The Pakistan Credit Rating Agency Limited

Rating Report

Ravi Automobile (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Sep-2019	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Ravi Automobile (Pvt.) Limited (Ravi) operates in two segments of the automotive industry, i.e., manufacturing components (parts) for motorcycles and tractors, and assembly of complete motorcycles. The ratings draw comfort from the diversity in Ravi's business streams and the historical association of its sponsors to the related business segments. This is asserted through the group's expansion into eight separate entities on a timeline basis of which Infinity Engineering and Ravi Spherocast represent the major investments and the augmented strength of the group. The ratings also incorporate the growth trajectory of Ravi in the components business, claiming the larger portion of the turnover. The company has built a formidable position therein, given its long standing history. Governance practices, as endorsed by the Code, desire improvement. Meanwhile, further refinement in management structure would be of benefit in the long horizon. The sales reflect top party concentration. The sponsors are of the view that the concentration is acceptable since decades-long relationships exist. There is no major history of bad debts. The management has committed to certain steps which will be of benefit to the control environment and governance practices of the company. Ravi's financial risk profile is reflected by strong coverages as debt profile remains low, majorly constituting short term borrowings. Working capital cycle is longer, which the management represents, has been shortened due to increasing focus on the component business. Challenging times are ahead. Comfort is drawn from the need driven nature of the business, backward integration and synergies in the overall group. The management does not intend to increase debt, post rating assignment.

The ratings are dependent on Ravi's ability to sustain its business profile amidst changing operating environment. Meanwhile, improvements can be made in terms of financial discipline. Any dilution in profit margins, cash flow and/or increase in leverage would be considered negative.

Disclosure	
Name of Rated Entity	Ravi Automobile (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_Corporate_FY19(Jun-19)
Related Research	Sector Study | Auto and Allied | Trucks & Buses(Dec-18)
Rating Analysts	Muhammad Usman | muhammad.usman@pacra.com | +92-42-35869504

Profile

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

Background In the year 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 Following a two-pronged approach, Ravi Automobile has two facilities: component (parts) manufacturing, and motorcycle assembly. The parts manufacturing division is equipped with pressure die-casting and CNC machining lines to manufacture auto parts for two-wheelers, four-wheelers, and agriculture equipment. The assembly division is used for assembly of the parts of motorcycles.

Ownership

Ownership Structure The company is owned by Mr. Iqbal Khalid, the Chairman of the company, and his family. Mr. Iqbal has a 39% shareholding while his son Mr. Fahad Iqbal, the CEO of the company, hold 22% ownership. The rest of the ownership is shared by the wife and daughters of Mr. Iqbal.

Stability Ravi is part of a group which has been operating for over six decades. A clear line of succession compliments the future solidity of the ownership structure.

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 (Pvt.) Limited which boast considerable toplines, affirming the strength of the group.

Governance

Board Structure The board consist of three directors involving Mr. Iqbal, Mr. Fahad and Mrs. Rubina Iqbal (wife of Mr. Iqbal). No independent directors on the board exist.

Members' Profile Mr. Iqbal Khalid has a wealth of professional experience of over 5 decades, in a diverse set of industries. Mr. Fahad Iqbal also has a vast professional experience along with a strong educational background. He has done his bachelors and masters in Mechanical Engineering from the Columbia University, USA.

Board Effectiveness Mr. Fahad and Mr. Iqbal meet on a regularly to discuss the strategic and operational issues of the group. No formal minutes are maintained. There is room for improvement in board practices.

Financial Transparency The firm Javaid, Husnian & Rashid, a QCR rated audit firm, was appointed as the auditor of the company in FY18, after the death of the prior auditor, Mr. A.S Shiekh.

Management

Organizational Structure The company employs a total 48 employees. Production and assembly staff for the two division are distinct while the senior management for both the units is the same, along with the finance function. The respective head of departments report to the CEO of the company. The chairman provides an oversight with regards to strategic decision making.

Management Team The Chairman and the CEO are supported by a team of experienced and well-educated individuals, who bring upon technical and management skills to the table. Most of the management personnel have a long association with the company.

