



The Pakistan Credit Rating Agency Limited

Rating Report

Ghandhara Tyre & Rubber Company Limited (formerly known as The General Tyre and Rubber Company of Pakistan Limited)

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
01-Aug-2023	A+	A1	Stable	Maintain	Yes
10-Aug-2022	A+	A1	Stable	Maintain	-
10-Aug-2021	A+	A1	Stable	Upgrade	-
10-Aug-2020	A	A1	Stable	Maintain	-
10-Oct-2019	A	A1	Stable	Downgrade	-
10-Apr-2019	A+	A1	Stable	Maintain	-
10-Oct-2018	A+	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Ghandhara Tyre & Rubber Company Limited (formerly known as The General Tyre & Rubber Company of Pakistan Limited) is a prominent automotive tyre manufacturer in the country catering different market segments, including Original Equipment Manufacturers (OEMs), Replacement/After Market (RM), Institutions (Govt, Defense, etc.) and Export. The ratings reflect Company's strong business profile and long-lasting presence in Pakistan's tyre industry. The Company sustains its market share through product diversification in related niches. Tyre demand is primarily governed by replacement market followed by automobile OEMs. Intense competition from imported tyres and tyres smuggled through grey channels necessitates high quality products at affordable prices. Pertinently, non-production days of passenger car OEMs, fluctuating prices of raw materials, and slowdown in economic activity pose risk to profitability. Consequently, the Company registered negative topline growth of ~23.7% YoY basis owing to lower offtake by OEMs, particularly in passenger cars segment. However, the Company has increased its focus on export and registered positive growth of 33% for FY23. Profitability matrix for the review period was mainly influenced by exchange loss suffered due to rupee devaluation, supply issue of raw materials because of restrictions on opening of LC and high material costs, partially offset by better product mix and superior prices. The Company's envisaged strategies are to hold strong foothold in its respective niche comprising 4-wheeler tyres for cars, LCVs, tractors, buses, trucks and OTR (off the road). To ensure business growth, management of the Company has always invested in modernization and capacity enhancement of plant. The Company is currently working on new sizes & designs for both OEM and RM segments. Going forward, the Company is expected to receive benefits from the entry of new OEMs in the market as it is already in close coordination with auto players to materialize supply of new tyres for SUVs. A well-devised governance framework, close association with major sponsors alongside experienced management team are considered positive for the ratings. Technical collaboration with Continental AG; Germany (one of the world's leading tyre manufacturers) has supported the Company in developing expertise on technical front, which assures adherence to international quality standards.

The ratings are dependent on the Company's ability to improve its business risk vis-à-vis financial risk profile along with sustainable margins. Cautious management strategies amidst challenging industry environment are pertinent. Moreover, prudent management of financial affairs remains important.

Disclosure

Name of Rated Entity	Ghandhara Tyre & Rubber Company Limited (formerly known as The General Tyre and Rubber Company of Pakistan Limited)
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Tyres(Oct-22)
Rating Analysts	Iqra Toqeer iqra.toqeer@pacra.com +92-42-35869504

Profile

Legal Structure Ghandhara Tyre & Rubber Company Limited (formerly known as The General Tyre & Rubber Company of Pakistan Limited) (hereinafter referred to as 'the Company' or 'GTR') is a Public Listed Entity with a free float of ~40% shares as on June 30th, 2023. It got listed on Pakistan Stock Exchange in 1982.

Background The Company was initially established by General Tire International Corporation (GTIC) of USA in 1963, with an initial production capacity of ~120,000 tyres per annum. Currently, Bibojee Services (Private) Limited and Pakistan Kuwait Investment Company (Private) Limited are the two major sponsors of the Company.

Operations The primary business of the Company is manufacturing and sale of radial tyres for Cars, LCVs, Vans, Jeeps, Pickups, Buses and Bias Tyres for Trucks, Tractors, Rickshaws and Motorcycles. The current capacity of the Company stands at ~2.4mln for automotive tyres per annum. While the motorcycle plant capacity is ~1.6mln tyres per annum.

Ownership

Ownership Structure Bibojee Services (Private) Limited and Pakistan Kuwait Investment Company (Private) Limited are the major shareholders of the Company and hold ~27.8% and ~30% shares, respectively.

Stability Bibojee Services (Private) Limited is a strong conglomerate diversified into various sectors including Textile, Automobile, Insurance, Tyres & Rubber and Construction. Pakistan Kuwait Investment Company (Private) Limited is a state-owned joint venture between Government of Pakistan and Government of Kuwait. It is one of the top investment companies of Pakistan.

Business Acumen Apart from GTR, both sponsors have strategic stake in other sectors too. Under the ownership of current sponsors, the Company has achieved many milestones and has established a formidable position in the tyres sector, which is a representation of strong sponsor acumen.

