The Pakistan Credit Rating Agency Limited

GHANI GASES LIMITED

INSTRUMENT RATING REPORT

	NEW [NOV-17]	INITIAL [FEB-17]
Privately-Placed and secured (PKR 1,300mln)	A	A
Outlook	Stable	Stable

REPORT CONTENTS

NOVEMBER 2017

About the Sukuk:
- The Company has issued a rated, privately placed and secured sukuk amounting to PKR 1,300mln. The sukuk will have a maturity of six years. The principal amount would be repaid in twenty four consecutive quarterly instalments commencing from the 90days from the date of issue.
- The profit repayment would also be made on a quarterly basis on the outstanding principal amount. The instrument would be having a profit rate of 3M-KIBOR plus 100bps. The proposed sukuk issue is secured by way of a first parri passu charge over present and future fixed asset of the company inclusive of a 20% margin.

Profile & Ownership
- Incorporated in 2007, Ghani Gases Limited (GGL) was converted into a public limited company during 2008. The company is listed on Pakistan Stock Exchange.
- The CEO and directors along with their families collectively own majority (51%) shares of the company. The remaining shareholding of the company is held by public sector companies and financial institutions (25%) and general public (24%).
- GGL is one of the two market leaders in industrial gases industry in Pakistan.

Governance
- GGL eight member board is majorly represented by members of sponsoring family with six members, one independent director and an executive.
- Mr. Masroor Ahmad Khan is Chairman of the BoD. The current composition of the board, though enhances the control environment, undermines the mandate of the board as an independent over sight function of the company
- In line with the revised guidelines of Code of Corporate Governance, there are two board committees – (i) HR and Remuneration Committee and (ii) Audit Committee.

Management & Controls
- Mr. Atique Ahmad Khan holds the office of CEO and Hafiz Farooq Ahmad is Managing Director. The Chairman oversees administrative and financial issues of the company; marketing and sales fall in the domain of CEO and technical production & operations in the purview of Managing Director.
- The company's overall operations are segregated into six broad divisions, namely: (i) Operations, (ii) Corporate Affairs, (iii) Procurement, (iv) Finance (v) Sales & Marketing, and (vi) Internal Audit.

Business Risk
- GGL's product mix comprises industrial gases along with calcium carbide. Taking into account the increased demand for the product the capacity utilization levels increased during the year (FY17: 73%, FY16: 64%). Company's revenue stream is mainly contributed from two segments (i) Industrial and medical gases (FY17: ~74%, FY16: 73%) and (ii) Calcium carbide (FY17: ~26%, FY16: 27%).
- During FY17, the company observed an uptick in the revenue. Overall increase in the revenues is primarily coming from industrial and medical gases segments (FY17: PKR ~1,325mln, FY16: PKR ~1,284mln). The demand from industrial gases mainly emanated from oil exploration and ship breaking and cutting industry.
- Gross profit margin of the company largely maintained at the same level (FY17: ~32%, FY16: 33%) resulting in a maintained level of gross profit on a YoY basis.
- Operating expenses have increased year-on-year basis by ~20% to PKR ~313mln (FY16: PKR ~259mln) primarily due to the issuance cost of the Sukuk including underwriting fee. During the year, finance cost has decreased by 18% to PKR ~96mln (FY16: PKR ~117mln)
- Going forward, due to issuance of Sukuk at lower rate, finance cost will further bode well with the bottom line of the company. Accounting for taxation, net income of the company stood at PKR ~137mln (FY16: PKR ~161mln)

Financial Risk
- During FY17 free cash flows from operations (FCFO) stood at PKR ~319mln (FY16: PKR ~391mln).The reduction has been seen due to reduced profitability culminating in converges under pressure.
- GGL currently has a leveraged capital structure (Total debt/Total debt + Equity: FY17: 48.1%%, FY16: 48.8%). Slight improvement in the capital structure is on account of reduction in the short-term borrowings.
- Going forward, the management plans to undertake two expansion projects (a) Calcium carbide production facility, (b) a third gases unit – GGL III. The management intends to finance both the projects through utilizing the proceeds of the right issue along with the procurement of debt.

RATING RATIONALE

The ratings recognize the company's significant position in the industrial gases sector. The industry largely possesses oligopolistic structure: benefiting the players. With an expected growth in demand due to increase in industrialization and uptick in economic activity, GGL is pursuing an expansive strategy to become the market leader. The company's revenue has improved on account of higher volumes. Although the company's financial structure is leveraged, cash flows and, in turn, coverages are adequate. Given the group's expansionary stance, sustained vigilance and support from sponsors is essential. Timely completion of projects and subsequently smooth functioning is important. The sponsoring family has demonstrated support to the company in the past.

KEY RATING DRIVERS

The ratings are dependent on the company's ability to effectively utilize enhanced capacities. At the same time, management of financial risk particularly debt coverages, remain important, wherein any significant dilution would have negative implications for the ratings.

