



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
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 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. 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 (40%) and after sales services (60%). 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. In past demand of new automobile adversely affected due to general economic slowdown, massive rupee devaluation and rising of interest rates. Outbreak of COVID-19 further deteriorated the industry’s performance. Government took various measures and introduced various relief packages for revival of the economy and industry, automobile financing became cheaper due to reduction in policy rates which is a positive sign for the industry. The Company is expected to receive benefit under the leadership and knowledge of new shareholders, during the period under review ownership structure of the Company has been changed. Mr. Khursheed Ahmed has been replaced by Mr. Muhammad Mushtaq who is a successful entrepreneur in real estate development sector and Mr. Muhammad Idrees who has now associated with the board as an executive director with more than one decade of experience in managing automobile dealerships. The financial risk profile of Toyota Jinnah Motors is adequate. Company has substantially reduced its short term borrowings from financial institutions through sponsors support.

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 Ratings(Jun-20),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria Rating Modifier(Jun-20)
Related Research	Sector Study Passenger Cars(May-20)
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 Ferozpur 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 (60%), Ch. Muhammad Idrees (25%), Mian Asad Munir (12%), and Mian Nabeel Ilyas (3%).

Stability The sponsor has sound reputation with strong established relationships. Since the shareholding is shared among the 4 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 overall control of the company vests in three member board of directors from the sponsors. The board structure comprises of three executive directors and one non-executive director.

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 external auditors of the company, 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. 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 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 The Pakistan automotive market is slowly shifting towards a service oriented model with new players focusing extensively on customer experience and consumer data. Transitions in automotive markets are providing opportunities for some parts while other components face stiff decline over the forecasts. Increase in additional customs duty directly results in increase in cost of production. In 2019 industry had to face multiple challenges: higher inflation, rising interest rates, devaluation of pak rupee. Year 2020 brought yet another challenge affecting the entire world. Outbreak of COVID-19 hampered almost all the industrial segments of Pakistan including passenger cars. However, Government took various measures to support the local industry and economy. June 2020 onwards sales of automobile is gradually picking up.

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 FY20, the company's topline clocked-in at ~PKR 2,998m (FY19: PKR 3,235m) depicting an decrease of ~7.3%. The decrease is related mainly due to low sales volume. TJM's income streams derived from sales of new vehicles (40%) and after sales services (60%).

Margins Gross profit margin in FY20 reached to 1.1% as compared to 1.3% in FY19. All overhead costs are included in operating costs. Operating margins of the company decreased in FY20 and has a loss of 0.9% in FY20 where as loss of 0.7% was recorded in FY19. Pre tax profit margin of the company stood at 1%. Although the company's finance cost over sales reached to 2.5% in FY20; FY19: 1.6%.

Sustainability TJM has been able to increase its allocation of vehicles to ~1600 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 ~17 days in FY20 as compared to ~20 days in FY19.

Coverages TJM's short term borrowing reduced to ~ PKR 249m in FY20 (FY19: ~PKR 531m). Company's operating cash flows (FCFO) decrease in FY20 to PKR 32m (FY19: PKR 82m). Due to higher interest rates on financing the Debt Coverage ratio is reduced to 0.4x in FY20 (FY19: 1.5x)

Capitalization At end of FY20, the TJM had a leveraged capital structure, with a debt to debt plus equity ratio of 73.6% (FY19: 67.3%), where short term borrowing (STB) constitutes ~42% (PKR 239m) of the total debt (PKR 570m).



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

TOYOTA JINNAH MOTORS PVT. LTD Logistics- Passenger cars	Jun-20 12M	Jun-19 12M	Jun-18 12M	Jun-17 12M
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A BALANCE SHEET

1 Non-Current Assets	240	238	235	223
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	620	695	956	468
<i>a Inventories</i>	103	116	113	9
<i>b Trade Receivables</i>	66	72	73	14
5 Total Assets	860	933	1,191	692
6 Current Liabilities	86	135	519	364
<i>a Trade Payables</i>	15	8	7	6
7 Borrowings	249	531	430	109
8 Related Party Exposure	290	7	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	235	261	242	218
11 Shareholders' Equity	235	261	242	218

B INCOME STATEMENT

1 Sales	2,227	3,235	2,918	2,638
<i>a Cost of Good Sold</i>	(2,192)	(3,192)	(2,792)	(2,570)
2 Gross Profit	35	43	127	67
<i>a Operating Expenses</i>	(53)	(66)	(63)	(40)
3 Operating Profit	(18)	(23)	64	27
<i>a Non Operating Income or (Expense)</i>	83	106	-	-
4 Profit or (Loss) before Interest and Tax	65	83	64	27
<i>a Total Finance Cost</i>	(77)	(53)	(31)	(1)
<i>b Taxation</i>	(13)	(11)	(9)	(5)
6 Net Income Or (Loss)	(25)	19	24	21

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	61	82	66	31
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	(24)	28	35	30
<i>c Changes in Working Capital</i>	24	(114)	(324)	(99)
1 Net Cash provided by Operating Activities	(0)	(86)	(289)	(69)
2 Net Cash (Used in) or Available From Investing Activities	(9)	(15)	(25)	(9)
3 Net Cash (Used in) or Available From Financing Activities	2	108	321	79
4 Net Cash generated or (Used) during the period	(7)	7	7	1

D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	-31.1%	10.8%	10.6%	--
<i>b Gross Profit Margin</i>	1.6%	1.3%	4.3%	2.5%
<i>c Net Profit Margin</i>	-1.1%	0.6%	0.8%	0.8%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	3.8%	-1.0%	-8.8%	-2.6%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' E</i>	-10.3%	6.4%	12.3%	14.6%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	29	21	13	4
<i>b Net Working Capital (Average Days)</i>	27	20	12	3
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	7.2	5.1	1.8	1.3
3 Coverages				
<i>a EBITDA / Finance Cost</i>	1.0	1.9	2.6	39.5
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	0.8	1.5	2.0	18.9
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	-20.2	0.9	0.9	0.9
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	69.7%	67.3%	64.0%	33.4%
<i>b Interest or Markup Payable (Days)</i>	35.3	111.3	0.0	0.0
<i>c Entity Average Borrowing Rate</i>	14.1%	10.8%	13.6%	1.4%

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.

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

Scale	Short-term Rating 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 conditions.
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 surveil 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):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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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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- (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.
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- (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)
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- (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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