BUSINESS RECORDER KARACHI WEDNESDAY 11 SEPTEMBER 2013

Agriauto Industries Limited

Introduction

Agriauto Industries Limited (AGIL) is a public limited company incorporated in 1981 and quoted on the Karachi and Lahore Stock Exchanges. The Company is part of the House of Habib Group, one of the largest and most diversified conglomerates in the country. The Group is also the co-owner of the Indus Motors Company, a joint-venture between itself and Toyota Corporation, Japan.

AGIL Pakistan is one of the leading automotive components manufacturers in the private sector and the first company in Pakistan to acquire the TS16949 certification. Its technical collaborations with leading international companies, especially with Toyota Indus, an associated company, have added to its technical versatility. The Company is engaged in both Original Equipment Manufacturing (OEM) and after-market, and is a leading name in the former category. The Company manufactures components for automotive vehicles, motor cycles and tractors.

Its product range consists of shock absorbers and struts, pipe fork, McPherson assembly, cylinder reserves, Gaskets, Camshafts, Door lock and hinge sand steering box. The Company's major customers list consists of Indus Motors Company, Pak Suzuki Company, Hino Pak Motors, Dewan Farooq Motors Limited, Dawood Yamaha, Atlas Honda Limited and Sorhab Motorcycle.

Financial performance in FY2013

Demand for Agriauto's products is primarily dependent on the demand for automotive industry including cars, trucks and motorcycles. After registering a fleeting recovery in 2011, sales for Agriauto's products declined considerably in the year ending June. This is due to the fact that sales of locally assembled cars in FY13 were the lowest since FY09, according to data released by PAMA.

AGIL's top line for the outgoing fiscal fell by 18 percent year on year to just under Rs3.5 billion. This was the firm's lowest sales turnover since FY09. Because the Company was unable to lower the cost of sales by a corresponding measure, its gross margins were shaved by six basis points, year on year.

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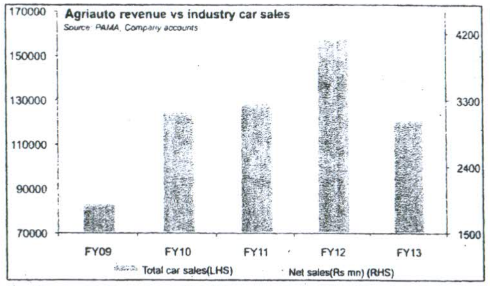
Rs(mn)	FY13	FY12	FY11
Net sales	3504	428[illegible]	3980
Cost of sales	2929	3361	3171
Gross profit	575	926	809
Gross margin	16%	22%	20%
Distribution expenses	55	62	58
Administrative expenses	129	110	89
Other charges	33	70	57
Other income	81	147	68
Net profit	309	585	439
EPS (Rs)	10.74	20.31	15.24

Source: KSE notice

The domestic auto sector had been under pressure for a while, as the outgoing government's inconsistent policy on the import of used cars resulted in ambiguity in the market. Dealers flooded the market with imported cars after the announcement of an amnesty scheme by the past government. Buyers benefited from the low duty rates that sent shocks through the local automotive industry.

Consequently, domestic assemblers witnessed a huge decline of 25 percent in sales from 157,325 units in 2011-12 to 118,830 units in 2012-13, leading to a drastic fall in sales of auto parts in the country.

The reversal of the policy in the quarter ending March brought relief but not enough to turn around the shortfall incurred in the first half of the year 2012-2013. For AGIL, reduction in other income trumped the fall in other expenses. Consequently, the Company's net profit fell to Rs309.4 billion; reminiscent of levels last seen four years ago.



Aiming for growth in tough times

Looking ahead the construction of a new facility at Port Qasim Industrial Area continues as per schedule for the Agriauto Stamping Company (Pvt.) Ltd. ASC is a wholly owned subsidiary of Agriauto Industries, being set up for carrying out the business of stamping of sheet metal parts, and other sub-assembly operations.

The facility is expected to commence production on July 2014 and is expected to help diversify the firm's business into the auto industry enabling it to earn sizable other income apart from its core business operations.

Also in the more immediate term, and keeping in mind that AGIL's fate is closely linked to sales of locally assembled automotives, the coming fiscal may hold more promise than FY13, as the wounds inflicted by massive influx of imported cars begin to heal and local sales begin to rise.

Then again, one of the risks to this is the reversal of monetary policy that can potentially damage the grecn shoots in auto sector lending by the banks, and, therefore, dash the hopes of growth in auto sales.