The Pakistan Credit Rating Agency Limited

Rating Report

Ravi Automobile (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Sep-2022	BBB	A2	Stable	Maintain	-
29-Sep-2021	BBB	A2	Stable	Maintain	-
29-Sep-2020	BBB	A2	Stable	Maintain	-
30-Sep-2019	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Ravi Automobile (Private) Limited ('Ravi' or 'the Company') operates in two segments of the automotive industry: i) manufacturing of components & auto parts for automotive companies, OEM suppliers, motorcycles and agricultural machinery ii) assembling & distribution of motorcycles under its own brand. The ratings reflect Ravi's diversified product line, long-lived presence in the domestic market, and sponsors' deep-rooted connections with leading industry players. This is asserted through group's expansion into multiple standalone entities, including Infinity Engineering (Pvt.) Limited and Ravi Spherocast, both sizeable enterprises augmenting the group's presence in the sector. Pakistan's automotive & allied industry witnesses a dip owing to economic instability, persistent inflationary pressures, and policy hikes. The rising input costs of imported raw materials suppressed the profitability for all players of the automotive segment. There is reduction in custom duty on imports of prime materials to incentivize local players. Despite adverse industry challenges, the Company managed to record a revenue growth of ~29% during first nine months of FY22. The sales reflect top party concentration, but sponsors are of the view that concentration is acceptable as decades-long relationships exist. Margins are considerably dependent on improved topline; better prices and more volume. Business risk profile of the Company is demonstrated by expected revival, specifically in 2-Wheelers and Agri segments. Moreover, the Company availed long-term finance facility at concessionary rates to ensure timely expansion that would allow localization by exploiting its in-house capabilities developed over time. To achieve aforesaid and improve its governance standard, Ravi also partnered up with Ithaca Capital (Pvt.) Limited for private equity injection. Financial risk profile represents longer working capital cycle for which the management is of the view, tends to be shortened owing to strategic shift towards component business. Given the Company's expansion phase, capital structure is leveraged for now. Comfort can be drawn from the need driven nature of the business, backward integration, and synergies in the overall group.

The ratings are dependent on Ravi's ability to achieve projected revenue growth in key business segment and sustain profitability matrix amidst challenging operating environment. Prudent financial discipline and implementation of a stringent control environment shall remain imperative.

Disclosure

Name of Rated Entity	Ravi Automobile (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 | Automotive Parts(Oct-21)
Rating Analysts	Sohail Ahmed Qureshi | sohail.ahmed@pacra.com | +92-42-35869504

Profile

Legal Structure Ravi Automobile (Private) Limited was incorporated on May 19th, 1998, as a private limited entity under the Companies Ordinance, 1984 (now the companies Act 2017). It specializes in the manufacturing of components & auto parts for major automotive companies and OEM automotive suppliers. The Company also manufactures, assembles & distributes its own brand of motorcycles under the brand name "Ravi."

Background In 1951, the group came into being with the incorporation of Punjnad Tractors (Pvt.) Limited, with Mr. Khalid (the first generation in the business) as the 100% owner. With time, various companies were incorporated by him and his three sons. In the year 2010, his sons separated their businesses and took ownership of their own companies. The companies transferred to Mr. Iqbal (Chairman, Ravi) specialize in the agriculture and automobile industries.

Operations The Company has two facilities: i) component (parts) manufacturing, and ii) motorcycle assembly. The parts manufacturing division is equipped with pressure die-casting and CNC machining lines to manufacture auto parts for two-wheelers to four-wheelers (including agriculture equipment). The assembly division is used for the assembly of motorcycles.

Ownership

Ownership Structure The ownership structure of the Company changed in FY21 post equity injection from private equity partner "Ithaca Capital (Private) Limited." The equity partner has now 51% stake in the Company. Remaining stake of 49% rests with Mr. Iqbal Khalid (19%), his son Mr. Fahad Iqbal - CEO of Company (10.9%), and other family members (19.1%).

Stability Ravi is a part of group which has been operating for over six decades. A clear line of succession and the involvement of a private equity partner provide comfort over the future stability of the Company.

Business Acumen The group under the supervision of Mr. Iqbal and Mr. Fahad has grown in stature with time, which is considered evidence of their industry-specific working knowledge and abundant experience.

Financial Strength Apart from Ravi, the group consists of companies like Infinity Engineering (Pvt.) Limited and Ravi Spherocast (a registered partnership). Both are large enterprises with substantial toplines. Hence, affirming the strength of the group.

Governance

Board Structure The Board consists of five directors: Mr. Iqbal Khalid, Mr. Fahad Iqbal, Mr. Saad Saeed Faruqui, Mr. Haider Ali Hilaly, and Muhammad Danish Hussain. The latter three members are representatives of Ithaca Capital (Private) Limited and bring with them an abundance of experience in capital allocation, corporate governance, and general business expertise.

