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
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 and auto parts for major automotive companies, OEM automotive suppliers, motorcycles & agricultural machinery ii) assembling & distribution of complete motorcycles under the brand name, "Ravi". The ratings take comfort from Ravi's diversified product line and the sponsor's active management and deep-rooted connections with key industry players. This is asserted through the group's expansion into multiple standalone entities which include Infinity Engineering (Private) Limited and Ravi Spherocast (a registered partnership), both sizeable enterprises, which augment the group's presence in the sector. Ravi Automobile witnessed a decline in profit margins due to persistent inflationary pressures. The rising input costs of imported raw materials suppressed the profitability for all segments of the automotive industry. An economic recuperation is expected in the outgoing fiscal period creating a sustainable sectoral recovery and new market models. Ratings tend to gain support from the company's established position as a source of potential supplier of auto parts for major automotive companies. Business risk profile of the company is supported by healthy demand outlook. Further, the Company has committed approximately PKR 250 mln for an expansion project that would allow capitalisation of localization / import substitution by exploiting its in-house capabilities developed over time. To achieve aforesaid and improve its governance standard, Ravi has successfully partnered up with Ithaca Capital for private equity injections. With the addition of capital and expertise, the company look forward to reliable ownership structure, business expansion, optimal stability and controlled environment. The sales reflect top party concentration. The sponsors are of the view that the concentration is acceptable since decades-long relationships exist. Working capital cycle is longer, which the management represents, tends to be shortened owing to increasing focus on the component business. Comfort is drawn from the need driven nature of the business, backward integration and synergies in the overall group.

Ratings are dependent on Ravi's ability to achieve projected revenue growth in key business segment and 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	Methodology | Corporate Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21)
Related Research	Sector Study | Automotive Parts(Oct-20),Sector Study | Trucks & Buses(Dec-20)
Rating Analysts	Sohail Ahmed Qureshi | sohail.ahmed@pacra.com | +92-42-35869504

Profile

Legal Structure Ravi Automobile (Pvt.) Limited 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 Ravi Automobile 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 assembly of the motorcycles.

Ownership

Ownership Structure The ownership structure of the Company changed in FY21 after an equity injection from private equity partner Ithaca Capital (Pvt.) Ltd. Ithaca Capital now holds 51% ownership of the Company. The other shareholders are: Mr. Iqbal Khalid (19%), his son Mr. Fahad Iqbal, the CEO of the Company (11%), and other family members (20%).

Stability Ravi is part of a 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 (Private) 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 know-how.

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 strong 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 in FY18. Auditors has expressed an unqualified opinion on the Company's financial statements for FY20.

Management

Organizational Structure The Company employs 48 people. The production and 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 report to the CEO. The 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 heads of all departments. The Management Committee deals with the day-to-day activities of the Company, develops and implements business plans and policies that have been recommend 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. 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. According to PAMA reported figures overall, automobile sector has now resumed after Covid-19 crisis. Pakistan Motorcycles market posted a healthy 44% growth in FY21 with ~ 1.9mln units sold as compared to ~1.32mln units in FY20.

Relative Position Honda is the market leader in the motorcycles segment with a market share of approximately 68% (1.29 million units), followed by United Auto with 19% (0.36 million units) and Road Prince with 8% (0.14 million units). Ravi is a small player in this segment with a market share of approximately 0.3% and 5,941 units sold in FY21.

Revenues The topline of Ravi has witnessed a decline of 32% YoY basis during FY21 with PKR 848mln sales as compared to sales of PKR 1,251mln for FY20. Decline was partially due to change in Company's focus towards component business from motorcycle assembly business. The portion of revenue from motorcycle assembly is 32% and 68% from parts sales in FY21 as compared to 57% and 43% respectively in FY20. It is also indicated in no. of motorcycles sold by company during FY21 which is 5,941 units as compared to 12,380 units in same period last year.

Margins The gross profit margins for FY21 improved to 11.4% (FY20: 4.7%) while the net profit margin is -0.5%. The company was unable to support its fixed overheads owing to lower sales. The company expects that this will normalise as the auto parts business achieves further scale.

Sustainability Due to cost-push inflation, Ravi Automobile 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 For FY21, the average Receivable days of Ravi automobiles increased to 145 days from 124 days of FY120. Inventory turnover days increased to 136 days in FY21 from 94 days in FY20. The net working capital days showed an increase to 154 days in FY21 from 93 days in FY20.

Coverages During FY21, Ravi's free cash flows (FCFO) improved to ~PKR 98mln (FY20: PKR -1mln), owing to improved operating income. On the other hand, the finance cost of the Company contracted to ~PKR 55mln during FY21 when compared with preceding year levels at ~ PKR 92mln. As a result, the coverages improved as compared to FY20. Interest coverage was 2.2x (FY20: 0.4x, 1HFY21: 2.1x). Whereas, core-debt coverage was 0.7x (FY20: -0.1x).

