



The Pakistan Credit Rating Agency Limited

Rating Report

Hyundai Nishat Motor (Pvt.) Limited

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Rating Rationale and Key Rating Drivers

Hyundai Nishat Motor (Pvt.) Limited ("the Company" or "HNMPL") ratings reflect a sponsor's strong financial strength and business profile. The Company is considered inceptive among the other three established auto OEMs (Honda, Toyota & Suzuki) operating in Pakistan. The Company is a joint venture among three leading national and international business groups; Nishat Group, Sojitz Corporation (Japan) and Millat Tractors Ltd. The presence of Japan's leading general trading Company- Sojitz Corporation (trading partner of Hyundai in Pakistan) having expertise in auto parts assembling and trading as one of the major shareholders provide comfort to the ownership of the HNMPL. The Company's core operations are to carry out the assembly and distribution of the Hyundai brand vehicles in Pakistan including passenger cars, light commercial vehicles, vans and others.
The Company operates in the premium segment of cars which consists of the C-segment (Hyundai Elantra, Hyundai Tucson), D-segment (Hyundai Sonata) and Pickups (Hyundai Porter) in terms of CKDs and Light commercial vehicles (Hyundai Staria) in terms of CBU. Hyundai offers a passenger car product power range starting from 1600CC to 3500CC. The board of HNMPL is more of an advisory nature as all members are well-experienced and possess technical expertise along with strapping industry-specific experience. A team of professionals and industry specialists augments the Company's operations.
Currently, the automotive industry is facing a downturn due to various challenges such as overall economic contraction, consistent hikes in policy rates, massive rupee devaluation resulting in higher raw material costs and frequent price escalations, and import restrictions on CKD kits triggered non-production days. Pakistan Automotive Manufacturers Association (PAMA) recent statistical data revealed a ~40% decline in the sales of passenger cars during 1HFY23 (68,900 units sold) as compared to the same period last year (114,774 units sold). In 2 years, the Company has produced 04 variants in terms of CKDs. In terms of volume, Tucson is their prime selling product followed by Elantra, Hyundai Porter, Sonata and Staria. In the recent quarter, the margins of the Company have shown a slight decline mainly on the back of under-stress volumetric growth and higher finance cost.
As per the financial information shared by HNMPL management, fresh equity of PKR 9.0bln was injected in December-22 to unload short-term debt from its balance sheet and optimize the finance cost and capital structure. As of January 2023, HNMPL has paid off all of its short-term loans and has partly cleared long-term loans as well. The Company's financial risk profile is considered adequate with comfortable coverages, cashflows and a working capital cycle. Capital structure is moderately leveraged where borrowings are only comprised of long-term to support BMR.
The ratings are dependent upon sustainability in Company's revenue growth, margins, profitability and vigorous financial matrix. The ability of the Company's Cashflows to meet the operating expenses of the Company is considered pivotal. Sponsors' support remains imperative for the ratings.

Disclosure table with rows: Name of Rated Entity, Type of Relationship, Purpose of the Rating, Applicable Criteria, Related Research, Rating Analysts.

Profile

Legal Structure Hyundai Nishat Motor (Private) Limited (HNMPL - the Company) is a private limited company incorporated on March 03, 2017, in Pakistan, under the Companies Ordinance, 1984 (now the Companies Act, 2017).

Background Hyundai Nishat Motor (Private) Limited (Hyundai Nishat), a Nishat Group company, is a joint venture among three leading international businesses; Nishat Group, Sojitz Corporation (Japan) and Millat Tractors Ltd. Hyundai Motor Company (Korea) have partnered with Hyundai Nishat for the manufacturing, marketing and distribution of Hyundai's product line in Pakistan. HNMPL sold its first locally produced car in 2020 which was Hyundai Porter. Tucson production started in Aug-2020 followed by Sonata and Elantra in 2021

Operations The principal activity of the Company is to carry out the assembly and distribution of the Hyundai brand vehicles in Pakistan including passenger cars, light commercial vehicles, vans and others. Currently, the Company has a 21-dealership network in Pakistan.

Ownership

Ownership Structure The Nishat group collectively holds 44.14% shareholding through their different group of companies. SOJITZ Corporation holds 40.0% shareholding and 15.86% by Millat Tractors Limited.

Stability The presence of a leading group in Pakistan Nishat Group, Millat tractors- market leader in Agriculture tractors and machinery and SOJITZ corporation- a trading partner of Hyundai as a major shareholder of the Company provides comfort to the Ownership.

Business Acumen SOJITZ Corporation- one of the major shareholders of the Company is a leading Japanese general trading Company with globally recognized ~ 30 years expertise of in manufacturing and CKD assembling with OEMs.

