



The Pakistan Credit Rating Agency Limited

Rating Report

Hyundai Nishat Motor (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Feb-2024	A+	A1	Stable	Maintain	-
21-Feb-2023	A+	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Hyundai Nishat Motor (Pvt.) Limited's ("the Company" or "HNMPL") ratings reflect a strong financial strength and business profile of the sponsors as the company is a Joint Venture among three leading business groups: Nishat Group, SOJITZ Corporation (Japan), and Millat Tractors Ltd. The presence of Pakistan's eminent business conglomerate, Nishat Group, and Japan's leading general trading Company- Sojitz Corporation (a trading partner of Hyundai in Pakistan) having expertise in auto parts manufacturing and trading, as the major shareholders provide comfort to the ownership of the company. HNMPL's core operations are to assemble and distribute a range of Hyundai brand vehicles in Pakistan, including passenger cars, light commercial vehicles, vans, and others.

The Company operates in the premium segment of cars which comprises vehicles in the C-segment (Hyundai Elantra, Hyundai Tucson), D-segment (Hyundai Sonata, Hyundai Santa Fe), and Pickups (Hyundai Porter) in terms of CKDs and Light commercial vehicles (Hyundai Staria) in terms of CBU. During CY23, Hyundai introduced its locally assembled 7-seater HEV, Hyundai Santa Fe, to cater to the growing demand for Hybrid vehicles in the market. The board of HNMPL comprises highly experienced members with extensive technical expertise and a strapping industry-specific experience. The board effectively provides strategic advisory and oversight augmented by a team of professionals and industry specialists to run the Company's operations.

During recent years, the automobile sector of Pakistan has witnessed a significant downturn on the back of dwindling macroeconomic factors including high inflation and extensive PKR depreciation coupled with elevated interest rates, these have increased the cost of imported raw materials and finance costs and triggered substantial price hikes. Non-lucrative vehicle financing and high inflation have also diminished the purchasing power of consumers. As per PAAMA's statistics, a substantial decline of ~64% was witnessed in the vehicles' sales during CY23. (82,216 units sold in CY23 compared to 227,407 units sold in CY22) Although, a relatively new player, the Company has introduced 05 CKD variants in a brief time. In terms of volume, Tucson is their prime selling product, followed by Porter, Elantra, Sonata, Staria and Santa Fe.

As per the financial information shared by HNMPL management, the company's topline has shown a decline of 12%. However, the profitability margins have improved at all levels. HNMPL has offloaded a significant portion of its borrowings through the injection of PKR 9,000mln as equity. The Company's financial risk profile is considered good with comfortable coverages, cashflows, and a stretched working capital cycle depicting industry's norm. Capital structure is leveraged where borrowings are mainly comprised of long-term to support BMR.

The ratings are dependent upon sustainability in the Company's revenue growth, profitability margins, 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

Name of Rated Entity	Hyundai Nishat Motor (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jul-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Passenger Cars(May-23)
Rating Analysts	Sohail Ahmed Qureshi sohail.ahmed@pacra.com +92-42-35869504

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, a Nishat Group company, is a joint venture among three leading international businesses; Nishat Group, Sojitz Corporation (Japan), and Millat Tractors Ltd. Hyundai It carries out the manufacturing, marketing, and distribution of Hyundai's product line in Pakistan. HNMPL produced its first Car in 2020 which was Hyundai Porter. Afterward, the company has been steadily expanding its product portfolio which has now reached 6 products.

Operations The Company's principal activity 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 network of 23 dealerships in 14 cities in Pakistan.

Ownership

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

Stability The presence of a leading business group in Pakistan-Nishat Group, Millat Tractors Ltd- a market leader in Agriculture tractors and machinery, and SOJITZ Corporation- a trading partner of Hyundai as a major shareholder of the Company provides strength and stability to the ownership structure of the company.

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

Financial Strength The presence of renowned business groups like Nishat and SOJITZ Corporation as the major shareholders provides substantial financial strength to HNMPL.

