The Pakistan Credit Rating Agency Limited

Rating Report

Toyota Jinnah Motors (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
18-Jan-2023	BBB	A2	Stable	Maintain	-
18-Jan-2022	BBB	A2	Stable	Maintain	-
18-Jan-2021	BBB	A2	Stable	Maintain	Yes
19-Feb-2020	BBB	A2	Stable	Maintain	Yes
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) hinges on the robustness of principal (auto/ manufacturer, assembler). The strength of a car dealer is contingent on the relative positioning of principal in the respective market. There is a pre-set qualitative & quantitative criterion – imposed by the principal on the dealer's network. The rating takes comfort from Toyota Jinnah's alliance with Indus Motor Company – owned by Habib Group, Toyota Motor Corporation and Toyota Tsusho Corporation. Toyota Jinnah Motors (TJM) holds 4S car dealership. Over the period of time TJM has built a sustainable position in the competitive industry of Pakistan. TJM's income streams derived from sales of new vehicles (85%) and after-sales services (15%). 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. Currently, the auto industry is facing a downturn due to escalating production costs on account of rupee depreciation, while demand has also declined due to the prevailing economic challenges, tightening the fiscal policy and imposition of higher duties and taxes on vehicles, furthermore due to restrictions on import of CKD kits auto sector is operating at ~50% of its capacity and facing frequent plant shutdowns. Pakistan Automotive Manufacturers Association (PAMA) recent statistical data revealed ~39% decline in the sales of passenger cars as well. During the period under review (FY22) revenues recorded ~73% growth due to the inflationary effect and a slight increase in sales volume, however, margins are largely sustained. The Company has also received benefits under the new leadership and of sponsors' experience and abilities. The financial risk profile of Toyota Jinnah Motors is demonstrated by comfortable cashflows, coverages, and working capital cycle. Capital structure is moderately leveraged and mainly comprised of short-term borrowings for working capital management. The Company has substantially reduced its long-term borrowings from financial institutions through sponsors' support and through internally generated cashflows.

The ratings are dependent on the management's ability to sustain its business profile while benefiting from positive demand fundamentals, financial discipline/transparency is crucial. 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	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Passenger Cars(May-22)
Rating Analysts	Kanwal Ejaz | kanwal.ejaz@pacra.com | +92-42-35869504

Profile

Legal Structure Toyota Jinnah Motors (TJM) was incorporated as a private limited company in 2014 and commenced its operations in June 2016.

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. Principal business of the company is sale of Passenger cars, SUVs & 4WD and Commercial vehicles and after sales services for maintenance of vehicles. Toyota Jinnah is one of the largest dealership of Toyota in Pakistan.

Ownership

Ownership Structure The entire shareholding of the company is distributed between Muhammad Mushtaq (63%), Ch. Muhammad Idrees (25%), and Mian Asad Munir (12%).

Stability The sponsor has sound reputation with strong established relationships. Since the shareholding is shared among the 3 persons, the shareholders don't have any formal succession planning at the moment regarding transfer of ownership in the future.

Business Acumen The sponsor has a history of entrepreneurship spanning over two decades in real estate and energy sector. Sponsors' business acumen is considered good because of their long term presence in businesses.

Financial Strength Both the Chairman and the CEO have different business ventures before and stand committed to provide capital support in case need arises.

Governance

Board Structure The control of the company vests in all three member board of directors. The board structure comprises of three executive directors.

Members' Profile Board member's business acumen is considered good because of their presence in different businesses spanning over two decades.

Board Effectiveness The Three Board members, the Chairman and CEO, and director Marketing 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 The newly appointed external auditors of the company, Fahd Amin & Co. Chartered Accountants, issued an unqualified audit opinion pertaining to annual financial statements for FY21. Previous Auditors Shafique & Co. Chartered Accountants, issued an unqualified audit opinion pertaining to annual financial statements for FY20. TJM has an internal audit function which reports directly to the Board.

Management

Organizational Structure Toyota Jinnah has a lean organizational structure, divided into various functional departments, namely: (i) Sales & Marketing; (ii) Accounts; (iii) Customer Relations; (iv) Spare Parts; (v) Body & Paint; (vi) Service/Workshop; and (vii) After Sales. All department heads are directly reportable to CEO.

Management Team TJM has an experienced management team; a balanced mix of professionals from the Auto industry

Effectiveness Functions of the management are clear and well-defined to effectively achieve its underlying goals and objectives. The system of internal control is in place and has been effectively implemented. Continuous review of management's performance in meetings ensures further effectiveness of the management. Company has no formal management committee in place.

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 4S 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 Passenger Cars Market is largely structured with three major players i.e. Pak Suzuki, Honda and Toyota Indus - the OEMs, controlling the market historically. These OEMs sell their cars through their authorized local dealership network across the country. During the 3MFY23 period, vehicle sales declined by ~50% from the SPLY after a successful run for the greater part of FY22 where sales rose by ~55% compared to the SPLY. The latter growth was largely attributable to less restrictive auto financing loan terms adopted during the Covid-19 pandemic era.

Relative Position Indus Motors Company Limited has 47 authorized dealerships network across Pakistan. TJM has sustained a better position among all dealerships with strong market repute and excellent customer support services. TJM has renowned corporate customers base in competitive market.