Capitalization Total borrowings in FY21 stood at PKR ~620mln, marginally lower from PKR ~747mln as at FY20 and lower than PKR 851mln in 1HFY21. Most of the debt book is composed of long term loan as short term line from was converted to long term loan during FY20. The mix comprises of ~19.5% short term borrowings. The company has a gearing ratio of 49.7% at end- June21 which has sharply moved from 63.3% in FY20.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Ravi Automobile (Pvt.) Limited	Jun-21	Jun-20	Jun-19	Jun-18
Auto and Allied	12M	12M	12M	12M

A BALANCE SHEET				
1 Non-Current Assets	978	1,002	466	298
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	1	-
4 Current Assets	914	841	1,028	1,150
a Inventories	*342*	*290*	*356*	*390*
b Trade Receivables	*322*	*351*	*502*	*612*
5 Total Assets	1,892	1,843	1,495	1,448
6 Current Liabilities	376	436	625	616
a Trade Payables	*256*	*335*	*527*	*541*
7 Borrowings	620	747	419	421
8 Related Party Exposure	82	78	74	51
9 Non-Current Liabilities	103	104	45	41
10 Net Assets	710	478	331	321
11 Shareholders' Equity	710	478	331	321

B INCOME STATEMENT				
1 Sales	848	1,251	1,594	1,875
a Cost of Good Sold	*(751)*	*(1,192)*	*(1,385)*	*(1,600)*
2 Gross Profit	97	59	209	275
a Operating Expenses	(64)	(101)	(112)	(134)
3 Operating Profit	33	(42)	97	141
a Non Operating Income or (Expense)	*30*	*(233)*	*1*	*1*
4 Profit or (Loss) before Interest and Tax	63	(274)	98	142
a Total Finance Cost	*(55)*	*(92)*	*(53)*	*(39)*
b Taxation	*(12)*	*(11)*	*(35)*	*(27)*
6 Net Income Or (Loss)	(4)	(377)	10	75

C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*98*	*(1)*	*130*	*141*
b Net Cash from Operating Activities before Working Capital Changes	*30*	*(79)*	*77*	*102*
c Changes in Working Capital	*(131)*	*(221)*	*(89)*	*(71)*
1 Net Cash provided by Operating Activities	(101)	(300)	(12)	30
2 Net Cash (Used in) or Available From Investing Activities	(33)	(14)	(13)	(34)
3 Net Cash (Used in) or Available From Financing Activities	116	331	22	(0)
4 Net Cash generated or (Used) during the period	(18)	17	(2)	(4)

D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-32.2%	-21.5%	-15.0%	8.3%
b Gross Profit Margin	11.4%	4.7%	13.1%	14.7%
c Net Profit Margin	-0.5%	-30.2%	0.6%	4.0%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-3.9%	-17.7%	2.6%	3.7%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	-0.6%	-87.1%	3.1%	24.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	281	219	213	191
b Net Working Capital (Average Days)	154	93	91	87
c Current Ratio (Current Assets / Current Liabilities)	2.4	1.9	1.6	1.9
3 Coverages				
a EBITDA / Finance Cost	2.2	0.4	3.1	4.8
b FCFO / Finance Cost+CMLTB+Excess STB	0.7	0.0	1.9	2.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	12.8	-7.1	1.5	0.9
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	49.7%	63.3%	59.9%	59.5%
b Interest or Markup Payable (Days)	98.1	113.5	106.3	46.8
c Entity Average Borrowing Rate	6.5%	14.5%	10.4%	8.1%

Credit Rating

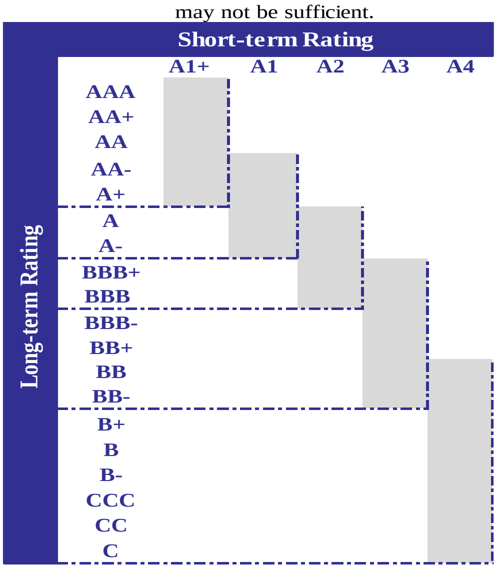
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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.
(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