

## 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 9MFY23 and outlook of the company. Following are the key takeaways of the briefing.

#### Impact

- INDU reported net sales of Rs135.0bn (down 33.6% YoY) and profit after tax of Rs5.84bn (down 61.8% YoY) in 9MFY23 due to lower CKD and CBU sales volumes, mainly due to restrictions imposed by SBP on Imports, and an increase in input costs which were driven by severe devaluation of PKR against USD and rising production costs.
- INDU sales/production volume clocked in at 26,055/26,848 units in 9MFY23, down 55/51% YoY.
- Gross margin declined to 0.15% in 9MFY23 from 8.6% in 9MFY22 which is primarily on account of Rupee depreciation and rising international commodity prices, while impact was not passed onto the customers, to maintain the company's commitments.
- The decline in profitability was offset by higher other income, resulting from higher interest rates compared to 9MFY22.
- Management informed that Auto sector continues to experience significant downturn due to unprecedented depreciation of PKR, deteriorating economic conditions, higher interest rate, and higher duties & taxes.
- Management stated that (1) continued volatility of PKR against USD, (2) tighter fiscal/monetary measures and excessive inflation, and (3) low consumer purchasing power, might continue to negatively affect the auto sector sales volume in the upcoming periods.
- Management mentioned that the company has requested the Gov't to observe policy consistency in policymaking, particularly regarding Hybrid incentives provided in AIDEP 2021-2026. The company has already made significant investments in Hybrid vehicles based on these incentives, and the progress of investments are in accordance with the planned schedule.
- Management also recommends the suspension of payment against compensation for delayed delivery over 60 days, which is KIBOR+3% to customers, as the delays are primarily due to import restrictions, being force majeure.

#### Outlook

- We expect INDU profitability to struggle in near term amid (1) imposition of import restrictions by Gov't and (2) dampening of car demand due to elevated interest rates, high car prices, high fuel prices and rupee depreciation. However, higher number of pre bookings along with strong cash position would help it to sustain through the tough time, and thus we have an "Outperform" stance on the stock.

## INDU: 3QFY23 Result Review

Rs mn	3QFY23	3QFY22	YoY	QoQ	9MFY23	9MFY22	YoY
<b>Net sales</b>	48,199	68,223	-29%	-3%	135,033	203,407	-34%
COGS	45,154	62,991	-28%	-10%	134,836	185,840	-27%
<b>Gross Profit</b>	<b>3,045</b>	<b>5,231</b>	<b>-42%</b>	<b>-721%</b>	<b>197</b>	<b>17,568</b>	<b>-99%</b>
Distribution expenses	449	372	21%	28%	1,171	1,246	-6%
Admin expenses	584	590	-1%	3%	1,600	1,519	5%
Other operating expenses	169	370	-54%	117%	372	1,267	-71%
Other income	3,036	3,183	-5%	-12%	11,653	7,732	51%
Finance costs	41	17	138%	-17%	110	76	44%
<b>Profit before taxation</b>	<b>4,838</b>	<b>7,065</b>	<b>-32%</b>	<b>152%</b>	<b>8,598</b>	<b>21,192</b>	<b>-59%</b>
Taxation	1,621	1,947	-17%	175%	2,754	5,899	-53%
<b>Profit after taxation</b>	<b>3,216</b>	<b>5,118</b>	<b>-37%</b>	<b>142%</b>	<b>5,844</b>	<b>15,292</b>	<b>-62%</b>
<b>EPS</b>	<b>40.92</b>	<b>65.11</b>			<b>74.4</b>	<b>194.6</b>	
<b>DPS</b>	24.4	26.0			42.8	90.5	
<b>Gross Margins</b>	6.3%	7.7%			0.1%	8.6%	
<b>Net Margins</b>	6.7%	7.5%			4.3%	7.5%	
<b>Effective tax rate</b>	33.5%	27.6%			32.0%	27.8%	

Source: PSX, Company accounts, Foundation Research, May 2023

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