



Date

31-Dec-19

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Applicable Criteria

- Methodology | Corporate Ratings | Jun-19
- Methodology | Correlation Between Long-Term And Short-Term Rating Scale | Jun-19
- Criteria | Rating Modifier | Jun-19

Related Research

- Sector Study | Passenger Cars | Feb-19

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PACRA Assigns Initial Entity Ratings to Pak Suzuki Motor Company Limited

Rating Type	Entity
	Current (31-Dec-19)
Action	Initial
Long Term	AA-
Short Term	A1
Outlook	Stable
Rating Watch	-

Pak Suzuki Motor Company Limited (PSMC) is the only player from among the established auto OEM in Pakistan, that is predominantly owned by the foreign shareholder. Besides, there is high level of integration with the parent and associates. The ratings reflect strong industry positioning of PSMC in its respective niche. With a presence of up to four decades in the automotive industry, the company has established a formidable forte in the domestic market. PSMC witnessed sustainable growth in preceding years amid growing middle class with stable margins. The industry is cyclical and prone to adverse macro-economic indicators. This is more true for the customer segment of PSMC. However, the automobile industry has witnessed a significant dip in volumes from January 2019. Ongoing economic slowdown has impacted the Company's revenues and profitability in 9MCY19, resulting in net loss. This was primarily due to slower pace of adjusting the prices upward, hence the impact on volumes is relatively lower. The delta has been reduced now and will reflect positively in 2020. The Company has significant leveraging to fund its working capital needs, currently extended beyond normalcy. Relatively higher finance cost and low cashflows have resulted in weak coverages. Debt metrics need to be upheld and benefits from the new initiatives to develop new models should lead to healthy topline and in turn healthy bottom-line. The ratings draw comfort from the diversity in business streams, integration of supply chain at group level and technical support from the sponsor in accordance with License agreement. A sizeable portion of debt is covered through assurance / credibility of Suzuki group, providing support to the assigned ratings. The overall leveraging is expected to get rationalised in the near future, providing relief to the financial profile.

The ratings are dependent on the Company's ability to improve its financial profile by reducing leveraging and rationalizing its working capital. The management is working on this front and timely materialization of these initiatives is critical. Additionally, maintaining margins and improving profitability from core operations is important. Any significant increase in debt and/or working capital will impact the ratings without any support.

About the Entity

Pak Suzuki Motor Company Limited was incorporated as Public Limited Company in 1983. It is listed on Pakistan Stock Exchange (PSX) with symbol PSMC. The controlling stake is held by Suzuki Motor Company Japan which holds ~ 73% of stake. The remaining shareholding is held by individuals and financial institutions. The principal business activity of the Company is assembling, progressive manufacturing and marketing of Suzuki cars, pickups, vans, 4 x 4s, motorcycles. Further, Company is also involved in trading activity of Suzuki cars, Heavy bikes, outboard motors and related spare parts. The registered office of the Company is in Karachi. The control of the Company vests with Board of Directors, which comprises seven members. There are two independent directors, three non-executive directors and two executive directors including CEO. The Chairman of the board is Mr. Kinji Saito.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.