



The Pakistan Credit Rating Agency Limited

Rating Report

Pak Suzuki Motor Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
04-Aug-2023	AA-	A1	Stable	Maintain	-
05-Aug-2022	AA-	A1	Stable	Maintain	-
11-Aug-2021	AA-	A1	Stable	Maintain	-
31-Dec-2020	AA-	A1	Stable	Maintain	-
31-Dec-2019	AA-	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings take primary comfort from predominant foreign sponsor (Suzuki Motor Corporation, Japan) to extend all types of support to the company. Pak Suzuki Motor Company Limited (“PSMC” or “The Company”) is among the established auto OEMs in Pakistan. Besides, there is a high level of integration with the parent and associates. The rating incorporates PSMC’s strong position as a prominent industry player in its respective niche with a strong market share. Having a presence of more than four decades in the automotive industry, the Company has established a formidable forte in the domestic market. Pak Suzuki offers various product options in the hatchback car segment ranging from 660CC to 1200CC and caters to the need of different income groups of customer segments. FY23 was a challenging year for the automobile industry, the sector is heavily dependent on CKD Kits, and import restrictions due to depleting foreign exchange reserves created essential raw material shortages. This situation led to frequent plant shutdowns and non-production periods, observed by all OEMs. Furthermore, massive rupee depreciation coupled with high inflation and rising interest rates contracted consumer demand. PAMA (Pakistan Automotive Manufacturers Association) latest stats FY23 revealed a significant drop in automobile sales volumes, where passenger cars sales recorded at ~96,812 units as compared to ~234,180 units in FY22 depicting a decline of ~59%. Suzuki Alto sustained its position as a top-selling car with a sale volume of ~35,379 units in FY23. Overall, under passenger car category, the company was able to hold a market share of ~64% (FY22: ~58%). Nexus to the adverse macroeconomic condition, the financial performance of the company remained distressed and resulted in hefty foreign exchange loss during 1QCY23. However, assigned ratings take comfort from the financial support undertaking provided by SMC Japan on 17th March 2023 to ensure its continuing operations and to provide sufficient funds to settle liabilities when they fall due. As of 1QCY23 financial risk profile of the company is characterized by insufficient cashflows and weak coverages. The capital structure is leveraged, and borrowings are mainly comprised of short-term, for working capital management, and long-term (TERF) for CAPEX. Sponsor support remains inevitable along with the integration of the supply chain at the group level and technical support from the sponsor in accordance with the license agreement.

The ratings are dependent on the Company’s ability to uphold its financial risk profile and rationalization of management strategies to achieve sufficient liquidity and profitability. Furthermore, removal of material uncertainty related to going concern in annual report for financial year 2022 is important.

Disclosure

Name of Rated Entity	Pak Suzuki Motor Company 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 Passenger Cars(May-22)
Rating Analysts	Sohail Ahmed Qureshi sohail.ahmed@pacra.com +92-42-35869504

Profile

Legal Structure Pak Suzuki Motor Company Limited (“the Company”) was incorporated in Pakistan as a public limited company in August 1983 under the Companies Act, 1913 (repealed with the enactment of the Companies Act, 2017 on 30 May 2017) and started commercial production in January 1984. The company is listed on Pakistan Stock Exchange with a free float of ~26% shares.

Background Pak Suzuki Motors was established Joint Venture between Pakistan Automobile Corporation Limited (PACO) and Suzuki Motor Corporation Japan (SMCJapan) in 1982. The Joint Venture Agreement ended in 1996 and PACO divested its entire shareholding to SMC-Japan.

Operations The principal business activity of the Company is assembling, progressive manufacturing, and marketing Suzuki cars, pickups, vans, 4 x 4s, and motorcycles. Further, Company is also involved in the trading activity of Suzuki cars, Heavy bikes, outboard motors, and related spare parts. The company’s head office and production facilities are situated in Karachi.

Ownership

Ownership Structure The SMC-Japan is the major shareholder of Pak Suzuki Motors with a majority stake of ~ 73%. The remaining shareholding lies with individuals and financial institutions.

Stability SMC-Japan is a strong brand known worldwide. It has a history of operations in the automobile sector spanning over ten decades.

Business Acumen SMC-Japan is an AA rating company rated by Rating and Investment Information, Inc (R&I) with a stable outlook as of Feb’23. SMC-Japan is a Japanese Multinational Corporation headquartered in Hamamatsu, Japan since 1909, which specializes in manufacturing automobiles, four-wheel drive vehicles, motorcycles, all-terrain vehicles (ATVs), outboard marine engines, wheelchairs, and a variety of other small internal combustion engines

Financial Strength Suzuki has strong financial strength. The company owns the largest chunk of the market. In addition to that, the vehicles assembled and manufactured by Suzuki have low prices. The vehicles of the company also have resales on a large scale. Besides, the company has the largest distribution channels. Financial strength of the sponsor is strong, as SMC corp. revenue is ~YEN 526bln.