Governance

Board Structure The board consists of eight members which include two executive and six non-executive directors. The board's composition is five members of the Nishat group, two from SOJITZ corporation and one from Millat Tractors Limited. None of the Hyundai personnel is directly on the board. The board comprises 2 executive and 6 non-executive directors.

Members' Profile All board members have a strong professional background. Three sponsors from the Nishat group Mr. Raza Mansha, Mr. Hassan Mansha, and Mr. Umer Mansha are top-notch industrialists 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 the Board.

Board Effectiveness The board has one formal committee which is the Audit committee. it comprises one member from the Nishat group, one from SOJITZ corporation, and one from Millat Tractors Limited. All Company-related 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 auditor of the Company and has issued an unqualified opinion on the financial statements CY22. The audit of the financial statements for CY23 is in process.

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. All these departments come under the umbrella of the CFO and COO of the company, these two 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 led 6 different companies of the Nishat group. He has over two decades of experience in various industrial sectors in Pakistan. Mr. Aqib Zulfiqar is the CFO of the company and possesses over 2 decades of experience in different sectors 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 they 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 has three quality standards certifications which include ISO 9001-2015, ISO 14001-2015, and ISO 45001-2018. The Company has an internal audit department at the group level. HNMPL is also subject to surprise visits by Hyundai Motors (Korea) teams to ensure quality control.

Business Risk

Industry Dynamics The passenger cars, inclusive of Jeeps and Pick-ups, have observed a dip of 54.56% in volumetric sales during FY23 (126,878 units sold) compared to the last year (279,267 Units sold). The dip was mainly caused on the back of import restrictions causing disruptions in the supply chains of various players eventually forcing the companies to observe non-production days multiple times, resulting in constraints in supply. Moreover, a consistent surge in KIBOR impacted the car leasing segment, and PKR devaluation resulted in a surge in car prices, economic recession, and inflationary impact dented the purchasing power of consumers, thus reducing demand. High energy and raw material costs, the latter due to the PKR depreciation increased the cost of imported CKDs led to the dilution in profitability.

Relative Position Although a relatively newer player in the automobile assembling segment of Pakistan compared to the previous three OEMs, HNMPL has introduced 6 products in a brief span of 4 years. Moreover, it has constantly improved its market share in terms of volume to ~7% in CY23 (~5%, CY22) despite extensive competition from traditional players as well as Chinese products, especially in the SUV segment, which implies increasing acceptance of the brand by consumers.

Revenues The company's topline has shown a decline of 12% YoY in CY23 and clocked in at PKR 52,132m (PKR 59,269m, CY22). A significant decrease in sales volume of 32.5% in CY23 (8,764 units, CY23: 12,997 units, CY22) owing to dampened demand, proved to be a major constraint to revenue growth.

Margins The company's gross margin increased to 8.6% in CY23 (7%, CY22), that is mainly attributable to price hikes as evidenced by an increase of ~30% in the ARPUs during CY23. The net profit margin of the company also increased to ~2.4% in CY23 (0.5%, CY23) owing to the mitigation of the impact of elevated interest rates by reducing short-term borrowings through the injection of equity and supplementary income from short-term investments.

Sustainability The Company has launched a comprehensive range of products including passenger cars, SUVs, and light commercial vehicles to target a broad customer base. It is also expanding its dealership network and has launched the first locally assembled 7-seater HEV in Pakistan. The company has also successfully offloaded a significant portion of debt from its balance sheet by injecting equity resulting in decreased finance costs which will contribute to the financial sustainability of HNMPL in the future.

Financial Risk

Working Capital The company's Gross working capital days increased to 148 days in CY23 (95 days, CY22) whereas net working capital days increased to 134 days in CY23 (79 days, CY22). The Increase was witnessed owing to an increase in inventory days signifying the company's decision to maintain optimal inventory levels to mitigate the effects of import restrictions and continuous PKR depreciation as it is reliant on imported CKDs.