Financial Strength Nishat is the leading premier business group in Pakistan. Nishat's total assets are about USD 16 bln, SOJITZ group has a ~USD 21bln asset base and Millat Tractors have a USD 0.09bln asset base.

Governance

Board Structure The board consists of eight members which include two executive and six non-executive directors. The composition of the board is like four members of the Nishat group, three from SOJITZ corporation and one from Millat tractors Limited. None of the Hyundai personnel is directly on the board.

Members' Profile All board members have a strong professional background. Three sponsors from Nishat group Mr. Raza Mansha, Mr. Hassan Mansah and Mr. Umer Mansha are the top-notch industrialist in Pakistan and have considerable exposure and expertise of more than 02 decades of running multiple lines of businesses successfully. Mr. Raza Mansha is the chairman of Board.

Board Effectiveness The board has one formal committee which is the Audit committee. The Composition of the committee is like one member from Nishat group, one from SOJITZ corporation and one from Millat Tractors Limited. All Company matters related to financials, operations, procurement, marketing and compliance are monitored and audited by them.

Financial Transparency A.F Ferguson & Co. ('A' category auditor in the SBP panel) is the external auditors of the Company and has issued an unqualified opinion on the audited statements CY21.

Management

Organizational Structure HNMPL has a lean organizational structure with an experienced management team. The departments are segregated into the following: (i) Sales & Marketing (ii) Accounts & Finance (iii) Production (iv) Procurement (v) Internal Audit (vi) IT, (vii) HR & (viii) Logistics. These all departments come under the umbrella of CFO and COO of the Company. CFO and COO are directly reportable to the CEO of the Company.

Management Team Mr. Mian Hassan Mansha is the CEO of the Company. He is a Pakistani industrialist who has been the head of 6 different companies of Nishat group. He has over 21 years of experience in different industries in Pakistan. Mr. Muhammad Aqib Zulfiqar is the CFO of the Company and possesses over 27 years of experience in different industries like Telecom, Hospitality etc.

Effectiveness The Company has a management committee in place, the admin steering committee. The frequency of meetings is need-based. The major function of the committee is the Strategic and Operational decision-making of HNMPL. The participants of the committee are CEO, CFO and COO.

MIS HNMPL is currently using SAP S4/Hana as its core ERP/Accounting software. This is the latest version of software currently offered by SAP. Some of the processes that we are using include Procure to Pay, Cash to Order, Procure to Production & FI. Furthermore, they are using IFS as their core software for recording Orders, Sales, After Sales & Customer Relationship Management.

Control Environment The Company has a well-trained quality control department which is responsible for ensuring product quality. HNMPL have three quality standards certifications which include ISO 9001-2015, ISO 14001-2015 and ISO 45001-2018. The Company has an internal audit department at group level headed by Mr. Ali Pervaiz (Head of the group internal audit department).

Business Risk

Industry Dynamics Pakistan Automotive Manufacturers Association (PAMA) recent statistical data revealed a ~40% decline in the sales of passenger cars during 1HFY23 (68,900 units sold) as compared to the same period last year (114,774 units sold). The dip was mainly caused by a consistent surge in the KIBOR impacting the car leasing segment, restrictions on the import of CKD kits and PKR devaluation against USD resulting in a rise in car prices (higher raw material costs and frequent price escalations).

Relative Position The Company is the initial player in the automobile assembling and manufacturing segment of Pakistan compare to previous three OEM's (Suzuki, Honda and Toyota). In a time span of 2 to 2.5 years the Company has produced 04 variants and captured market share of ~ 5.5% in terms of CKD's.

Revenues The Company has generated a revenue of PKR 34,299 mln during CY21 (CY20: PKR 7,365mln) as it mainly paced up its production and operating activities in 2021. During 9MCY22 the Company has achieved a topline of PKR 51,030mln. . Their four CKD products mainly contribute to the Company's topline. Their higher selling product in terms of volumes is Tucson, followed by Elantra, Hyundai Porter and Sonata from July-22 to Dec-22.

Margins The Company's gross margin is consistently improving over the last two years. During CY21 the Company had a Gross Margin of 8.3% (CY20: -17.3%) and in 9MCY22 it was 7.1%. Declining sales volumes and higher cost of imported raw materials mainly caused the slight dip in G.P margin. The Company has a net profit of PKR 1,352mln during CY21 and PKR 966mln in 9MCY22.

Sustainability The Company expected to gain its market share gradually without compromising its margins and its elite segment class of product. To achieve this target the Company will expand its dealership network, unloading debt from its balance sheet to minimize finance costs and the launch of some new variants are expected in the near future.