Financial Strength Bibojee Services (Private) Limited has strategic stakes in companies from different sectors including Textile, Insurance, Automobile and Construction. Financial strength of the group is strong. Pakistan Kuwait Investment Company (Private) Limited also holds ~30% shares in Meezan Bank Limited, ~30% in Al-Meezan Investment Management Limited and ~17.6% in National Clearing Company of Pakistan Limited.

Governance

Board Structure Board of Directors consists of 8 members, out of which one is of chairman position, two are independent directors, four are non-executive directors, and one is executive director. Management control vests with Bibojee Services.

Members' Profile Lt. Gen. (Retd.) Ali Kuli Khan Khattak is the Chairman of the Board having diverse experience in Auto & Allied sector. Other members are also highly qualified professionals and have sufficient experience in managing the Company's affairs.

Board Effectiveness Two sub-committees on the Board exist; (i) Audit Committee and (ii) HR & Remuneration Committee. Attendance recorded during the board and its sub-committees' meetings was good and minutes of the meetings have been properly documented.

Financial Transparency An effective Internal Audit department reporting to the Audit Committee is in place. The External Auditor of the Company are M/s ShineWing Hameed Chaudhri & Co - Chartered Accountants. They expressed an unqualified opinion on financial statements of the Company for period ended March 31st, 2023. Audit for FY23 is yet to be conducted.

Management

Organizational Structure A well-defined organizational structure exists. Operations are segregated into various departments wherein clear lines of responsibilities are defined for each cadre.

Management Team Mr. Hussain Kuli Khan - the CEO of the Company, has an overall experience of over ~25 years. He did his Business Administration from Gettysburg College, USA. He also underwent training for six months in tyre manufacturing plants of Continental AG in Europe. He is supported by a team of experienced professionals working under various sub-divisions to ensure smooth reporting.

Effectiveness The management committee is headed by CEO, Mr. Hussain Kuli Khan. The committee also includes Chief Financial Officer, Executive Director Works, Executive Director Corporate Service & HR and Executive Director Marketing. Further, different departments' heads are responsible to ensure smooth running of their relevant departments.

MIS The Company has implemented all in one SAP consisting of 9 modules. Detailed business continuity plan to address risk assessment and disaster recovery policy is in place.

Control Environment The corporate structure of the Company is diverged into various departments each having an effective Internal Control System. Robust MIS to assist reporting needs of management strengthens the control environment.

Business Risk

Industry Dynamics Pakistan's tyre industry is composed of three segments, (i) two and three-wheeler tyres, (ii) tyres for cars and LCVs, and (iii) tyres for trucks, buses and tractors. Tyres demand is driven by sales of new vehicles and demand from Replacement Market (RM). The average share of replacement market is ~80%, however this varies for each type of tyre. In FY22, Pakistan's Tyre sector made an estimated sale of ~44mln units (FY21: ~41mln units), depicting a growth rate of ~8% YoY, on the revenue side the sector's top (listed players) generated approximated cumulative revenues of PKR~79mln (FY21: PKR~72mln). However, during first nine months of FY23, quantitative demand of Tyres & Tubes seemed under pressures owing to inflationary pressures. Negative macro indicators like currency devaluation and policy rate hikes shown unfortunate results, purchasing power deteriorated which instigated the rigid demand particularly from OEM market.

Relative Position GTR optimizes on its strong competitive position in the upper niche segment of the tyres sector i.e., 4-wheeler tyres. In addition to being only local producer of passenger car tyres in the country, it has also developed a strong grasp in the production of tractor tyres. In 2 & 3-wheeler domain, GTR is in the process of penetrating its presence and currently holds a small share. The Company has increased its efforts on RM segment, while catering the requirements of OEMs.

Revenues During 9MFY23, revenue of the Company reflected a negative growth of ~23.7% YoY basis when compared with positive growth of ~33.5% during FY22. Similarly, topline clocked at PKR 10,632mln at end Mar'23 from PKR 18,588mln in FY22. The Company's performance deteriorated during review period owing to overall macroeconomic instability of the country.

Margins Gross profit margin has slight increased to ~14.3% during 9MFY23 on annualized basis (FY22: ~13.2%). Similarly, operating margin of the Company also remained stagnant at ~7.8% at end Mar'23 (FY22: ~7.7%). On account of high finance cost incurred during review period, the Company's bottom-line clocked at negative PKR 238mln (FY22: PKR 356mln). Thus, net margin recorded at negative ~2.2% in 9MFY23 (FY22: ~1.9%).

Sustainability GTR is working on strategies to reduce the cost and go for leaner production. The Company is also working on new sizes and designs for both OEM and RM segments. Further, it is in close coordination with all OEM's including new auto players.

Financial Risk

Working Capital GTR relies on short-term borrowings (STBs) & internal capital to fund working capital needs. STBs increased in 9MFY23 to PKR 6,476mln (FY22: PKR 5,895mln). Gross working capital cycle ramped up to ~191 days in 9MFY23 (FY22: ~141 days). Hence, net working capital days increased to ~149 days (FY22: ~116 days).