Governance

Board Structure The overall control of the company vests in a seven members board of directors. The board structure comprises one managing director and two independent directors.

Members’ Profile The Board members are professionals with diversified experience and have a long association with the Company. Mr. Kinji Saito - Chairman of the board has a long affiliation with Suzuki motors and has diverse experience in the Automobile sector, which brings specialized and comprehensive experience and knowledge to the board

Board Effectiveness In line with the guidelines of the Code of Corporate Governance, the Board has formed two sub-committees – (i) HR and Remuneration Committee and (ii) Audit Committee. Both committees are headed by an independent director and consist of 3 members each. Attendance of BoD members remained satisfactory and board meeting minutes are properly documented.

Financial Transparency An effective Internal Audit department reporting to the Audit Committee is in place. KPMG Taseer Hadi & Co. was the external auditor of the Company for the financial year ended 31st December 2022. They have given an unqualified opinion for the year ended CY22. However, they have identified and included going concern as a key audit matter. The Company has appointed A.F Ferguson & Co. as its auditor for its financial year 2023 and onwards.

Management

Organizational Structure Pak Suzuki’s management team has been divided into over 12 departments. There is a complex organizational structure with all department heads reporting to divisional heads and ultimately to functional heads.

Management Team Management of the company comprises qualified and experienced professionals with a wide range of skills and diversified experience. Mr. Hiroshi Kawamura - CEO has had an association with SMC since 1998 and is an experienced professional in the Auto & Allied industry and is assisted by a skilled management team.

Effectiveness The management has formed five formal management committees. The board has set up an effective internal audit function that is suitably qualified and experienced in the precise implementation of policies and procedures.

MIS The company has successfully implemented globally recognized SAP as its ERP from 1st January 2023. The Company further has a house development team which develops dashboards and other systems to support and evaluate business segments.

Control Environment The Company’s monthly MIS comprises comprehensive segment and unit-wise performance reports reviewed frequently by the senior management. The system, while integrating the company’s business functions, helps the management in timely decision-making and strengthens the control environment.

Business Risk

Industry Dynamics Automobile industry sales volume was adversely impacted primarily due to import restrictions imposed by SBP on imports of CKDs of vehicles. Due to the continuous depreciation of the Pak Rupee and fast-depleting forex reserves, the government-imposed import restrictions on several industries, including the auto industry. Import restrictions caused an acute shortage of materials for the production of vehicles. Consequently, OEMs were forced to opt for temporary plant shutdowns. At the same time, the industry had to encounter high inflation, forex rate instability, global commodity price increase, and supply chain disruptions.

Relative Position Pak Suzuki Motors is among the largest vertically integrated automotive companies in the country. The market share of the Company improved from 52% in the year 2021 to 55% in 2022. However, in (Jan- March 23) the company achieved a 36% market share of cars and light commercial vehicles among PAMA member companies. In CY22, the company operated at 84% capacity utilization and achieved a production volume of 126,603 units of automobiles. However, the company produced 8,950 units in the first quarter of CY23 due to import restrictions and realized 24% capacity utilization. Among its competitors are Toyota Indus Motors, Hyundai, and Honda Atlas.

Revenues In 3MCY22, net sales decreased by 56% and were recorded at PKR 21,839mln (3MCY21: PKR47,736mln). However, in CY22 net sales revenue was recorded at PKR 202,466mln (CY21:PKR160,082mln). Sales revenue increased by 26% in CY22 over the last year due to improved sales prices.

Margins The Company’s gross margin slightly increased to 5.8% in CY22(CY21:5.1%). The operating profit margin showed a bit of positive growth of 2.7% in CY22 (CY21:1.7%). Net profit margin witnessed a decline in CY22 and stood at negative 3.1 % (CY21: 1.7%) During 3MCY23, the Company’s gross profit margin and net profit margin stood at 9.1% and negative 59% respectively.

Sustainability Maintaining Optimum levels of auto parts and continued operations while ensuring compliance with SOPs is the company’s key focus. The new competition will bring pressure on the existing players, creating the need for innovation and better quality.

Financial Risk

Working Capital In 3MCY23, company inventory days reached 155 days (CY22: 55 days; CY21: 50 days). This indicates that the company is holding inventory for a longer period, due to low sales. Meanwhile, in 3MCY23 trade receivable reached 12 days (CY22: 5 days; CY21: 5 days) while the trade payable days reached increased to 269 days during 3MCY23 (CY22:58 days; CY21:22 days) Resultantly, the gross working capital days increased to 167 days in 3MCY23 (CY22: 60 days; CY21:55 days). This is driven by the combined effect of increased inventory, higher trade receivable days, and longer trade payable days.

Coverages The company’s FCFO deteriorated significantly, reaching a negative PKR 11,348 million during 3MCY23 due to financial distress (CY22: PKR 3,648mln, CY21: PKR 2,317mln). The interest coverage ratio clocked at negative 28.6x (CY22: 19.2x; CY21:44.7x). Furthermore, the debt coverage ratio reached negative 3.0x (CY22: 2.0x; CY21:10.2x) due to markup on late deliveries and demurrage & detention charges.