Members' Profile Mr. Iqbal Khalid has a wealth of professional experience of 5+ decades in a diverse set of industries. Mr. Fahad Iqbal also holds vast professional experience and has related educational background. He did his bachelors and masters in Mechanical Engineering from the Columbia University, USA. Mr. Faruqui, Mr. Hilaly and Mr. Hussain are other experienced members of the Company.

Board Effectiveness Mr. Khalid and Mr. Iqbal, are also the members of the management committee and meet regularly to discuss strategic and operational issues. The Company doesn't maintain formal minutes of board meetings; however, management committee meetings are well documented. There is room for improvement in board practices following addition of a private equity partner.

Financial Transparency The firm Nauman Javaid Husnain Rashid, a QCR rated audit firm, was appointed as the auditor of the Company during 2018. Auditors expressed an unqualified opinion on the Company's financial statements for FY21. Audit for FY22 is yet to be conducted.

Management

Organizational Structure The Company employs 40+ people. The production & assembly staff for both divisions are distinct, while the senior management team for both units is the same. They are supported by a centralized finance function. The respective HODs directly report to the CEO. Board provides oversight with respect to strategic decision making.

Management Team The Board and the CEO are supported by a team of experienced and qualified individuals, who provide the necessary technical and operational expertise. Most of the management personnel have been associated with the Company for several years.

Effectiveness The Company has formed a management committee which includes the Directors and the HODs. The management committee deals with the day-to-day activities of the Company, develops and implements business plans and policies that have been recommended and approved by the Board.

MIS The Company uses Microsoft Dynamics Great Plains as its ERP software.

Control Environment The Company has outsourced its internal audit function to the firm Uzair, Hammad & Faisal - Chartered Accountants. The data entry and the resultant reporting is cross checked by the internal audit team. Observations are shared with the higher management, so if any, inconsistencies are timely resolved.

Business Risk

Industry Dynamics The demand for auto parts is derived from automobile industry, rising per capita incomes, and growing middle-class. Demand in local automotive segment emanates from original equipment manufacturers and replacement market. Automobile industry in Pakistan is highly concentrated in terms of structure, with a handful of key players having the most share. The sector has been going through a recessionary phase on back of rising inflation, policy hikes, exchange rate volatility, stiff competition from the import market, and contractionary monetary & fiscal policies. Similarly, in 2-wheelers segment, Pakistan's motorcycles market fell down by ~4.3% in FY22 mainly on account of aforementioned factors. In FY22, total sales of motorcycles stood at ~1.8mln units (FY21: ~1.9mln units).

Relative Position Honda is the market leader in the motorcycles segment with a market share of approximately 74.67%, followed by United Auto with 14.58%, & Road Prince with 4.93%. Ravi Automobile is a small player in this segment with approximately 0.2% market share (FY22: 3,563 units sold). While the Company's quota w.r.t motorcycle sales is low, it is predominantly compensated through sale of auto parts. It enjoys a long association with well reputed clients, both local and foreign, mainly because of its ability to manufacture customized products.

Revenues Topline of Ravi has witnessed a growth of ~29.2% on annualized basis during 9MFY22 with PKR 822mln sales as compared to sales of PKR 848mln for FY21. The portion of revenue from motorcycle assembly is 30% and 70% from auto parts sales in 9MFY22. Considering total parts sales, 50% is motorcycle parts & 50% is tractor and Car parts.

Margins The gross profit margins for 9MFY22 slightly improved to 11.9% (FY21: 11.6%, FY20: 4.7%) while the net profit margin is 0.6% (FY21: 0.5%, FY20: -30.2%). Reason for such thin bottom-line margins is partially rising costs of imported raw materials which has played a role in suppressing the profits of the company along with overall bad economic & sectoral conditions.

Sustainability Owing to cost-push inflation, the Company has to increase the price of its products. The rising input costs affect profitability in the short-term. However, since the Company caters to all segments of the automotive industry, the impact would not be felt as strongly as it would have been otherwise, because the management has the option to amend its product mix according to the market demand mechanics of the respective products.

Financial Risk

Working Capital During 9MFY22, average receivable days declined to 124 days (FY21: 145 days). Similarly, inventory turnover days was reduced to 113 days (FY21: 136 days). Contrarily, average trade payable days reduced to 65 days (FY21: 123 days). Thus, making the net capital cycle increase to 172 days in 9MFY22 (FY21: 158days).