Coverages Free cash flow from operations decreased to PKR~824mln during 9MFY23 (FY22: PKR~1,556mln) on account of lower profitability. Coverages have deteriorated during 9MFY23. Interest coverage ratio was recorded at ~0.9x (FY22: ~2.2x). Similarly, debt coverage ratio reduced to 0.6x from 1.1x in FY22.

Capitalization GTR has a leveraged capital structure. At end of 9MFY23, total debt of the Company clocked at PKR~7,565mln (FY22: PKR ~7,360mln). The increase stemmed is purely from STBs. Gearing ratio stood at ~70% in 9MFY23 (FY22: 65.7%).



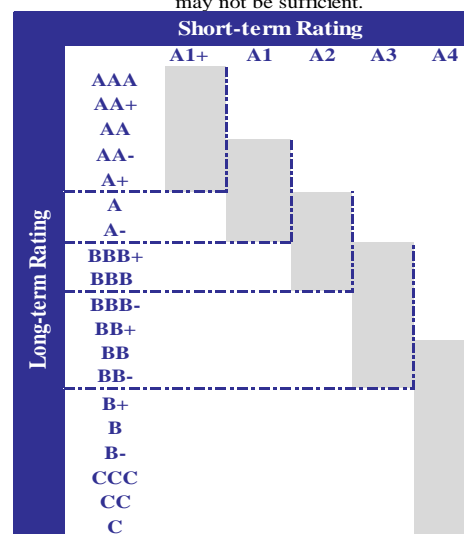
Ghandhara Tyre and Rubber Company Limited Tyres	Mar-23 9M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	5,273	5,531	5,236	5,111
2 Investments	-	-	-	-
3 Related Party Exposure	24	26	19	13
4 Current Assets	9,894	10,497	8,768	6,747
<i>a Inventories</i>	4,733	5,299	4,841	3,318
<i>b Trade Receivables</i>	2,273	2,518	1,718	1,158
5 Total Assets	15,190	16,054	14,023	11,871
6 Current Liabilities	3,643	3,881	2,675	2,034
<i>a Trade Payables</i>	1,534	1,689	900	545
7 Borrowings	7,565	7,360	7,191	6,500
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	742	968	641	383
10 Net Assets	3,240	3,845	3,516	2,954
11 Shareholders' Equity	3,240	3,845	3,516	2,954
B INCOME STATEMENT				
1 Sales	10,632	18,588	13,924	8,793
<i>a Cost of Good Sold</i>	(9,115)	(16,136)	(11,820)	(7,745)
2 Gross Profit	1,517	2,453	2,104	1,049
<i>a Operating Expenses</i>	(690)	(1,020)	(912)	(691)
3 Operating Profit	827	1,433	1,191	357
<i>a Non Operating Income or (Expense)</i>	(263)	(61)	110	45
4 Profit or (Loss) before Interest and Tax	564	1,372	1,302	402
<i>a Total Finance Cost</i>	(909)	(748)	(504)	(849)
<i>b Taxation</i>	107	(268)	(225)	115
6 Net Income Or (Loss)	(238)	356	573	(332)
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	824	1,556	1,518	706
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	(2)	866	964	(155)
<i>c Changes in Working Capital</i>	391	(263)	(1,208)	631
1 Net Cash provided by Operating Activities	389	603	(244)	477
2 Net Cash (Used in) or Available From Investing Activities	(125)	(761)	(596)	(290)
3 Net Cash (Used in) or Available From Financing Activities	(221)	221	732	(160)
4 Net Cash generated or (Used) during the period	43	63	(108)	27
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	-23.7%	33.5%	58.3%	-16.1%
<i>b Gross Profit Margin</i>	14.3%	13.2%	15.1%	11.9%
<i>c Net Profit Margin</i>	-2.2%	1.9%	4.1%	-3.8%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	11.4%	7.0%	2.2%	15.2%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	-9.0%	9.7%	17.7%	-10.6%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	191	141	145	196
<i>b Net Working Capital (Average Days)</i>	149	116	126	165
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.7	2.7	3.3	3.3
3 Coverages				
<i>a EBITDA / Finance Cost</i>	1.2	2.7	3.7	1.2
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	0.6	1.1	1.1	0.5
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	-19.7	1.8	1.9	-13.3
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	70.0%	65.7%	67.2%	68.8%
<i>b Interest or Markup Payable (Days)</i>	84.6	90.7	96.6	74.4
<i>c Entity Average Borrowing Rate</i>	14.7%	9.3%	7.2%	12.4%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	
BB	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*The correlation shown is indicative and, in certain cases, may not hold.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):
 a) Broker Entity Rating
 b) Corporate Rating
 c) Debt Instrument Rating
 d) Financial Institution Rating
 e) Holding Company Rating
 f) Independent Power Producer Rating
 g) Microfinance Institution Rating
 h) Non-Banking Finance Companies Rating

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)

(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)

(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).

(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)

(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)

(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity

(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)

(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)

(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)

(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)

(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)

(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)

(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent