

**Indus Motor Company Limited**  
Result Review

PSX: INDU Bloomberg: INDU:PA Reuters: INDM: KA

Pakistan Research

**INDU: 2QFY23 earnings reported at PKR 16.9/share, DPS at 10.2**

- INDU announced its 2QFY23 financial results today, wherein the company posted an unconsolidated PAT of PKR 1.3bn (EPS PKR 16.9) vs PAT of PKR 4.7bn (EPS 60.4) in SPLY, depicting a 71% YoY decline in profitability. This takes 1HFY23 earnings to PKR 33.4/share, down 74% YoY. Along with the result, INDU announced interim cash dividend of PKR 10.2/share. This takes cumulative 1HFY23 dividend to PKR 18.4/share.
- The company recorded a 29% YoY decline in its topline to PKR 49.6bn during 2Q, mainly on account of 51% YoY lower volumetric sales. To highlight, combined volume of Corolla and Yaris went down by 63% YoY during the period under review.
- INDU, during the 2Q, reported gross loss of PKR 491mn with margin clocking in at -1.0% vs 7.6% during SPLY. This is mainly on account of higher production cost as a result of PKR devaluation against USD.
- Other income increased by 38% YoY to PKR 3.5bn on the back of higher cash base coupled with elevated interest rates.
- Effective tax rate during 2Q remained higher at 30.7% vs 26.3% in SPLY, further restricting the bottomline growth.
- On sequential basis, INDU's earnings grew by 3% QoQ mainly on account of recovery in gross margins. Just to recall, the company booked gross loss of PKR 1.4bn in previous quarter with gross margin settling in at -6.3%.
- We have a "BUY" recommendation on INDU. Our Dec-23 PT of PKR 974/share provides an upside of 14% along with a dividend yield of 5%.

**Key Data**

PSX Ticker	INDU
Target Price (PKR)	974
Current Price (PKR)	855
Upside/(Downside) (%)	+ 14%
Dividend Yield (%)	+ 5%
Total Return (%)	+ 19%
12-month High (PKR)	1,535
12-month Low (PKR)	800
Outstanding Shares (mn)	79
Market Cap (PKR mn)	67,204
Year End	June

Source: Company Accounts, Akseer Research

**Financial Highlights (PKR mn)**

	2QFY22	2QFY23	YoY	1HFY22	1HFY23	YoY
Net Sales	69,633	49,585	-29%	135,185	86,834	-36%
Cost of Sales	64,368	50,075	-22%	122,848	89,682	-27%
<b>Gross Profit</b>	<b>5,264</b>	<b>(491)</b>	<b>NM</b>	<b>12,336</b>	<b>(2,848)</b>	<b>NM</b>
Distribution Cost	418	351	-16%	874	723	-17%
Admin. cost	463	565	22%	929	1,015	9%
Other Income	2,502	3,454	38%	4,549	8,618	89%
Other expenses	411	78	-81%	897	203	-77%
Finance cost	30	49	64%	59	69	17%
<b>Profit before tax</b>	<b>6,444</b>	<b>1,921</b>	<b>-70%</b>	<b>14,127</b>	<b>3,760</b>	<b>-73%</b>
Taxation	1,694	591	-65%	3,952	1,132	-71%
<b>Net Income</b>	<b>4,750</b>	<b>1,331</b>	<b>-72%</b>	<b>10,175</b>	<b>2,628</b>	<b>-74%</b>
EPS	60.43	16.93	-72%	129.45	33.43	-74%
DPS	30.00	10.20		64.50	18.40	

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	64.7	163.2	201.0	101.9	176.3	164.7
EPS Growth	-62.9%	152.4%	23.2%	-49.3%	73.0%	-6.6%
DPS	30.0	103.5	93.8	46.0	79.0	74.0
PER	13.2	5.2	4.3	8.4	4.8	5.2
Dividend Yield	3.5%	12.1%	11.0%	5.4%	9.2%	8.7%
EV/EBITDA	10.7	7.1	7.4	11.4	6.8	7.3
P/B	1.6	1.4	1.2	1.1	1.0	0.9
ROE	12.3%	26.6%	29.3%	13.7%	20.9%	17.6%

Source: Company Financials, Akseer Research

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### Valuation Basis

Our PT for Indus Motor Company (INDU) has been computed using free cash flow to equity (FCFE) method. We have used a risk-free rate of 17%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 23%.

