



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
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 car dealer is contingent to the relatively positioning of principal in the respective market. There is a pre-set qualitative & quantitative criteria – imposed by principal 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) holds 4S car dealership. Toyota Jinnah has built a sustainable position in the competitive industry of Pakistan. Toyota Jinnah has managed to sustain its volumes as well as the profits, in lackluster market. Toyota Jinnah Motors has seen rising business in its early years of operations. It is important to sustain the growth while managing the rising competition, which is more of the principal’s domain. 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 with its brand name perpetuates relative position in the Customer Relationship. The financial risk profile of Toyota Jinnah Motors is adequate. Company has substantially availed its short term running finance limit to finance its working capital needs. Company intends not to raise any long term and short term debt borrowing in future.

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. One of the company's key sponsor is planning to divest its stake in the Company. The final decision regarding this is yet to be announced. Considering the expected change in ownership structure and possible change in the Company's policies, PACRA has placed the entity ratings of Toyota Jinnah on 'Rating Watch'. Smooth transition and upholding the business and financial matrix during the transition is important.

#### Disclosure

<b>Name of Rated Entity</b>	Toyota Jinnah Motors (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Ratings(Jun-19),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria   Rating Modifier(Jun-19)
<b>Related Research</b>	Sector Study   Passenger Cars(Feb-19)
<b>Rating Analysts</b>	Usama Liaquat   usama.liaquat@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 Mian Asad Munir (35%), Mr. Khurshed Ahmed (60%) and Mr. Nabeel Ilyas (5%). Mr. Khurshed Ahmad is the uncle of Mian Asad Munir.

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

**Business Acumen** The sponsor family has a history of entrepreneurship spanning over two decades in Textile and Pharmaceutical industry. Sponsors' business acumen is considered good because of their long term presence in local and international businesses

**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** The external auditors of the company, Shafique & Co. Chartered Accountants, issued an unqualified audit opinion pertaining to annual financial statements for FY19. TJM has an internal audit function which reports directly to the Board. there is a room for improvement as the external auditors of the company has neither got satisfactory QCR rating from ICAP nor listed on SBP's panel of auditors

## 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 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** During 1HFY20, the company's topline clocked-in at ~PKR 1,311mln (FY19: PKR 3,347mln) depicting an decrease of ~21%. The decrease is related mainly due to low sales volume. Revenue of the company is fairly diversified as ~29% revenue comes from GLL, ~29% from Altis and Grande, ~14% from Fortuner.

**Margins** Gross profit margin in 1HFY20 increased substantially to 7% as compared to 4.5% in FY19. All overhead costs are included in operating costs. In initial years, operating expenses were on the higher side but lately the company has managed its operating expenses, showing a reasonable increase in its operating margin (1HFY20: 4.6% FY19: 2.6%). Pre tax profit margin of the company stood at 4.6%. Although the company has not obtained any new finance facility but increased KIBOR has increased its finance cost (1HFY20: PKR 44mln FY19: 53mln)

**Sustainability** TJM has been able to increase its allocation of vehicles to ~1067 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 an increasing trend. This coupled with increase in receivable days has caused net working capital days to increase to ~25 days in 1HFY20 as compared to ~20 days in FY19.

**Coverages** TJM's short term borrowing sustained at ~ PKR 510mln in 1HFY20 (FY19: ~PKR 510mln). Company's operating cash flows (FCFO) remained stable in 1HFY20 with PKR 45mln (FY19: PKR 84mln). Due to higher interest rates on financing the Debt Coverage ratio is reduced to 1.1x in 1HFY20 (FY19: 2x)

**Capitalization** At end 1HFY20, the TJM had a leveraged capital structure, with a debt to debt plus equity ratio of 66.6% (FY19: 67.1%), where short term borrowing (STB) constitutes ~95% (PKR 510mln) of the total debt (PKR 535mln).



