



The Pakistan Credit Rating Agency Limited

Rating Report

Toyota Jinnah Motors (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-Aug-2019	BBB	A2	Stable	Maintain	-
22-Feb-2019	BBB	A2	Stable	Upgrade	-
26-Sep-2018	BBB-	A3	Stable	Maintain	-
28-Feb-2018	BBB-	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Car dealership (authorized) rides on the strength of the principal (auto manufacturer/assembler). The stronger the principal in the respective market, higher is the standing of the car dealer. There is a pre-defined set of criteria – qualitative & quantitative – that the principal imposes on the dealer's network. The rating takes comfort from Toyota Jinnah's alliance to Indus Motor Company – owned by Habib Group, Toyota Motor Corporation and Toyota Tsusho Corporation. Toyota Jinnah Motors (TJM) operates as 4S car dealership. Toyota Jinnah has built a sustainable position in the competitive auto industry of Pakistan. Of late - massive rupee depreciation, rising interest rate environment and increasing inflationary pressures - overall demand for auto has plummeted with the local automakers seeing a considerable reduction in their capacity utilization and profitability. Business volumes and in turn profitability have seen a decreasing trend due to slowing demand. It is important to sustain the growth while managing the rising competition, which is more of the principal's domain. It is crucial for the overall demand to pick-up for the alleviation of related concerns. In the meantime the profitability is being supplemented by the 'After Sale' segment - reporting net profitability for the dealership and covering its operational cost. Hence limiting and/or cushioning the unforeseen drag on the risk absorption capacity. The dealership also hails good position in the Customer Relationship. Foreign players are also taking interest in the local market. The financial risk profile of Toyota Jinnah Motors is adequate. The company intends not to raise any long term debt borrowing in future.

The ratings are dependent on the management's ability to sustain its business profile while being cognizant of the changing demand fundamentals; financial discipline/transparency is crucial. Any prolonged downturn in subdued business activity can have negative effects. Moreover, strengthening of governance framework is pivotal for any growing business concern.

Disclosure

Name of Rated Entity	Toyota Jinnah Motors (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_Corporate_FY19(Jun-19), PACRA_Criteria_LT ST Relationship_FY19(Jun-19), PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study Passenger Cars(Feb-19)
Rating Analysts	Muhammad Obaid muhammad.obaid@pacra.com +92-42-35869504

Profile

Legal Structure Toyota Jinnah Motors (TJM) was incorporated as a private limited company in 2014.
Background It is a 4S (Sales, Service, Shop & Spare Parts) Dealership located on Ferozepur Road Lahore.
Operations TJM started its operations in June 2016 but recorded its sales in FY17.

Ownership

Ownership Structure The entire shareholding of the company is distributed between Mian Asad Munir, Mr. Khurshed Ahmed and Muhammad Ilyas Mian. Mr. Khurshed Ahmad is the uncle of Mian Asad Munir.
Stability The shareholders don't have any formal succession planning at the moment regarding transfer of ownership in the future.
Business Acumen Ownership of the company is held by a family with history of entrepreneurship spanning over two decades in Textile and Pharmaceutical industry.
Financial Strength Both the Chairman and the CEO have been partners in business ventures before and stand committed to providing capital support in case need arises.

Governance

Board Structure The overall control of the company vests in three member board of directors from the sponsoring family. The board structure comprises of two executive directors and one non-executive director.
Members' Profile Board member's business acumen is considered good because of their presence in local and international businesses spanning over two decades.
Board Effectiveness The two Board members, the Chairman and CEO, oversee the day to day operations of TJM and are personally involved in the major facets of the management. Good corporate governance practices mandate an impartial oversight by the Board.
Financial Transparency TJM has an internal audit function which reports directly to the Board.

Management

Organizational Structure TJM has a lean organizational structure with three major reporting lines of Finance, Customer Relations, and Sales & Marketing all terminating at the CEO.
Management Team TJM has an experienced management team; a balanced mix of professionals from the Auto industry.
Effectiveness TJM doesn't have formal management committees as the two directors themselves are involved in the day to day operations of the business.
MIS TJM uses the specialized software from head council system international. This integrated software facilitates enterprise applications to manage its workflows for finance, sales, body shop, and CR department. The software generates MIS reports both daily and monthly, which are used by the senior management and the directors to monitor the performance of the company.
Control Environment Being an authorized 3S Dealership of Indus Motors automatically stipulates adherence to their stringent policies and procedures. Additionally TJM has a strong IT infrastructure to deliver better on the growing demands of expanding business.

Business Risk

Industry Dynamics The automotive industry in Pakistan was one of the fastest growing industries of the country till last year, accounting for 4% of Pakistan's GDP and employing a workforce of over 1,800,000 people. However since last year, with the slowing of economy, deteriorating currency value, increasing interest rate scenario which in turn led to declining auto financing, prices of cars have increased drastically leading to plummeting demand. A little over a year ago the assembly plants were working on 3 shifts round the clock, but lately they have even come down to shutting the factories for a few days in a week. Pakistan's auto industry is largely dominated by Honda, Toyota and Suzuki.
Relative Position Toyota corolla sales grew 10% from June 2018 to 2019, selling a cumulative of 56,720 units in FY19. Fortuner sales decreased 37%, selling 2,609 units. Hilux sales declined by 18%, at 6,070 units sold. Toyota sales exceeded production. TJM's unit sales in proportion to total unit sales of Toyota in Pakistan was 1.8% in FY19 (FY18: 1.6%)
Revenues TJM's formally commenced business in FY17 and for FY19, revenues witnessed a ~14% increase to PKR 3,346 mln (FY18: PKR 2,918mln, FY17: PKR 2638mln).
Margins During FY19, gross margin improved to ~4.5% (FY18: 4%, FY17: ~2.5%) as the spare parts and cars ordered at cheaper rates before the rupee depreciation were later sold during the year at higher prices. Operating margin stood at ~2.6% in FY19 (FY18:2.8%, FY17: ~1.0%) as overhead expenses increased slightly.
Sustainability TJM has been able to increase its allocation of vehicles to ~1500 per year as they have been able to sell more cars than the allocated quota. With the addition of a bigger client base, it is expected to increase further in the coming years.

