

RATING REPORT

Agriauto Stamping Company (Pvt.) Limited

REPORT DATE:

March 29, 2023

RATING ANALYSTS:

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Rating Category	Rating Details	
	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	March 29, 2023	
Rating Action	Initial	

COMPANY INFORMATION

Incorporated in 2012	External Auditors: EY Ford Rhodes Chartered Accountants
Private Limited Company	Chairman: Mr. Yutaka Arae Chief Executive Officer: Mr. Fahim Kapadia
Key Shareholders (with stake 5% or more):	
Agriauto Industries Limited – 100.00%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporate Rating Methodology (August 2021)

<https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf>

Agriauto Stamping Company (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Agriauto Stamping Company (Pvt.) Limited (ASC) is a private limited company incorporated in 2012. ASC is the first stamping company in Pakistan having proper technology transfer in different areas of stamping including TPS, quality assurance, die maintenance & logistics.

Profile of CEO
Mr. Kapadia is the CEO of ASC and of the parent company AGIL. He has over 35 years of experience in the field of Finance, General Management and Business Development in Pakistan and abroad. He has been associated with the House of Habib (HoH) for the last 23 years. He is a Fellow Chartered Accountant (FCA) and Certified Public Accountant (CPA) from US. Also, he has a degree in Bachelor of Science (BSC) in Accounting.

RATING RATIONALE

Agriauto Stamping Company (Pvt) Limited (ASC or 'the Company') was established in 2012, as a wholly owned subsidiary of AGIL. ASC is engaged in the manufacture and sale of sheet metal stamping parts, sub-assembly operations, dies/checking fixtures/jigs. ASC specializes in assembling and stamping of high tensile parts for automobiles, with technical collaboration with M/S. Ogihara (Thailand) Co. Ltd. The plant is located at Bin Qasim, Karachi and the registered office is located at Shahra-e-Faisal, Karachi.

Rating Drivers

Ratings take into account ASC's sponsor profile

ASC is part of House of Habib (HoH), an established conglomerate headquartered in Pakistan. HoH has diversified operations across different sectors including Automobile (Indus Motor Company Limited, Thal Limited, AuVitronics Limited, Thal Engineering, Thal Boshoku Pakistan Private Limited), Building Materials (Shabbir Tiles and Ceramics Limited, Thal Laminates), Packaging (Paper sack, Jute), Plastics (AuVitronics Limited), Property (Habib Metro Pakistan Private Limited) and Financial Services (Habib Insurance Company Limited, Habib Metro Financial Services and Habib Metropolitan Bank).

Ratings incorporate ASC's market positioning and key technical collaborations with international die maker

ASC has the advantage of being associated with AGIL which has more than 4 decades of experience in the auto industry. Also, ASC is the sole producer of Sheet Metal Stamping parts and Catalytic Converters in the auto parts industry. ASC's technical partner include M/s. Ogihara (Thailand) Co. Ltd. which is a leading die making & stamping part supplier to; Toyota, Honda & Mitsubishi in Thailand. Ogihara Thailand is a subsidiary of Ogihara Corporation, Japan which has overseas operations in USA, UK, China and India.

Rating incorporates high to medium business risk profile and low financial risk profile of the Company

VIS classifies business risk profile of ASC in the high to medium category, given historical volatility in gross margins. This volatility in gross margins is mainly a product of volumetric offtake, while volatility in exchange rate also affects the gross margin, given dependence on imported raw material as the same comprises roughly more than 3/4th of the product costing. The Company's revenue base does depict counterparty concentration, albeit the same is largely addressed by the presence of long term binding contracts and the fact that major institutional clientele constitutes ASC's related parties.

ASC's financial risk profile incorporates low gearing level, as the Company has historically operated debt-free. Recently, the Company has acquired debt including both LT and ST. LT debt is for the CAPEX plans while ST is for working capital requirement. Albeit mobilizing debt on balance sheet, capitalization indicators including gearing and leverage are on lower side, which is considered positively from ratings perspective. Incorporating future debt projections, gearing is expected to rise in the range of 0.14x-0.25x during the rating horizon. The company's bottom line remained positive since the start of commercial production in 2014 even in the periods of economic downturn.

Rating takes into account strong cash flow coverage indicators

Given strong growth in sales, the Company's cash flow coverage indicators are considered sound. There is an adequate buffer of coverage of short-term borrowings through inventory and trade debts. Going forward, cash flow coverage indicators will continue to stay adequate with a bit weakening amid expected downturn in profitability, however, any debt mobilization on balance sheet will further weaken the same.

Rating incorporates ASC's Corporate Governance Profile

ASC being a subsidiary of a listed company (AGIL) follows the best practices of Corporate Governance. As a result of which the Company Corporate Governance Profile is superior along with experienced senior management team, which has been incorporated into the assigned ratings.

Financial Summary		(Amount in Million)				
BALANCE SHEET	-	Jun'19	Jun'20	Jun'21	Jun'22	Dec'22
Property, Plant & Equipment		1,303	1,236	1,318	1,600	1,708
Long Term Deposits		7	7	7	7	8
Stock in Trade		516	552	669	1,563	1,447
Trade Debts		319	174	382	441	259
Short Term Investments		113	422	144	39	39
Cash & Bank Balances		38	61	60	103	8
Other Assets		322	225	382	353	399
Total Assets		2,618	2,676	2,963	4,106	3,869
Trade and Other Payables		134	250	259	559	546
Short Term Borrowings		-	-	-	364	140
Long-Term Borrowings <i>(Inc. current matur)</i>		-	-	-	45	252
Deferred Liabilities		59	80	88	91	92
Other Liabilities		-	-	91	89	82
Total Liabilities		193	330	438	1,148	1,112
Issued, Subs, and Paid Up Capital		1,144	1,144	1,144	1,144	1,144
Equity		2,425	2,347	2,525	2,958	2,757
INCOME STATEMENT		FY19	FY20	FY21	FY22	1H23
Net Sales		3,040	1,491	3,600	6,528	1,656
Gross Profit		603	82	676	913	186
Operating Profit		576	56	615	816	140
Profit Before Tax		566	79	598	646	49
Profit After Tax		566	36	407	433	28
RATIO ANALYSIS		FY19	FY20	FY21	FY22	1H23
Gross Margin (%)		19.8%	5.5%	18.8%	14.0%	11.3%
Net Margin (%)		18.6%	2.4%	11.3%	6.6%	1.7%
FFO		520	199	664	553	113
FFO to Long-Term Debt		NA	NA	NA	12.26	1.80
FFO to Total Debt		NA	NA	NA	1.35	1.15
Debt Servicing Coverage Ratio (x)		NA	NA	NA	10.66	2.83
ROAA (%)		24.0%	1.4%	14.4%	12.2%	-
ROAE (%)		25.8%	1.5%	16.7%	15.8%	-
Gearing (x)		0.00	0.00	0.00	0.14	0.14
Debt Leverage (x)		0.08	0.14	0.17	0.39	0.40
Current Ratio		9.76	5.74	4.68	2.45	2.71
Inventory + Receivables/Short-term Borrowings		NA	NA	NA	5.51	12.14

RATING SCALE & DEFINITIONS: ISSUES / ISSUERSMedium 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	Agriauto Stamping (Pvt.) Limited				
Sector	Auto Parts				
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				
	29-Mar-23	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.				
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	Name	Designation	Date		
	Mr. Fahim Kapadia	CEO	January 16, 2023		
	Mr. Hasan Ali Ghazi	CFO			