INDUSTRY

The country's overall production capacity for industrial gases is ~700TPD. The major consumption of these gases is in the ship breaking industry, oil & exploration, hospitals and other industrial activities. The country's overall production capacity is in surplus to the domestic demand. The two large players cater for ~78% of the country demand with Linde in the leading position. Going forward, the expected uptick in the industrial activity in the south region mainly owing to the CPEC led to the announcement of capacity expansion project of ~100TPD by GGL. This would make GGL the market leader with an overall capacity of ~300TPD

PKR mln

Ghani Gases Limited

BALANCE SHEET	30-Jun-17	30-Jun-16	30-Jun-15
	FY17	FY16	FY15
Non-Current Assets	**2,997**	**2,831**	**2,635**
Investments (Incl. associates)	**593**	**1**	**45**
Equity	593	1	45
Debt	-	-	-
Investment property	-	-	-
Current Assets	**1,375**	**2,071**	**963**
Inventory	38	26	36
Trade Receivables	530	406	295
Others	808	1,638	632
Total Assets	**4,965**	**4,902**	**3,643**
Debt	**1,543**	**1,606**	**1,215**
Short-term	273	431	433
Long-term (Inlc. Current Maturity of long-term debt)	1,270	1,175	782
Other shortterm liabilities	153	369	182
Other Longterm Liabilities	281	214	104
Shareholder's Equity	**2,349**	**2,212**	**1,114**
Total Liabilities & Equity	**4,326**	**4,401**	**2,615**

INCOME STATEMENT			
Turnover	**1,804**	**1,767**	**1,720**
Gross Profit	569	576	570
Net Other Income	23	78	(4)
Financial Charges	(97)	(118)	(114)
Net Income	**137**	**162**	**158**

Cashflow Statement			
Free Cashflow from Operations (FCFO)	319	391	376
Net Cash changes in Working Capital	(288)	14	(240)
Net Cash from Operating Activities	(74)	299	20
Net Cash from InvestingActivities	(856)	(224)	(291)
Net Cash from Financing Activities	75	788	263

Ratio Analysis			
Performance			
Turnover Growth	2.1%	2.7%	27.7%
Gross Margin	31.5%	32.6%	33.1%
Net Margin	7.6%	9.2%	9.2%
ROE	5.9%	8.4%	15.3%
Coverages			
Interest Coverage (FCFO/Gross Interest)	3.3	3.3	3.3
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	1.0	0.5	1.2
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	1.0	0.5	1.2
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interes	8.6	6.1	6.9
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	69.2	57.3	995.6
Capital Structure (Total Debt/Total Debt+Equity)	48.1%	48.8%	66.8%

STANDARD RATING SCALES & DEFINITIONS

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.

LONG TERM RATINGS

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.
AA+ **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.
A+ **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.
BBB+ **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 or economic conditions are more likely to impair this capacity.
BB+ **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.
B+ **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.
CCC **CC** **C**	**Very high 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.
D	Obligations are currently in default.

SHORT TERM RATINGS

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.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

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'.

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, a suspended rating should be considered withdrawn.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

Rated Entity

Name of Rated Entity Ghani Ghases Limited
Sector Industrial Gases
Type of Relationship Solicited

Purpose of the Rating
Independent Risk Assessment
Regulatory Requirement

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
01-Nov-17	A	-	Stable	Maintain
27-Feb-17	A	-	Stable	Maintain
27-Feb-17	A	-	Stable	Initial

Nature of Instrument	Size of Issue (PKR mln)	Tenor (yrs)	Security	Nature of Assets
Sukuk	1,300mln	6 years	The proposed sukuk issue is secured by way of a first parri passu charge over present and future fixed asset of the company inclusive of a 20% margin.	All present and future fixed assets including land and builidng

Related Criteria and Research
Rating Methodology: Corporate Rating Methodology

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Rating Team Statement

Rating Procedure
Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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Probability of Default (PD)

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

Regulatory and Supplementary Disclosure

Repayment Schedule GGL -Sukuk Annexure A

Amount (PKR mln)	1,300mln
Period (years)	6
Repayment	Quarterely
Pricing	7.11%

Ghani Gases Limited | Sukuk | Redemption Schedule

Due Date Principle*	Opening Principal	Principal Repayment	No of Days. Markup/ Profit	Markup/Profit Rate	Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln				PKR in mln		
3-Feb-17							1,300.0
3-May-17	54.2	54.2	89	7.11%	22.5	76.7	1,245.8
3-Aug-17	54.2	54.2	92	7.11%	22.3	76.5	1,191.7
3-Nov-17	54.2	54.2	92	7.11%	21.4	75.5	1,137.5
3-Feb-18	54.2	54.2	92	7.11%	20.4	74.6	1,083.3
3-May-18	54.2	54.2	89	7.11%	18.8	72.9	1,029.2
3-Aug-18	54.2	54.2	92	7.11%	18.4	72.6	975.0
3-Nov-18	54.2	54.2	92	7.11%	17.5	71.6	920.8
3-Feb-19	54.2	54.2	92	7.11%	16.5	70.7	866.7
3-May-19	54.2	54.2	89	7.11%	15.0	69.2	812.5
3-Aug-19	54.2	54.2	92	7.11%	14.6	68.7	758.3
3-Nov-19	54.2	54.2	92	7.11%	13.6	67.8	704.2
3-Feb-20	54.2	54.2	92	7.11%	12.6	66.8	650.0
3-May-20	54.2	54.2	90	7.11%	11.4	65.6	595.8
3-Aug-20	54.2	54.2	92	7.11%	10.7	64.8	541.7
3-Nov-20	54.2	54.2	92	7.11%	9.7	63.9	487.5
3-Feb-21	54.2	54.2	92	7.11%	8.7	62.9	433.3
3-May-21	54.2	54.2	89	7.11%	7.5	61.7	379.2
3-Aug-21	54.2	54.2	92	7.11%	6.8	61.0	325.0
3-Nov-21	54.2	54.2	92	7.11%	5.8	60.0	270.8
3-Feb-22	54.2	54.2	92	7.11%	4.9	59.0	216.7
3-May-22	54.2	54.2	89	7.11%	3.8	57.9	162.5
3-Aug-22	54.2	54.2	92	7.11%	2.9	57.1	108.3
3-Nov-22	54.2	54.2	92	7.11%	1.9	56.1	54.2
3-Feb-23	54.2	54.2	92	7.11%	1.0	55.1	0.0