Financial Risk

Working Capital Although net working capital days continued to increase FY19:19 , (FY18: 12 days, FY17: 1 day), it is still low compared to others in the industry.
Coverages TJM's short term borrowing increased to ~510 in FY19 (FY18: PKR 399mln, FY17:~PKR84mln) primarily to fund the increase in allocation and booking of additional cars beyond the allocated quota to furnish the increasing demand. Although operating cash flows (FCFO) decreased to PKR 45mln (FY18: PKR 66mln, FY17: PKR 31mln) due to significant improvement in sales, higher interest payments maintained the Debt Coverage ratio at 2x (FY18: 2x, FY17: 28x).
Capitalization At end-FY18, the TJM had a more levered capital structure, with a debt to debt plus equity ratio of 63% (FY18: 64%, FY17: 33%), where short term borrowing (STB) constitutes ~96% (PKR 649mln) of the total debt (PKR 672mln).



Toyota Jinnah Motors (Private) Limited

	30-Jun-19	30-Jun-18	30-Jun-17
	FY19	FY18	FY17
	Unaudited	Audited	Audited
BALANCE SHEET			
Non-Current Assets	238	235	223
Investments (Incl. Associates)	-	-	-
Equity	-	-	-
Debt	-	-	-
Current Assets	697	956	468
Inventory	105	113	9
Trade Receivables	80	73	14
Advances to Suppliers	472	742	437
Others	512	770	445
Total Assets	935	1,191	692
Debt	532	427	109
Short-term	510	399	84
Long-term (Incl. Current Maturity of Long-Term Debt)	23	29	25
Other Short-term Liabilities	140	522	365
Other Long-term Liabilities	-	-	-
Shareholder's Equity	263	242	218
Total Liabilities & Equity	935	1,191	692
INCOME STATEMENT			
Turnover	3,347	2,918	2,638
Gross Profit	151	127	67
Other Income	-	-	-
Financial Charges	(53)	(31)	(1)
Net Income	21	24	21
Cashflow Statement			
Free Cashflow from Operations (FCFO)	84	66	31
Net Cash changes in Working Capital	(114)	(324)	(99)
Net Cash from Operating Activities	-	(289)	(69)
Net Cash from Investing Activities	(3)	(25)	(9)
Net Cash from Financing Activities	114	321	79
Net Cash generated during the period	111	7	1
Ratio Analysis			
Performance			
Gross Margin	5%	4%	3%
Net Margin	1%	1%	1%
ROE	7%	12%	15%
Coverages			
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	1.5	2.0	17.4
Interest Coverage (x) (FCFO/Gross Interest)	1.6	2.1	28.2
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Term Borrowings) / FCFO)	0.9	0.9	0.9
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	19	12	1
Capital Structure (Total Debt/Total Debt+Equity)	67%	64%	33%

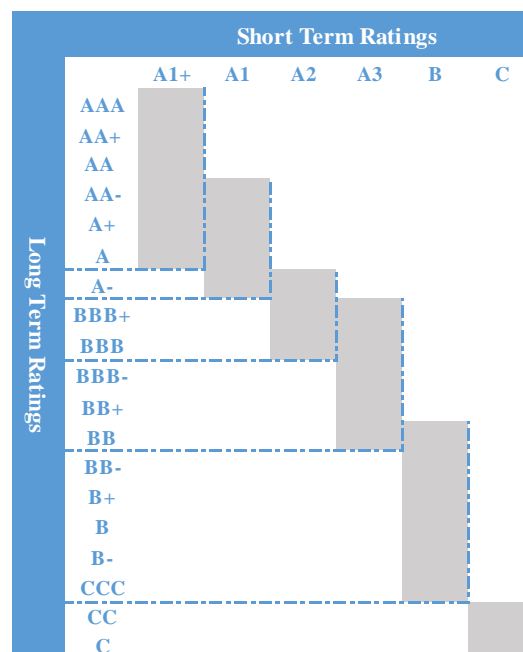
Toyota Jinnah Motors (Private) Limited

Aug-19

Credit Rating Scale & Definitions

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	A1	A strong capacity for timely repayment.
AA		A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
AA-		A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A+	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
A		C	An inadequate capacity to ensure timely repayment.
A-			
BBB+	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.		
BBB			
BBB-			
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.		
BB			
BB-			
B+	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.		
B			
B-			
CCC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.		
CC			
C			
D	Obligations are currently in default.		



Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.	Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.	Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.	Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.	Harmonization A change in rating due to revision in applicable methodology or underlying scale.
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Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

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- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA’s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA’s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

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