PAKISTAN November 9, 2021

Foundation Alert

INDU: Analyst Briefing Takeaways

Event

- Indus Motor Company Ltd (INDU PA) held its Analyst briefing today to discuss its financial/operational performance for 1QFY22 and outlook of the company. Following are the key takeaways of the briefing.

Impact

- Indus Motor Company Ltd (INDU PA) profitability clocked in at Rs5.43bn (EPS 69.0) in 1QFY22 as compared to profit of Rs1.85bn (EPS Rs23.5) in 1QFY21, increasing by 194% YoY. The result was accompanied by interim cash dividend of Rs35/sh.
- Net sales for quarter clocked in at Rs65bn (↑92/37% YoY/QoQ) for 1QFY21. The increase in sales was accredited to (1) volumetric increase of 59/28% YoY/QoQ, and (2) higher number of CBUs sold.
- Volumetric sales for 1QCY21 clocked in at 18,646 units. Product wise Corolla/Yaris increased by 83/20% to 3,614/6,009 units sold. Similarly, Fortuner/Hilux registered 1,601/3,209 units sold.
- Management also shared the price increase effective tomorrow for new booking, however previous booking would be sold at previous price. The price increase would be because of rupee depreciation and high freight and commodity charges.
- On the demand front, management expects the total demand for automobile to touch 350,000 units sold in FY22 in the industry, despite SBP regulations to curtail auto financing.
- Supply chain issue for INDU would remain minimal as early procurement of units and better inventory management would keep orders up to commitment.
- Management also shared localization would a component of cost effectiveness and to curtail margins.
- Management also credited the increase in profitability to higher return on placement due to increased fund position mainly due to increase in advances from advances.
- To highlight, INDU reported other income of Rs2bn mainly driven from cash and short-term investment. Company cash and short-term investments stand at Rs107bn as per Quarter ended sept'21.
- Management also discussed dividend payout to remain range bound given INDU's plan for expansion and growth.

Outlook

- INDU expansion plans would give further edge to the market penetration in the luxury crossover SUV segment. Moreover, we expect the margins to stay depressed given depreciation of rupee in the near term, but catalytic growth induced by gov't policies that would keep volumes upbeat.
- We have an outperform stance on the stock with June-22 TP of Rs1,651/sh.

Fig 01: INDU 1QFY22 Key Financial Highlights (Rs mn)

Rs mn	1QFY22	1QFY21	YoY	4QFY21	QoQ
Net sales	65,552	34,195	92%	48,002	37%
COGS	58,480	31,907	83%	42,106	39%
Gross Profit	**7,072**	**2,288**	**209%**	**5,896**	20%
Distribution expenses	456	226	102%	653	-30%
Admin expenses	467	316	48%	402	16%
Other operating expenses	486	155	214%	101	382%
Other income	2,047	1,089	88%	1,686	21%
Finance costs	29	34	-16%	54	-47%
Profit before taxation	**7,683**	**2,645**	**190%**	**6,373**	21%
Taxation	2,258	800	182%	1,959	15%
Profit after taxation	**5,425**	**1,845**	**194%**	**4,414**	23%
EPS	**69.0**	**23.5**		**56.2**	
DPS	35	7		22	
Gross Margins	10.8%	6.7%		12.3%	
Net Margins	8.3%	5.4%		9.2%	
Effective Tax Rate	29.4%	30.3%		30.7%	

Source: PSX, Company accounts, Foundation Research, Nov 2021

Analyst

Haris Siddiqui research@fs.com.pk
+92 21 3561 2290-94 Ext 339

Important disclosures:

Disclaimer: This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

Research Dissemination Policy: Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Target price risk disclosures: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification: The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Recommendations definitions

If

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