing and leverage decreased to 0.52x (end-FY23: 1.19x) and 1.67x (end-FY23: 2.74x) at end-FY24 respectively on account of decrease in total debt and higher equity base. Furthermore, with short-term liquid investments of Rs. 3.7b and cash and bank balances of Rs. 535m, the

	Company was virtually debt free at end-FY24. Capitalization metrics further dipped at end-5MFY25, complimenting low financial risk. The management anticipates capitalization profile to remain gearing free on a net debt basis in FY25 in the absence of any notable capex projected. Gearing and leverage were superior to industry peers.

REGULATORY DISCLOSURES — Appendix I

Name of Rated Entity	Master Changan Motors Limited
Sector	Automobile
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
RATING TYPE: ENTITY				
January 31, 2025	**A-**	**A2**	**Positive**	**Maintained**
January 23, 2024	A-	A2	Stable	Reaffirmed
December 30, 2022	A-	A2	Stable	Reaffirmed
October 29, 2021	A-	A2	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 Meeting Conducted

Name	Designation	Date
Muhammad Imran	CFO	November 22, 2024
Muhammad Asif	AGM Finance	