Effectiveness Currently, the company does not have any formal management committees. All pertinent issues are resolved at department levels by the head of department, under the supervision of Mr. Fahad.

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. Any inconsistencies are timely resolved.

Business Risk

Industry Dynamics The motorcycle sector is a concentrated segment of the automobile industry, with a handful of key players having the most share. Honda Atlas alone holds ~45% of the market share. Overall, automobile sector has been going through a recessionary phase, because of the increase in prices of automobiles due to the depreciation of PKR, and contractionary monetary and fiscal policies, affecting the four wheeler industry the most. The fall in demand of cars and tractors is expected to have an opposite impact on the two and three wheeler segment, since it is an affordable option for the masses, due to a lack of a reliable public transport system, in majority of the cities. Total sales of the two and three wheeler vehicles, during FY19, stood at ~2.4mln, a 26% year on year increase compared to FY18.

Relative Position Ravi itself holds a modest market share of 1% in the motorcycle segment of the industry, mainly due to the market saturation, especially in the 70cc segment. This is compensated by the success achieved in the manufacturing and sale of auto parts. The management gives a priority to manufacturing of auto parts since it is deemed more profitable.

Revenues The topline of Ravi has witnessed an increase of ~7.2% (FY18: ~8.3%) to PKR 2.01bln (FY18: PKR~1.88bln). It has been able to achieve growth in its topline at a time when uncertainty in the sector is rife because of falling demand in the four wheeler segment. Banking on the rise in demand for motorcycles, Ravi has been able to bypass the full effects of the macroeconomic conditions, due to its diverse product mix.

Margins Ravi's profit margins are in line with the industry average. It is noted that both the gross profit margins (FY19: 14.6%, FY18: 14.7%) and the net profit margins have remained consistent (FY19: 3.9%, FY18: 4.0%) compared to the prior year. High interest rates and rising costs of imported raw materials, due to the recent devaluation of PKR, has played a role in suppressing the profits of the company. The company enjoys better margins in the manufacture of parts as compared to the assembly of motorcycles.

Sustainability Due to the economic climate, Ravi Automobile has had to increase the price of its products. The rising input costs will 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 demand mechanics of the respective products. Ravi enjoys a long association with well reputed clients, mainly because of its ability to manufacture customized products, in line with the needs of the customer.

Financial Risk

Working Capital For FY19, the average inventory days of Ravi have remained consistent at 76 days (FY18: 76 days). The average debtor days have marginally reduced to 113 days (FY18: 115 days). The trade payable days have minutely risen to 105 days (FY18: 104 days). In accumulation, Ravi's Gross working capital cycle is 189 days (FY18: 191 days). Similar trend is noted in the case of the Net working capital cycle i.e. FY19: 84 days (FY18: 87 days). The industry mechanics are the reason behind the working capital distress.

Coverages The free cash flows (FCFO) of the company have gradually risen, standing at PKR~147mln (FY18: PKR~141mln). The modest but consistent increase in FCFO is in line with the trend of the bottom line of the company. FCFO coverage to debt obligations (finance cost, CMLTD and uncovered short term borrowing) clocked in at 2.0 times, falling relative to the prior year i.e. 2.8 times. The reason for the falling coverages is the increase in finance cost of the company. Since the borrowings have been consistent with FY18, it is noted that such an increase is due to KIBOR appreciation over the course of FY19.

Capitalization The total borrowings of the company as at FY19 End stood at PKR~419mln, marginally decreasing from PKR~421mln as at FY18 End. Leveraging mix comprises a majority of short term borrowings amounting to PKR~376mln (FY18: PKR~375mln). Shareholders' Equity has risen to PKR~399mln (FY18: PKR~321mln) on account of the increase in retained earnings. The gearing levels have fallen to 51.2% (FY18: 56.8%, FY17: 63.2%) depicting a consistently improving trend.