Financial Risk

Working Capital HNMPL has efficiently managed its working capital requirements as the Company is in its expansion phase. The Company net working capital days have improved and stood at 63 days as of CY21 (CY20: 125 days) and 9MCY22 was 71 days mainly on the back of maintaining optimal inventory levels. During 9MCY22 the Company's short-term trade leverage stands at 43.0% reflecting sufficient room to borrow.

Coverages During CY21, the Company had Free Cashflow from Operations (FCFO) of PKR 4,641 mln and continues to generate sufficient cash flows from its operations which was also depicted by PKR 3,105mln FCFO during 9MCY22. T The Company has an FCFO to Finance cost ratio of 7.0x dip during 9MCY22 mainly on the back of a surge in KIBOR (results in higher finance cost of PKR 1,371mln from PKR 850mln).

Capitalization The Company has a leverage Capital structure of 62.5% during CY21 and 68.7% in 9MCY22. In 9MCY22 the Company's short-term borrowings constitute 41.0% of the total borrowings. HNMPL has long-term borrowings of PKR 10,447mln during 9MCY22 (CY21: PKR 12,306mln) and short-term borrowings (STB) of PKR 8,876mln in 9MCY22 (CY21: 2,073mln). As per the financial information shared by HNMPL management, the Company has settled all its short-term loans and paid off PKR 1.0bln long-term loan as of January-2023.



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Financial Summary

PKR mln

Hyundai Nishat Motor (Pvt.) Limited Passenger Cars	Sep-22 9M	Dec-21 12M	Dec-20 12M	Dec-19 12M
A BALANCE SHEET				
1 Non-Current Assets	18,311	17,960	13,465	11,302
2 Investments	-	2,009	1,443	-
3 Related Party Exposure	-	27	15	-
4 Current Assets	26,049	19,018	9,381	2,692
a Inventories	21,254	10,471	4,608	980
b Trade Receivables	15	46	20	3
5 Total Assets	44,360	39,014	24,305	13,994
6 Current Liabilities	11,613	17,102	7,552	1,170
a Trade Payables	2,232	2,959	300	272
7 Borrowings	21,588	12,786	8,491	5,653
8 Related Party Exposure	46	197	1,340	362
9 Non-Current Liabilities	1,271	1,128	722	574
10 Net Assets	9,842	7,801	6,199	6,236
11 Shareholders' Equity	9,842	7,801	6,199	6,236
B INCOME STATEMENT				
1 Sales	51,030	34,299	7,365	238
a Cost of Good Sold	(47,406)	(31,453)	(7,722)	(198)
2 Gross Profit	3,624	2,845	(357)	39
a Operating Expenses	(1,072)	(1,132)	(861)	(533)
3 Operating Profit	2,553	1,714	(1,218)	(493)
a Non Operating Income or (Expense)	(16)	608	200	36
4 Profit or (Loss) before Interest and Tax	2,537	2,322	(1,019)	(457)
a Total Finance Cost	(1,371)	(850)	(937)	(76)
b Taxation	(200)	(121)	(337)	(17)
6 Net Income Or (Loss)	966	1,352	(2,293)	(550)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	3,105	4,641	(29)	(410)
b Net Cash from Operating Activities before Working Capital Changes	2,222	3,828	(1,282)	(539)
c Changes in Working Capital	(17,601)	(287)	3,661	(815)
1 Net Cash provided by Operating Activities	(15,379)	3,541	2,379	(1,353)
2 Net Cash (Used in) or Available From Investing Activities	917	(6,029)	(4,521)	(8,338)
3 Net Cash (Used in) or Available From Financing Activities	9,768	4,469	5,032	10,103
4 Net Cash generated or (Used) during the period	(4,694)	1,981	2,890	411
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	98.4%	365.7%	2998.5%	--
b Gross Profit Margin	7.1%	8.3%	-4.9%	16.6%
c Net Profit Margin	1.9%	3.9%	-31.1%	-231.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-28.4%	12.7%	49.3%	-515.0%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shar	14.6%	19.3%	-36.9%	-8.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	85	81	139	1510
b Net Working Capital (Average Days)	71	63	125	1092
c Current Ratio (Current Assets / Current Liabilities)	2.2	1.1	1.2	2.3
3 Coverages				
a EBITDA / Finance Cost	3.1	7.7	0.4	-23.8
b FCFO / Finance Cost+CMLTB+Excess STB	2.3	5.0	0.0	-27.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	4.7	2.7	-11.6	-14.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	68.7%	62.5%	61.3%	49.1%
b Interest or Markup Payable (Days)	28.7	5.6	3.2	7782.3
c Entity Average Borrowing Rate	8.6%	5.8%	10.2%	0.2%

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.

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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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(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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(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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(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)

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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

(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)

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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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