### Investment Thesis

We have 'BUY' recommendation on INDU. Our December-23 price target (PT) of PKR 974/share provides an upside of 14% along with a dividend yield of 5%. Our investment case on INDU is based on 1) accumulation of huge cash & cash equivalents resulting in higher other income amid rising interest rates 2) gradual recovery in sales volumes from FY24 onwards and 3) Being the first OEM to tap local HEV market providing an added trigger.

### Risks

Key risks to our investment thesis are 1) higher than anticipated increase in raw material cost, 2) Further slowdown in demand 3) more than anticipated PKR depreciation and 4) unfavourable government policies.

### Company Description

Indus Motor Company manufactures and markets Toyota brand vehicles in Pakistan. The main product offerings include several variants of the flagship 'Corolla' in the passenger cars category, 'Hilux' in the light commercial vehicles segment and 'Fortuner' Sports Utility Vehicle. IMC was incorporated in 1989 as a joint venture company between certain Hous of Habib Companies, Toyota Motor Corporation and Toyota Tsusho Corporation.

### Financial Highlights - INDU

Income Statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY24F
Net sales	86,167	179,162	275,506	179,897	213,254	236,761
Cost of sales	78,716	162,508	257,101	180,608	202,733	223,003
<b>Gross Profit</b>	<b>7,451</b>	<b>16,654</b>	<b>18,404</b>	<b>-711</b>	<b>10,521</b>	<b>13,758</b>
SG & A	2,854	3,084	4,343	4,972	5,315	5,587
<b>Operating Profit</b>	<b>7,373</b>	<b>18,333</b>	<b>25,567</b>	<b>12,074</b>	<b>20,806</b>	<b>19,463</b>
Other income	3,205	5,579	12,936	18,570	16,884	12,567
Other charges	429	817	1,430	814	1,285	1,276
Finance cost	86	134	114	116	124	136
<b>Profit before tax</b>	<b>7,287</b>	<b>18,199</b>	<b>25,453</b>	<b>11,957</b>	<b>20,682</b>	<b>19,326</b>
Taxation	2,205	5,371	9,651	3,946	6,825	6,378
<b>Profit after tax</b>	<b>5,082</b>	<b>12,829</b>	<b>15,802</b>	<b>8,012</b>	<b>13,857</b>	<b>12,949</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY24F
PPE	16,502	15,770	15,040	19,252	24,642	25,690
Non-Current Assets	16,661	19,194	23,834	28,860	35,146	37,177
Current assets	63,617	114,712	190,132	118,581	119,418	127,170
<b>Total Assets</b>	<b>80,279</b>	<b>133,906</b>	<b>213,965</b>	<b>147,441</b>	<b>154,564</b>	<b>164,348</b>
Non-Current liabilities	483	596	281	597	597	597
Current liabilities	38,626	84,959	159,673	88,153	87,628	90,279
<b>Total Liabilities</b>	<b>39,109</b>	<b>85,704</b>	<b>159,954</b>	<b>88,749</b>	<b>88,225</b>	<b>90,876</b>
Equity	41,169	48,201	54,011	58,692	66,339	73,472
<b>Total Equity &amp; liabilities</b>	<b>80,279</b>	<b>133,906</b>	<b>213,965</b>	<b>147,441</b>	<b>154,564</b>	<b>164,348</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY24F
Net Income	5,082	12,829	15,802	8,012	13,857	12,949
Non-cash Charges	2,839	3,123	3,380	1,830	2,338	2,681
<b>Operating Cash flows</b>	<b>24,756</b>	<b>49,615</b>	<b>76,848</b>	<b>(46,939)</b>	<b>11,720</b>	<b>14,678</b>
<b>FCFF</b>	<b>19,301</b>	<b>47,351</b>	<b>74,162</b>	<b>(52,921)</b>	<b>4,054</b>	<b>11,018</b>
Net borrowings	399	266	(466)	316	0	0
<b>FCFE</b>	<b>19,640</b>	<b>47,523</b>	<b>73,626</b>	<b>(52,683)</b>	<b>3,970</b>	<b>10,927</b>
Net change in cash	(2,111)	869	4,754	359	6,217	12,721
<b>Closing cash</b>	<b>1,171</b>	<b>2,040</b>	<b>6,794</b>	<b>7,153</b>	<b>13,370</b>	<b>26,091</b>

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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Rating	Expected Total Return
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Hold	Between -5% and +15%
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