

Indus Motor Company Limited

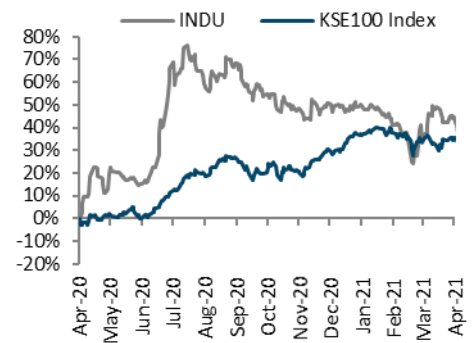
9MFY21: CORPORATE BRIEFING SESSION

Higher CKD sales and change in sales mix increase earnings by 69% YoY

Indus Motor Company Limited (INDU) held its analyst briefing session today to discuss the key outcomes of 3QFY21 and 9MFY21 results. To recall, the company posted PAT of PKR 3.6Bn (EPS: PKR 46.0) in 3QFY21 (↑35/22% YoY/QoQ), taking the 9MFY21 earnings to PKR 8.4Bn (EPS: PKR 107.1) (↑69% YoY). The company also announced a DPS of PKR 30/sh, taking total 9MFY21 dividend payout to PKR 67/sh. Key highlights of the session are discussed below:-

- During 9MFY21, INDU increased its market share to 23.5% (↑2.4% YoY) and sold 42,988 vehicles (↑67% YoY). The sales increased to PKR 131.2Bn (↑67% YoY) due to overall higher CKD sales and change in sales mix (higher sales of Corolla, Hilux and Fortuner).
- Despite higher sales, the gross margins declined to 8.2% in 9MFY21, compared to 10.3 SPLY, due to higher cost of raw material procurement.
- As Yaris constitutes of ~60% of the total sales of INDU, the launch of the new Honda City should impact sales adversely. However, delivery times of the City'21 will be rather long, while the Yaris is currently available for delivery in less than 1-2 months, which may entice buyers to choose INDU's offering.
- After the immense demand of the new Corolla'21, the company has also launched facelifted version of the Fortuner and Hilux. The management stated that the delivery times will be around 4 months due to overwhelming demand.
- The company has been operating on a double shift capacity to meet demand. INDU had already announced expansion of its total capacity to 80K units from its current capacity of 65k units (Capex of PKR 4-5Bn). This was expected to come online by Sep'20 but was delayed due to the pandemic.
- INDU faced shipment/container delays from Nov'20-Feb'21, but its supply chain team kept margins in check while maintaining delivery times. Going forward, the international supply chain disruption is under control and the company is also not severely affected by the global semi conductor shortage.
- The appreciating PKR offset the increasing commodity prices (Steel, plastic resin, copper, aluminium, etc) in the 9MFY21. However if the commodity price fail to stabilise, INDU may increase vehicle prices to pass on cost.
- The new auto policy is under discussion. Wherein, INDU has advised the policy makers to remove Federal Excises Duty (FED) and Additional Custom duty (ACD) to stabilize automobile industry.
- INDU has also requested for a hybrid vehicle policy with strong incentives to setup plant in Pakistan. The management also stated that the cost of assembling the same vehicle, if the only difference is its engine option (Hybrid vs ICU), does not require a large capex as most parts of the hybrid vehicle will be imported.
- The management estimates the automobile market to grow to 0.24/0.30Mn units by the end of FY21/22 and effortlessly to 0.5Mn units by FY26-27. This should allow for all existing and new local players to maintain steady growth.

INDU vs. KSE 100 Index



%	3M	6M	12M
Absolute	(4)	(5)	17
Relative to KSE	0	(16)	(17)

Source: PSX

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Buy	>15% expected total return
Hold	10%-15% expected total return
Underperform	<10% expected total return
*Total stock return = capital gain + dividend yield	

Old rating system

Overweight	Total sector return > expected market return
Marketweight	Expected market return
Underweight	Total stock return < expected market return

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)