



The Pakistan Credit Rating Agency Limited

## Rating Report

### Suzuki Islamabad Motors

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Jun-2022	BBB-	A3	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Car dealership (authorized) rides on the strength of the principal (auto manufacturer/assembler). The stronger the principal in the respective market, the higher is the standing of the car dealer. There is a pre-defined set of criteria – qualitative & quantitative – that are the principal demands of the dealer network. The rating takes comfort from Suzuki Islamabad Motors’ alliance to Pak Suzuki Motor Company Limited – owned by Suzuki Motor Corporation, Japan. Suzuki Islamabad Motors (SIM) is among the largest authorized dealerships in country, nevertheless, these dealerships are fragmented where each dealership possesses thin market share. Suzuki Islamabad Motors (SIM) is a sole proprietor and requires improvement in legal status. SIM’s income stream is derived from commission on sales of new vehicles. The profitability is being supplemented by the “After sale” segment reporting net profitability for dealership and covering its operational costs, hence limiting and/or cushioning the unforeseen drag on risk absorption capacity. The overall auto sector business is dependent on economic indicators and demand led by businesses and consumers. During 1HFY22, Pakistan Automotive Manufacturers Association report represents ~71% growth in passenger car sales volumes as compared to the same period last year which is a positive sign. SIM has implemented an appropriate level of internal controls across the business, however having an internal audit function will bring further improvements. Financial risk profile of the company appears adequate with comfortable coverages, working capital cycle, and cashflows. Capital structure is leveraged due to modest equity which is also diluting over the years and representing a mix of short-term and long-term borrowings.

The ratings are dependent on sustaining a steady revenue stream and financial risk profile. Any prolonged downturn in subdued business volume can have a detrimental effect on the rating. Good corporate governance practice is considered pivotal for a growing business concern.

#### Disclosure

<b>Name of Rated Entity</b>	Suzuki Islamabad Motors
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Passenger Cars(May-22)
<b>Rating Analysts</b>	Sohail Ahmed Qureshi   sohail.ahmed@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Suzuki Islamabad Motors was established as a sole proprietor. The registered office of the Company is situated at Potohar Road, I-9 Industrial Area, Islamabad.

**Background** Suzuki Islamabad Motors is established in 2007 by Mr. Iftikhar Hussain. Suzuki Islamabad Motors is one of the largest authorized 3S dealerships for Pak Suzuki Motors, in terms of Pak Suzuki's semiannual assessment. Suzuki Islamabad Motors is on the second rank in terms of sales and after-sales services from the last two calendar years. The dealership is easily accessible and it is in the high-end locality of the I-9, Islamabad.

**Operations** The dealership is preliminarily engaged with Sales, Service, and Spare parts but with the passage of time company has expanded its services in the domain of certified used cars, auto insurance arrangement programs, extended warranty, exchange car trade-in-program, and auto finance arrangement program. Suzuki Islamabad Motors repair workshop includes the latest and state-of-the-art equipment. The technicians are Suzuki-certified experts and specialists having the most up-to-date tools and technology to repair the vehicles. The range of services includes glass coating, periodic maintenance, general repair, engine overhaul, transmission overhaul, suspension overhaul, battery testing, electrical diagnosis, wheel alignment and balancing, lathe work pressing, car restoration and dressing, disk alignment, and tuning, and air conditioning services. The dealership sells Suzuki's nine models with different variants including Alto, Cultus, Wagon-R, Swift, Bolan, Ravi, APV, Vitara, and Jimmy. It is housed in an easily accessible area and high-end locality of I-9, Islamabad.

## Ownership

**Ownership Structure** Mr. Iftikhar Hussain, Chairman of Suzuki Islamabad Motors has 100% beneficial shareholding of the dealership.

**Stability** In the future, the dealership will be transferred to Mr. Nayyer Iftikhar, son of Mr. Iftikhar Hussain. He, himself leads the business operations of the dealership.

**Business Acumen** A sole proprietorship is run by three professionals including Managing Director, who have adequate industry experience and carry extensive knowledge of different sectors. Mr. Iftikhar Hussain has an overall 26 years of experience, and he is associated with the dealership for the last 14 years.

**Financial Strength** The sponsor has a diversified portfolio of investments. The sponsor stands by to support if in the future any financial assistance is required.