Revenues During FY22, the company's topline clocked-in at ~PKR 8,338mln (FY21: PKR 4,813mln) depicting an increase of ~73%. TJM's income streams derived from sales of new vehicles (80%) and after sales services (20%).

Margins Gross profit margin in FY22 reached to ~1.1% as compared to ~0.8% in FY21. Pre tax profit margin of the company stood at ~2.2%. Although the company has a net margin of ~1.5% in FY22 (FY21: 0.9%).

Sustainability TJM has been able to increase its allocation of vehicles to ~1800 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 Company's working capital requirement emanates from financing inventories and trade receivables for which the company relies on both internal cash flows as well as short term borrowings. Average inventory days showed a decreasing trend. This coupled with decrease in receivable days has caused net working capital days to decrease to ~9 days in FY22 as compared to ~15 days in FY21.

Coverages TJM's short term borrowing reached to PKR~242mln in FY22 (FY21: PKR ~242mln). Company's operating cash flows (FCFO) increase in FY22 to PKR ~176mln (FY21: PKR~ 83mln). Debt Coverage ratio has reached to 2.0x in FY22 (FY21: 5.2x)

Capitalization During FY22, the TJM had a leveraged capital structure, with a debt to debt plus equity ratio of ~57% (FY21: ~66%), where short term borrowing (STB) constitutes ~45% (PKR ~242mln) of the total debt (PKR ~538mln).

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

TOYOTA JINNAH MOTORS PVT. LTD	Jun-22	Jun-21	Jun-20	Jun-19
Logistics- Passenger cars	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	235	231	240	238
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	871	706	620	695
a Inventories	*54*	*153*	*103*	*116*
b Trade Receivables	*156*	*93*	*66*	*72*
5 Total Assets	1,106	936	860	933
6 Current Liabilities	166	120	86	135
a Trade Payables	*20*	*11*	*15*	*8*
7 Borrowings	248	249	249	531
8 Related Party Exposure	290	290	290	7
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	402	277	235	261
11 Shareholders' Equity	402	277	235	261
B INCOME STATEMENT				
1 Sales	8,338	4,813	2,227	3,235
a Cost of Good Sold	*(8,242)*	*(4,772)*	*(2,192)*	*(3,192)*
2 Gross Profit	96	40	35	43
a Operating Expenses	(105)	(74)	(53)	(66)
3 Operating Profit	(9)	(33)	(18)	(23)
a Non Operating Income or (Expense)	*196*	*120*	*83*	*106*
4 Profit or (Loss) before Interest and Tax	187	87	65	83
a Total Finance Cost	*(30)*	*(26)*	*(77)*	*(53)*
b Taxation	*(31)*	*(19)*	*(13)*	*(11)*
6 Net Income Or (Loss)	125	42	(25)	19
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*176*	*83*	*61*	*82*
b Net Cash from Operating Activities before Working Capital Changes	*146*	*56*	*(24)*	*28*
c Changes in Working Capital	*(164)*	*(28)*	*24*	*(114)*
1 Net Cash provided by Operating Activities	(17)	29	(0)	(86)
2 Net Cash (Used in) or Available From Investing Activities	(12)	(2)	(9)	(15)
3 Net Cash (Used in) or Available From Financing Activities	(1)	0	2	108
4 Net Cash generated or (Used) during the period	(30)	27	(7)	7
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	73.2%	116.1%	-31.1%	10.8%
b Gross Profit Margin	1.1%	0.8%	1.6%	1.3%
c Net Profit Margin	1.5%	0.9%	-1.1%	0.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	0.1%	1.2%	3.8%	-1.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	36.9%	16.3%	-10.1%	7.5%
2 Working Capital Management				
a Gross Working Capital (Average Days)	10	16	29	21
b Net Working Capital (Average Days)	9	15	27	20
c Current Ratio (Current Assets / Current Liabilities)	5.2	5.9	7.2	5.1
3 Coverages				
a EBITDA / Finance Cost	6.6	3.9	1.0	1.9
b FCFO / Finance Cost+CMLTB+Excess STB	5.5	3.0	0.8	1.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.0	5.2	-20.2	0.9
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	57.3%	66.1%	69.7%	67.3%
b Interest or Markup Payable (Days)	99.3	96.5	35.3	111.3
c Entity Average Borrowing Rate	5.3%	4.7%	14.1%	10.8%

Credit Rating

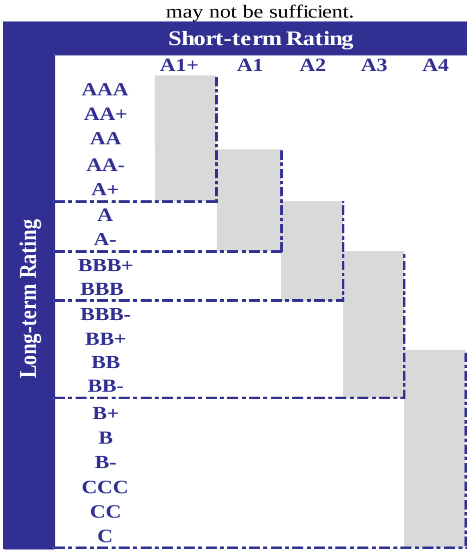
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA 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.
A+ A 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.
BBB+ BBB 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.
BB+ BB 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.
B+ B 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.
CCC CC C	**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.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(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 | Clause 11-(A)(p).
(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)

Independence & Conflict of interest
(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)
Proprietary Information