



Indus Motors Co. (INDU): Recommend SELL

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Earnings dampener

Indus Motors reported 1HFY13 interim dividend of Rs 6/sh which was Rs 8/sh at the corresponding year wherein the company has also reported decrease in profitability unlike other peers such as Pak Suzuki and Atlas Honda Cars. The EPS slashed from Rs. 22.48/sh to Rs. 12.44/sh i.e. by whopping 45%, at the pretext of huge decrease of 27% decrease in sales as compared to reported sales in the corresponding year.

Coure discontinue its production

Decline of sales was mainly affected due to the discontinuation of production of *Coure* –one of the bestselling cars, middle income segment car. Production of *Coure* was discontinued because it was not matching with the Euro II standards.

Indus Motors - Profit and Loss Statement			
Rs 000'	1HFY13	1HFY12	Chg
Net Sales	24,279,322	32,999,571	-26%
Cost of Sales	22,528,089	30,524,458	-26%
Gross Profit	1,751,233	2,475,113	-29%
Distribution Exp.	353,830	302,634	17%
Admin Expenses	329,849	266,731	24%
Other operating Exp	122,790	205,147	-40%
Other Income	493,223	947,000	-48%
Operating Profit	1,437,987	2,647,601	-46%
Finance Cost	13,062	43,541	-70%
Profit Before Tax	1,424,925	2,604,060	-45%
Taxation	447,020	837,436	-47%
Profit After Tax	977,905	1,766,624	-45%
EPS	12.44	22.48	-45%
DPS	6.00	8.00	-25%

company recordings

A glance at operating results during 1HFY13

Whereas gross profit margin is also slightly decline from 7.5% to 7.2%. Whereas company showed a great decrease in the finance cost because company have paid some portion of its interest bearing debt. Decrease in sales also led to decrease in the other income because company received relatively low prepayment for the order of cars as compare to same period in last year because Company did not launch any new model in this period that's why it showed decline in net sales.

Positive growth in month of January

Company has performed quite well in term of sales in first month of third quarter. Currently company is assembling only one product in Pakistan that is *Toyota Corolla*. And recently company has launched new limited edition models of *Corolla GLi* and *GLi automatic* which have captured attention of buyers. According to PAMA's data it shows that company has produced 3418 units in only first month of 3rd quarter which was 4428 units in whole 2nd quarter. Whereas sales have showed drastic increase in first month of third quarter by selling 3296 units as compare to 5397 units sold in 3months period of second quarter. We believe that performance of INDU will be quite well in third quarter, as expected incremental demand of cars in Pakistan due to upcoming general election in Pakistan.

Toyota Corolla

Units	Oct-Dec	January
Production	4,428	3,418
Sales	5,397	3,296

Source: www.pama.org.pk

Valuation

INDU yields FY13 PE of 9.9x (based on our pretext of Rs 30.4/sh EPS forecast). Among peers PSMC is yielding 4.5x and HCAR is also yielding FY14 PE of 4x – 5x. Hence INDU is overvalued and we recommend SELL in INDU.

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