## Governance

**Board Structure** The Company has no board due to the aforementioned structure. The position of Chairman is vested with Mr. Iftikhar Hussain. and the CEO is Mr. Nayyer Iftikhar.

**Members' Profile** Mr. Iftikhar Hussain is the owner of the Company. He was born on November 14, 1946. He graduated from National Textile University, Manawala Faisalabad in BSC textile. Mr. Nayyer Iftikhar, CEO, was born on February 24, 1981. He graduated from Hamdard University in BS Computer Science.

**Board Effectiveness** As the dealership is a sole proprietor, there is no formal board. So on all operations, there is a great degree of centralized control of the CEO.

**Financial Transparency** M/S Nadeem Anwar & Co. Chartered Accountants is the external auditor of the dealership. The auditors have expressed an unqualified audit opinion on the financial statements of Suzuki Islamabad Motors for the year ended June 30, 2021. The firm is not on SBP's panel of auditors (QCR rated), therefore there is room for improvement in the corporate governance framework.

## Management

**Organizational Structure** Suzuki Islamabad Motors has a lean organizational structure divided into various functional departments.

**Management Team** Suzuki Islamabad Motors has organizational structure with an experienced management team and a balanced mix of professionals. The top Management includes two key professionals. Mr. Nayyer Iftikhar, Chief Executive Officer, holds a BS(CS) degree and has been associated with Suzuki Islamabad Motors for the past 14 years. Mr. Nadeem Anwar, Managing Director, is an FCA, and has been associated with Suzuki Islamabad Motors for the past 7 years.

**Effectiveness** All members of management team are qualified and experienced individuals and carry extensive experience of the auto industry. They have no formal management committee as the board itself is involved in the day to day operations of the company. However, meetings are conducted by the Head of departments and the frequency of the meetings depends on the business activities.

**MIS** The company is using DMIS & IMS software's. Management is using multiple Summary Reports to view Daily / Monthly / Yearly status. These Software's are covering complete process flow of Sales, Services, Finance and HR.

**Control Environment** Being an authorized 3S Dealership of Pak Suzuki Motors automatically stipulates adherence to their stringent policies and procedures. Additionally SIM has a strong IT infrastructure to deliver better on the growing demands of expanding business. However, the absence of an internal audit function further creates room for improvement in the corporate management framework.

## Business Risk

**Industry Dynamics** The Pakistan automotive market is slowly shifting towards a service-oriented model with new players focusing extensively on customer experience and consumer data. Transitions in automotive markets are providing opportunities for some parts while other components face stiff decline over the forecasts. An increase in additional customs duty directly results in an increase in the cost of production. Pakistan's auto industry is largely dominated by the big 3 Japanese automakers; Suzuki (51%), Honda (~16%), and Toyota (~23%). The surge in sales is mainly induced through the revival of the economy from Covid-19 effects as passenger cars and motorcycles between Jul'21 - Jan'22 observed a brisk upward trend representing the demand revival; 131,795 units as against 125,607 units in the SPLY, sold by these automakers.

**Relative Position** For the period Jun'21 to Jan,21, Pak Suzuki Motors recorded sales of 86,795 units, showing a massive increase of 165% in sales volume owing to the recovery in the market conditions. Out of 165 dealerships network of Pak Suzuki, Suzuki Islamabad Motors is one of the well-performing 3S dealerships.

**Revenues** Revenues During FY21, the company's topline clocked in at ~PKR 4,589mln (FY20: PKR 2,815mln, FY19: PKR 3,753mln) depicting an increase of ~63%. The increase in sales is due to industry resumption after Covid-19. SIM's income streams are derived from sales of vehicles (~98%) and after-sales services (~2%). The increase in growth continued in 6MFY22 with ~43% growth for the period. The dealership sold 2,677 cars in FY21 (6MFY22: 2022, FY20: 1,942, FY19: 3,623).

**Margins** Overall margins of the entity are considered healthy. Although topline of the Company has been showing a declining trend, owing to demand fluctuations. gross margins (FY21: 5.5%; FY20: 8.5%; FY19: 6.5%), net margins (FY21: 1.7%; FY20: 2.4%; FY19: 3.3%).