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Financial Summary
PKR mln

Ravi Automobile (Pvt.) Limited Logistics	Jun-19 12M	Jun-18 12M	Jun-17 12M	Jun-16 12M
A BALANCE SHEET				
1 Non-Current Assets	288	298	291	239
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	34
4 Current Assets	1,239	1,150	1,071	808
a Inventories	*450*	*390*	*391*	*366*
b Trade Receivables	*635*	*612*	*566*	*353*
5 Total Assets	1,527	1,448	1,362	1,082
6 Current Liabilities	618	616	621	500
a Trade Payables	*554*	*541*	*523*	*448*
7 Borrowings	419	421	412	353
8 Related Party Exposure	51	51	57	28
9 Non-Current Liabilities	40	41	32	17
10 Net Assets	399	321	240	184
11 Shareholders' Equity	399	321	240	184
B INCOME STATEMENT				
1 Sales	2,011	1,875	1,731	1,218
a Cost of Good Sold	*(1,717)*	*(1,600)*	*(1,464)*	*(1,043)*
2 Gross Profit	294	275	267	175
a Operating Expenses	(135)	(134)	(138)	(89)
3 Operating Profit	159	141	128	86
a Non Operating Income or (Expense)	*2*	*1*	*(1)*	*(2)*
4 Profit or (Loss) before Interest and Tax	161	142	127	84
a Total Finance Cost	*(58)*	*(39)*	*(28)*	*(37)*
b Taxation	*(24)*	*(27)*	*(41)*	*(14)*
6 Net Income Or (Loss)	79	75	58	32
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*147*	*141*	*99*	*95*
b Net Cash from Operating Activities before Working Capital Changes	*97*	*102*	*68*	*49*
c Changes in Working Capital	*(82)*	*(71)*	*(84)*	*21*
1 Net Cash provided by Operating Activities	15	30	(15)	70
2 Net Cash (Used in) or Available From Investing Activities	(6)	(34)	(14)	(20)
3 Net Cash (Used in) or Available From Financing Activities	(11)	(0)	26	(57)
4 Net Cash generated or (Used) during the period	(3)	(4)	(4)	(8)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	7.2%	8.3%	42.1%	-1.4%
b Gross Profit Margin	14.6%	14.7%	15.4%	14.4%
c Net Profit Margin	3.9%	4.0%	3.4%	2.6%
d Cash Conversion Efficiency (EBITDA/Sales)	9.9%	9.7%	9.0%	9.1%
e Return on Equity (ROE)	21.9%	26.9%	27.5%	17.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	189	191	177	190
b Net Working Capital (Average Days)	90	87	74	56
c Current Ratio (Total Current Assets/Total Current Liabilities)	2.0	1.9	1.7	1.6
3 Coverages				
a EBITDA / Finance Cost	3.6	4.8	6.2	3.2
b FCFO / Finance Cost+CMLTB+Excess STB	2.0	2.8	2.2	1.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.0	0.9	1.7	1.2
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	54.1%	59.5%	66.1%	67.4%
b Interest or Markup Payable (Days)	82.3	46.8	63.7	42.5
c Average Borrowing Rate	11.9%	8.1%	5.9%	9.0%

Rating Scale | Corporate

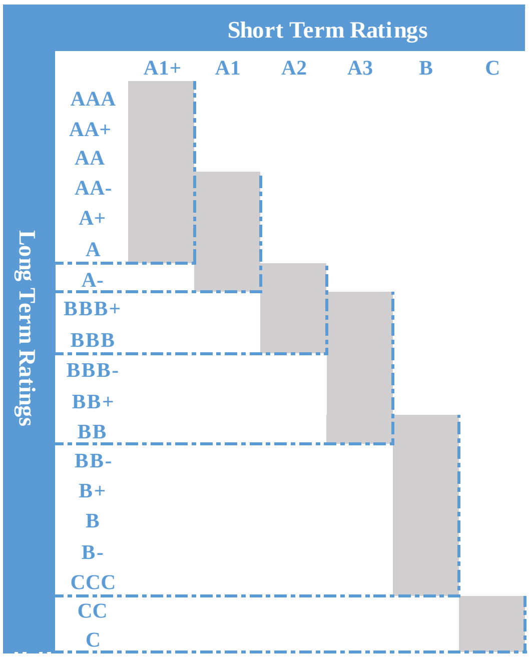
2019

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	
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 Ratings	
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.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



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 surveill the opinion due to lack of requisite information.

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

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.
(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