Coverages During 9MFY22, the Company has reported free cash flows (FCFO) of PKR 95mln (FY21: PKR 98mln, FY20: PKR -1.0mln). FCFO coverage to debt obligations (finance cost, CMLTD and uncovered short term borrowing) is improved to 1.6x times as compared to 0.7 times in FY21.

Capitalization Total borrowings during 9MFY22 stood at PKR 681mln, marginally higher from PKR ~454mln in FY21. Most of the debt book is composed of long-term loans (~70%) to manage CAPEX in auto parts segment. The Company has availed TERF to support the expansion and has a gearing ratio of 48.6% at end Mar-22 (FY21: 40.6%).

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Financial Summary
PKR mln

Ravi Automobile (Pvt.) Limited	Mar-22	Jun-21	Jun-20	Jun-19
Auto and Allied	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	1,389	1,247	1,002	466
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	1
4 Current Assets	951	858	841	1,028
a Inventories	*335*	*342*	*290*	*356*
b Trade Receivables	*425*	*322*	*351*	*502*
5 Total Assets	2,339	2,105	1,843	1,495
6 Current Liabilities	277	321	436	625
a Trade Payables	*154*	*237*	*335*	*527*
7 Borrowings	681	454	747	419
8 Related Party Exposure	295	248	78	74
9 Non-Current Liabilities	55	55	104	45
10 Net Assets	1,032	1,026	478	331
11 Shareholders' Equity	1,032	1,026	478	331
B INCOME STATEMENT				
1 Sales	822	848	1,251	1,594
a Cost of Good Sold	*(724)*	*(749)*	*(1,192)*	*(1,385)*
2 Gross Profit	98	99	59	209
a Operating Expenses	(52)	(64)	(101)	(112)
3 Operating Profit	46	35	(42)	97
a Non Operating Income or (Expense)	*16*	*29*	*(233)*	*1*
4 Profit or (Loss) before Interest and Tax	62	64	(274)	98
a Total Finance Cost	*(46)*	*(55)*	*(92)*	*(53)*
b Taxation	*(10)*	*(5)*	*(11)*	*(35)*
6 Net Income Or (Loss)	5	4	(377)	10
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*95*	*98*	*(1)*	*130*
b Net Cash from Operating Activities before Working Capital Changes	*54*	*30*	*(79)*	*77*
c Changes in Working Capital	*(140)*	*(128)*	*(221)*	*(89)*
1 Net Cash provided by Operating Activities	(85)	(99)	(300)	(12)
2 Net Cash (Used in) or Available From Investing Activities	(184)	(33)	(14)	(13)
3 Net Cash (Used in) or Available From Financing Activities	273	114	331	22
4 Net Cash generated or (Used) during the period	4	(18)	17	(2)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	29.2%	-32.2%	-21.5%	-15.0%
b Gross Profit Margin	11.9%	11.6%	4.7%	13.1%
c Net Profit Margin	0.6%	0.5%	-30.2%	0.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-5.5%	-3.6%	-17.7%	2.6%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	0.7%	0.6%	-93.3%	3.1%
2 Working Capital Management				
a Gross Working Capital (Average Days)	237	281	219	213
b Net Working Capital (Average Days)	172	158	93	91
c Current Ratio (Current Assets / Current Liabilities)	3.4	2.7	1.9	1.6
3 Coverages				
a EBITDA / Finance Cost	2.4	2.2	0.4	3.1
b FCFO / Finance Cost+CMLTB+Excess STB	1.6	0.7	0.0	1.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	11.4	12.8	-7.1	1.5
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	48.6%	40.6%	63.3%	59.9%
b Interest or Markup Payable (Days)	127.3	98.1	113.5	106.3
c Entity Average Borrowing Rate	6.8%	6.5%	14.5%	10.4%

Credit Rating

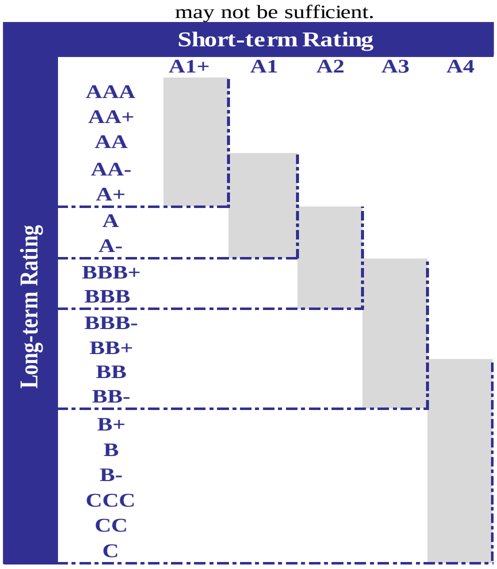
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

Entities
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

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk 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