Capitalization During 3MCY23, the Company’s leveraging increased to ~66.3% (CY22: ~40.3%, CY21: ~6.5%). Short-term borrowings in 3MCY23 constitute ~85.4% of the Company’s total borrowings (CY22: ~84.9%, CY21: 0.0%) This suggests that a significant portion of the company’s debt consists of short-term borrowings.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

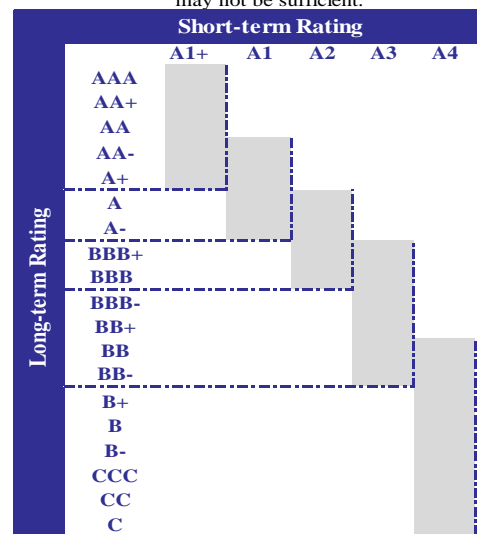
PAK SUZUKI MOTOR COMPANY PASSENGER CARS	Mar-23 3M	Dec-22 12M	Dec-21 12M	Dec-20 12M
A BALANCE SHEET				
1 Non-Current Assets	23,661	24,343	24,736	20,708
2 Investments	-	-	-	-
3 Related Party Exposure	657	737	744	513
4 Current Assets	91,994	85,005	66,510	45,484
a Inventories	40,806	33,032	26,225	18,055
b Trade Receivables	2,821	2,902	2,225	1,749
5 Total Assets	116,312	110,084	91,990	66,704
6 Current Liabilities	94,203	75,195	61,752	32,434
a Trade Payables	76,187	52,467	11,450	7,490
7 Borrowings	13,470	13,341	1,866	150
8 Related Party Exposure	-	-	-	12,621
9 Non-Current Liabilities	1,784	1,778	1,546	259
10 Net Assets	6,855	19,771	26,826	21,240
11 Shareholders' Equity	6,855	19,771	26,826	24,349
B INCOME STATEMENT				
1 Sales	21,839	202,467	160,082	76,720
a Cost of Good Sold	(19,856)	(190,782)	(151,912)	(73,419)
2 Gross Profit	1,983	11,684	8,171	3,302
a Operating Expenses	(1,798)	(6,175)	(5,424)	(3,431)
3 Operating Profit	185	5,510	2,747	(129)
a Non Operating Income or (Expense)	(11,870)	(593)	1,521	565
4 Profit or (Loss) before Interest and Tax	(11,686)	4,917	4,268	436
a Total Finance Cost	(956)	(8,059)	(472)	(2,622)
b Taxation	(274)	(3,194)	(1,116)	596
6 Net Income Or (Loss)	(12,916)	(6,337)	2,679	(1,589)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	(11,348)	4,437	2,317	3,410
b Net Cash from Operating Activities before Working Capital	(11,711)	4,168	2,251	1,056
c Changes in Working Capital	8,958	(33,944)	17,700	34,131
1 Net Cash provided by Operating Activities	(2,753)	(29,776)	19,951	35,186
2 Net Cash (Used in) or Available From Investing Activities	(610)	(916)	(4,428)	(799)
3 Net Cash (Used in) or Available From Financing Activities	114	11,125	(10,071)	12,575
4 Net Cash generated or (Used) during the period	(3,250)	(19,567)	5,452	46,962
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-56.9%	26.5%	108.7%	-34.2%
b Gross Profit Margin	9.1%	5.8%	5.1%	4.3%
c Net Profit Margin	-59.1%	-3.1%	1.7%	-2.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital / Net Profit Margin)	-10.9%	-14.6%	12.5%	48.9%
e Return on Equity [Net Profit Margin * Asset Turnover * (Equity / Total Assets)]	-388.1%	-27.2%	10.5%	-6.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	167	60	55	140
b Net Working Capital (Average Days)	-102	2	33	105
c Current Ratio (Current Assets / Current Liabilities)	1.0	1.1	1.1	1.4
3 Coverages				
a EBITDA / Finance Cost	-28.6	19.2	44.7	1.2
b FCFO / Finance Cost+CMLTB+Excess STB	-3.0	2.0	10.2	1.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-0.3	0.9	0.9	15.5
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	66.3%	40.3%	6.5%	34.4%
b Interest or Markup Payable (Days)	729.9	1899.1	698.1	0.5
c Entity Average Borrowing Rate	23.1%	12.7%	2.2%	11.5%

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+	
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-	
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):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

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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)

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