Coverages HNMPL's FCFO increased to PKR 6,989m during CY23 (PKR 6,942m, CY22) on account of an increase in EBITDA. Consequently, the company's FCFO to finance costs remained steady at 3.4x in CY23 (3.4x, CY22). While total debt payback also improved on the back of decrease in borrowings and increased profitability.

Capitalization The company has significantly improved its leverage to 40.3% during CY23 (57.5%, CY22) by injecting equity and offloading its short-term borrowings, which constitute only 9% of its total borrowings (40.8%, CY22). The company has long-term borrowings of PKR 10,706m in CY23 (PKR 12,694m, CY22).



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Hyundai Nishat Motor (Pvt.) Limited Passenger Cars	Dec-23 12M	Dec-22 12M	Dec-21 12M
A BALANCE SHEET			
1 Non-Current Assets	19,485	18,320	17,960
2 Investments	1	7,404	2,009
3 Related Party Exposure	-	22	27
4 Current Assets	29,064	24,052	19,018
<i>a Inventories</i>	21,441	19,953	10,471
<i>b Trade Receivables</i>	481	307	46
5 Total Assets	48,550	49,798	39,014
6 Current Liabilities	14,649	8,748	17,102
<i>a Trade Payables</i>	1,846	2,161	2,959
7 Borrowings	12,902	22,908	12,786
8 Related Party Exposure	175	146	197
9 Non-Current Liabilities	1,450	940	1,128
10 Net Assets	19,376	17,057	7,801
11 Shareholders' Equity	19,376	17,057	7,801
B INCOME STATEMENT			
1 Sales	52,132	59,269	34,299
<i>a Cost of Good Sold</i>	(47,655)	(55,101)	(31,453)
2 Gross Profit	4,477	4,168	2,845
<i>a Operating Expenses</i>	(1,623)	(1,573)	(1,132)
3 Operating Profit	2,854	2,595	1,714
<i>a Non Operating Income or (Expense)</i>	1,095	268	608
4 Profit or (Loss) before Interest and Tax	3,949	2,863	2,322
<i>a Total Finance Cost</i>	(2,248)	(2,213)	(850)
<i>b Taxation</i>	(474)	(376)	(121)
6 Net Income Or (Loss)	1,226	274	1,352
C CASH FLOW STATEMENT			
<i>a Free Cash Flows from Operations (FCFO)</i>	6,989	6,942	4,641
<i>b Net Cash from Operating Activities before Working Capital</i>	4,537	5,019	3,828
<i>c Changes in Working Capital</i>	3,513	(21,388)	(287)
1 Net Cash provided by Operating Activities	8,050	(16,369)	3,541
2 Net Cash (Used in) or Available From Investing Activities	4,568	(7,048)	(6,029)
3 Net Cash (Used in) or Available From Financing Activities	(8,937)	18,119	4,469
4 Net Cash generated or (Used) during the period	3,681	(5,297)	1,981
D RATIO ANALYSIS			
1 Performance			
<i>a Sales Growth (for the period)</i>	-12.0%	72.8%	365.7%
<i>b Gross Profit Margin</i>	8.6%	7.0%	8.3%
<i>c Net Profit Margin</i>	2.4%	0.5%	3.9%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working C</i>	20.1%	-24.4%	12.7%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (I</i>	6.7%	2.2%	19.3%
2 Working Capital Management			
<i>a Gross Working Capital (Average Days)</i>	148	95	81
<i>b Net Working Capital (Average Days)</i>	134	79	63
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.0	2.7	1.1
3 Coverages			
<i>a EBITDA / Finance Cost</i>	3.6	3.5	7.7
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.2	2.4	5.0
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi</i>	2.4	2.8	2.7
4 Capital Structure			
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity</i>	40.3%	57.5%	62.5%
<i>b Interest or Markup Payable (Days)</i>	9.0	54.7	5.6
<i>c Entity Average Borrowing Rate</i>	12.9%	11.3%	5.8%

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

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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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- (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)
- (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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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