Toyota Jinnah Motors Pvt Ltd

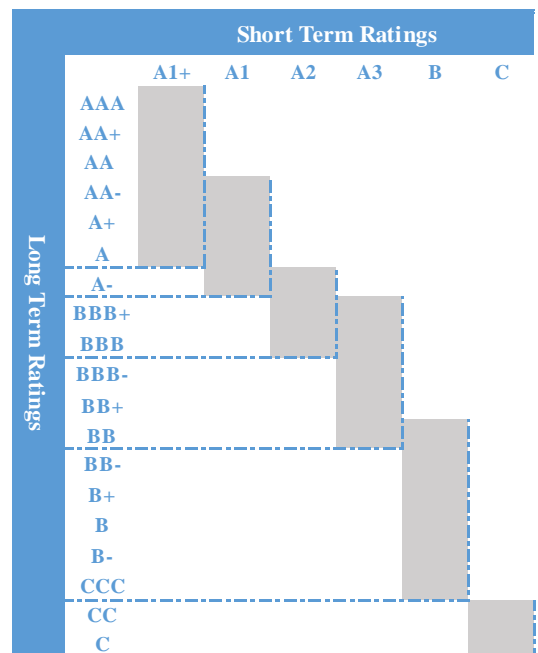
STATEMENT OF FINANCIAL POSITION

	Dec-19	Jun-19	Jun-18	Jun-17
	6M	12M	12M	12M
	Audited	Audited	Audited	Audited
<b>A NON-CURRENT ASSETS</b>				
1 Operating Fixed Assets - Owned and Leasehold	232	231	231	220
2 Intangible Assets	-	-	-	-
3 Other Non-Current Assets	7	8	5	4
4 Deferred Taxation	-	-	-	-
<i>Non-Current Assets</i>	238	238	235	223
<b>B INVESTMENTS</b>				
1 Equity Instruments	-	-	-	-
2 Debt Instruments	-	-	-	-
3 Investment Property	-	-	-	-
<i>Investments</i>	-	-	-	-
<b>C RELATED PARTY EXPOSURE</b>				
1 Equity Instruments	-	-	-	-
2 Debt Instruments (Including Lending)	-	-	-	-
3 Due from Related Parties	-	-	-	-
<i>Related Party Exposure</i>	-	-	-	-
<b>D CURRENT ASSETS</b>				
1 Stores and Spares	-	-	-	-
2 Inventories				
a. Raw Material	-	-	-	-
b. Work in Process	-	-	-	-
c. Finished Goods	84	116	113	9
3 Trade Receivables	103	72	73	14
4 Advances to Suppliers	486	461	742	437
5 Taxes	-	-	13	7
6 Taxes Refundable	51	31	7	-
7 Other Current Assets	0	-	-	-
8 Cash and Bank Balances	3	16	9	2
<i>Current Assets</i>	726	695	956	468
<b>E TOTAL ASSETS (A+B+C+D)</b>	965	933	1,191	692
<b>F CURRENT LIABILITIES</b>				
1 Trade Payables	7	8	7	6
2 Advances from Customers	118	96	490	349
3 Taxes	11	12	12	8
4 Interest or Markup Payable	21	15	-	-
5 Workers' Funds	-	-	-	-
6 Accrued Liabilities	4	4	-	-
7 Other Current Liabilities	1	1	10	1
8 Dividend Payable	-	-	-	-
<i>Current Liabilities</i>	162	135	519	364
<b>G BORROWINGS</b>				
1 Current Maturity of Long-Term Borrowings	3	3	3	1
2 Short-Term Borrowings	510	510	399	84
3 Long-Term Borrowings	16	17	29	25
4 Debt Instruments	-	-	-	-
<i>Borrowings</i>	529	531	430	109
<b>H RELATED PARTY EXPOSURE</b>				
1 Borrowings	7	7	-	-
2 Subordinate Borrowings	-	-	-	-
3 Preference Share Capital	-	-	-	-
4 Due to Related Parties	-	-	-	-
<i>Related Party Exposure</i>	7	7	-	-
<b>I NON-CURRENT LIABILITIES</b>				
1 Deferred Taxation	-	-	-	-
2 Other Non-Current Liabilities	-	-	-	-
<i>Non-Current Liabilities</i>	-	-	-	-
<b>J NET ASSETS (E-F-G-H-I)</b>	268	261	242	218
<b>K SHAREHOLDERS' EQUITY</b>				
1 Ordinary Share Capital	200	200	200	200
2 Capital Reserves	-	-	-	-
3 Revaluation Reserve				
a. Fixed Assets	-	-	-	-
b. Investments	-	-	-	-
4 Revenue Reserves				
a. General Reserves	-	-	-	-
b. Unappropriated Profit	68	61	42	18
<i>Shareholders' Equity</i>	268	261	242	218
<b>L MEMORANDUM ITEMS</b>				
1 Short Term Borrowing Limits	510	510	510	510
<i>Check</i>	(0.00)	(0.00)	(0.00)	-

## 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	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> 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.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> 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>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> 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.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> 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>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> 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>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> 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.		
<b>D</b>	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.

**Disclaimer:** PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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(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

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- (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)

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- (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)

### **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)

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- (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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