**Sustainability** A major portion of revenues for a car dealership comes from car sales. The management at Suzuki Islamabad Motors prepares budgets and projections in line with their strategic planning and how aggressively they see themselves growing in the future.

## Financial Risk

**Working Capital** For working capital needs, which is a function of inventory and receivables, Suzuki Islamabad Motors relies on internal cash flows. Net working capital days have improved from 43 days to 14 days at the end of FY21, resulting in decreased average inventory days.

**Coverages** During FY21, SIM's operating cashflows (FCFO) increased to PKR 104mln (FY20: PKR 93mln; FY19: 136mln) on account of higher revenues & profits. Inclined FCFO resulted in better Interest coverage ratio at 5.7x in FY21 (3MFY22: 9.6x; FY20: 4.7x; FY19: 17.7x). In FY21 debt payback on the other hand stood at 0.9x (FY20: 0.6x FY19: 0.6;).

**Capitalization** The capital structure of the Company is moderately leveraged. During FY21, the Company's leveraging remained at ~29% (FY20: ~22%; FY19: ~14.5%). Going forward, the leveraging is expected to remain stable. The company's total borrowings in FY21 constitute PKR 131mln (FY20: PKR 90mln, FY19: PKR 72mln).



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Financial Summary  
PKR mln

Suzuki Islamabad Motors Auto and Allied	Dec-21 6M	Jun-21 12M	Jun-20 12M	Jun-19 12M
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#### A BALANCE SHEET

1 Non-Current Assets	157	159	160	151
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	279	347	315	394
<i>a Inventories</i>	110	186	176	152
<i>b Trade Receivables</i>	73	50	48	63
5 Total Assets	436	506	475	544
6 Current Liabilities	63	56	67	46
<i>a Trade Payables</i>	57	50	61	41
7 Borrowings	103	131	90	72
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	270	319	318	426
11 Shareholders' Equity	270	318	318	426

#### B INCOME STATEMENT

1 Sales	3,284	4,589	2,815	3,753
<i>a Cost of Good Sold</i>	(3,153)	(4,336)	(2,577)	(3,508)
2 Gross Profit	132	252	238	245
<i>a Operating Expenses</i>	(68)	(131)	(125)	(85)
3 Operating Profit	64	121	113	160
<i>a Non Operating Income or (Expense)</i>	-	-	-	-
4 Profit or (Loss) before Interest and Tax	64	121	113	160
<i>a Total Finance Cost</i>	(5)	(18)	(20)	(8)
<i>b Taxation</i>	(18)	(23)	(26)	(29)
6 Net Income Or (Loss)	40	80	67	124

#### C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	48	104	93	136
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	43	86	73	129
<i>c Changes in Working Capital</i>	73	(43)	117	(57)
1 Net Cash provided by Operating Activities	116	43	190	72
2 Net Cash (Used in) or Available From Investing Activities	(1)	(4)	(15)	(21)
3 Net Cash (Used in) or Available From Financing Activities	(117)	(38)	(158)	(59)
4 Net Cash generated or (Used) during the period	(2)	1	17	(8)

#### D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	43.2%	63.0%	-25.0%	--
<i>b Gross Profit Margin</i>	4.0%	5.5%	8.5%	6.5%
<i>c Net Profit Margin</i>	1.2%	1.7%	2.4%	3.3%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	3.7%	1.3%	7.5%	2.1%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	27.4%	25.2%	18.0%	29.1%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	12	18	50	6
<i>b Net Working Capital (Average Days)</i>	9	14	43	2
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	4.4	6.2	4.7	8.6
3 Coverages				
<i>a EBITDA / Finance Cost</i>	13.2	6.9	6.0	21.4
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	9.6	5.7	4.7	3.9
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.6	0.9	0.6	0.6
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	27.5%	29.2%	22.0%	14.5%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	0.0	0.0
<i>c Entity Average Borrowing Rate</i>	8.6%	16.5%	24.4%	10.6%

**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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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	<b>High credit quality.</b> 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	<b>Good credit quality.</b> 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+	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	<b>High credit risk.</b> 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	<b>Very high credit risk.</b> Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*\*The correlation shown is indicative and, in certain cases, may not hold.*

**Outlook (Stable, Positive, Negative, Developing)** Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

**Suspension** It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

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

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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(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).

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(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity

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(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)

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(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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