

PAKISTAN

August 27, 2020

## Foundation Alert

### INDU Analyst Briefing Key Takeaways

#### Event

- Indus Motor Company (INDU PA) held an analyst briefing yesterday to discuss the results for 4QFY20 along with the future outlook of the company.

#### Impact

- INDU's net sales declined by 74% YoY from Rs39.9bn in 4QFY19 to Rs10.3bn in 4QFY20 primarily due to decline in volumes. The company's margins also slumped by 13.6/15.3ppts YoY/QoQ due to low fixed cost coverage, weakened rupee and high duties and taxes.
- Imported vehicles have shown a sequentially rising trend as volumes hit a high of 1628 units during May'20 compared to a low of 164 units during July'19.
- Presently, INDU has been operating on single shift basis with a backlog of 2-2.5 months and plans to start operating on double shift basis from Sept'20.
- As per the management, the demand for vehicles still seems uncertain due to which the end of 1QFY21 would be a better time to comment on the demand trend.
- Demand via auto financing currently stands at 30% and has the potential to increase in the future, as per the management. To highlight, demand via auto financing touched 70% in 2005.
- The company aims to protect its margins and would pass on rising costs due to devaluation if the situation arises and the current market conditions persist.
- INDU plans to increase its production capacity to 80k units from the current 66k units. The management also stated that overall capacity would be enhanced to 90-100k units overtime.
- The management stated that Corolla Cross will be imported as a CBU and is expected to be launched during CY20.
- The management stated that there have been no talks with the government regarding Minister of Science and Technology's tweet which claimed setting certain standards for locally assembled vehicles.

#### Outlook

- We have a positive stance on the stock as a 625bps cut in policy rate would encourage demand via auto-financing while the new Yaris could generate additional sales for the company due to its new vehicle novelty factor and by directly competing with Honda City. However, growth in demand would be restricted due to high prices and increased competition while a decline in interest rates would limit other income.

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Table 01: INDU 4QFY20 earnings review

Income Statement (Rs mn)		4QFY20	4QFY19	YoY%	3QFY20	QoQ%	FY20	FY19	YoY%
Net Sales	Rsmn	10,337	39,925	-74%	33,055	-69%	86,167	157,996	-45%
COGS	"	10,661	35,749	-70%	29,047	-63%	78,716	138,805	-43%
<b>Gross Profit</b>	"	<b>(325)</b>	<b>4,176</b>	-108%	<b>4,008</b>	-108%	<b>7,451</b>	<b>19,192</b>	-61%
Distribution Expenses	"	232	442	-47%	499	-53%	1,469	1,469	0%
Administration Expenses	"	353	373	-5%	341	4%	1,385	1,344	3%
<b>Operating Profit</b>	"	<b>(910)</b>	<b>3,361</b>	-127%	<b>3,168</b>	-129%	<b>4,597</b>	<b>16,378</b>	-72%
Other Income	"	868	1,150	-25%	1,110	-22%	3,205	4,307	-26%
Other Expense	"	(261)	421	-162%	357	-173%	429	1,641	-74%
<b>EBIT</b>	"	<b>218</b>	<b>4,090</b>	-95%	<b>3,922</b>	-94%	<b>7,373</b>	<b>19,044</b>	-61%
Finance Cost	"	31	(65)	-148%	16	93%	86	67	27%
<b>PBT</b>	"	<b>187</b>	<b>4,155</b>	-96%	<b>3,906</b>	-95%	<b>7,287</b>	<b>18,976</b>	-62%
Tax	"	88	697	-87%	1,227	-93%	2,205	5,261	-58%
<b>Net Profit</b>	"	<b>99</b>	<b>3,458</b>	-97%	<b>2,679</b>	-96%	<b>5,082</b>	<b>13,715</b>	-63%
EPS		1.25	44.00		34.09		64.66	174.49	
DPS		7.00	27.50		10.00		30.00	115.00	
Gross Margins	%	-3.1%	10.5%		12.1%		8.6%	12.1%	
Net Margins	"	1.0%	8.7%		8.1%		5.9%	8.7%	
Effective Tax rate	"	47%	17%		31%		30%	28%	

Source: Company Accounts, Foundation Research, August 2020

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If	
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Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.