Al-Ghazi Tractors Limited

OVERVIEW (November 21, 2012) : *Brief Introduction:* Al-Ghazi Tractors Limited (AGTL) was incorporated in Pakistan in 1983. With its plant being located in Dera Ghazi Khan, AGTL produces more than 30,000 tractors per annum in a single shift. AGTL plant produces Fiat tractors in collaboration with Fiat New Holland. In 1991, the company's management was taken over by Al-Futtaim Group of Dubai. Headquartered in Dubai, Al-Futtaim is a well diversified group structured into seven divisions: automotive, electronics, engineering and technologies, retail, financial services, general services, real estate and joint ventures. The group has its operations across the UAE, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, Egypt, Pakistan, Sri Lanka, Syria, Singapore and Europe. Under Al-Futtaim's management, AGTL has bagged various accolades over the years including KSE top companies awards, MAP corporate excellence award and certificate of excellence in Industrial Energy Sector, to name only few. Besides these, AGTL is also honoured to receive the International Crown Quality Award from BID International as well as the Platinum Technology Award for Quality and Best Trade Name from Association Otherways. Al-Ghazi was the first automobile company in Pakistan to earn the ISO-9000 certification and to introduce a high profile ERP solution. The company is engaged in the production and sales of tractors, implements and spare parts. Booking and deliveries are channelised via huge company network of 86 sales offices across the country.

Financial Performance, 9MCY12:

Having sold 17,568 tractors, AGTL rejoiced the nine month journey of CY12. The sales volume during the nine-month period under consideration thrived by 10.5 percent year on year, as compared to 15,905 units sold during the same period last year. Punjab Green Tractor scheme that undertook the distribution of 10,000 tractors reinforced the company's performance and kept the sales buoyed up. The company's top line touted a year on year growth of 15 percent which was cascaded down resulting in a bottom line growth of nine percent. However, besides the uptick in the sales volume, the performance boom might also be attributed to weak base year owing to the industry being battered in CY11 due to devastating floods as well as the imposition of 17 percent sales tax on the agricultural products. Albeit, company's bottom line registered a significant growth YoY, the operating margin and net margin plunged during the period on account of high POL and other input prices. Moreover, other income posted a YoY decline of three percent owing to momentous profits realised in the base year from the sale of investments. Moreover, financial cost also surged by 17 percent in 9MCY12 as compared to the same period last year. The increase in financial cost comes on the heels of 11 percent YoY gush in the company's liabilities.

Performance over the years:

The top line of AGTL follows a downhill trail in its top line since CY09. The sales volume also appears to dwindle YoY. In CY09, the company dispatched 32,732 units. However, the sales volume dropped by 11 percent in CY10 and another 37 percent in CY11, clocking in at 18,344 units as of December, CY11. The key reason quoted for the sales plunge in CY10 is the devastating floods which hit the southern region of Punjab, as a result of which the company had to suspend its operations. Nevertheless, due to efficient cost management strategies employed by the management, and the ability to trim down its financial cost by around 40 percent, the company was able to attain a bottom line growth of 9.5 percent. CY11 proved to be staggering for the company up till the end of first quarter. However, the rhythm of robust performance ruined soon after the announcement of 17 percent GST on the agricultural products after which the company shut down its plant until the issue was resolved. The government finally reduced the sales tax to five percent which served as a blessing for the agriculture industry already shuddering since the grant of MFN status to India. Having experienced a miserable year, the company's top line witnessed a drastic gash of 32 percent in CY11 on the back of 37 percent plunge in the sales volume. While the GP margin deteriorated during the period, OP margin and NP margin rebounded on account of a rational decline in operating expense due to sales hack. Moreover, a momentous growth also poured in from the other income which recoiled from Rs 382 million to Rs 560 million, illustrating a considerable boom of 47 percent YoY. The other income largely thrived because of gain on the disposal of investments and profit on the deposit accounts. The dip in the operating cost coupled with a remarkable growth in other income earned during the period resulted in operating profit touting a figure even bigger than the gross profit.

Liquidity Position:

AGTL represents a quite satisfactory liquidity position with current ratio ranging between 3.74 in CY09 to 4.63 for 9MCY12. This highlights that the company is in a buoyant state to discharge its current liabilities as they come due. The stable liquidity position also speaks of the capital structure of the company which touts an average of 0.27.

Future Outlook

With 2013 tractor scheme around the corner, it is anticipated that tractor sales will remain upbeat in 2013 before the general elections takes place. However, on the gloomy side of the picture, the federal government is mulling over increasing the GST on farm tractors from five percent to 10 percent. Reportedly, the federal government is expected to complete its scheme before the enhancement in GST. With the enforcement of 10 percent GST, each tractor would cost around Rs 50,000 more. This is yet another depressing factor for the farmers already paying GST on pesticides amid the cost of other inputs: fertiliser, seeds, fuel etc, increased many fold. Besides this, the grant of MFN is striking a blow to Pakistan agriculture sector. The Indian farmers, buttressed by government incentives and subsidies are well positioned to drag the domestic agriculture sector to the brink of disaster.

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9MCY12 9MCY11 CY11 CY10 CY09 PROFITABILITY Gross profit margin % 18.65% 18.96% 18.52% 19.74% 16.78% Operating profit Margin % 19.99% 20.85% 20.42% 19.42% 16.88% Net profit margin % 13.41% 14.09% 13.44% 12.78% 11.06% ROCE % 18.12% 18.07% 19.92% 29.70% 31.86% ROA % 14.40% 14.43% 15.91% 24.90% 23.63% ROE % 18.29% 18.24% 20.11% 30.00% 32.17% LIQUIDITY D/E times 0.27 0.26 0.26 0.20 0.36 Net Working capital Rs in mm 6962 6343 6343 6016 5218 Current ratio times 4.63 4.69 4.69 5.85 3.74 Quick ratio times 3.21 3.10 3.10 4.98 3.08 ACTIVITY Total asset turnover times 1.07 1.02 1.18 1.95 2.14 Fixed asset turnover times 22.16

18.22 21.07 36.43 61.58
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Source: Company Accounts