



**THE PAKISTAN CREDIT RATING AGENCY LIMITED**

## **ENTITY RATINGS REPORT**

### **GHANDHARA NISSAN LIMITED**

<b>ENTITY</b>	<b>RATINGS</b>	<b>OUTLOOK</b>	<b>ACTION</b>
Ghandhara Nissan Ltd	Long Term: A Short Term: A1	Stable	Initial

#### **RATING RATIONALE**

Ghandhara Nissan Limited (GNL) operates in the truck segment of the automobile sector. Presently, the company deals in Chinese brands. There has been a slowdown in the company's performance with the discontinuation of UD Trucks, however, Ghandhara Nissan has tried to regain the lost market share with the introduction of new products; including JAC X-200, others are in pipeline. The success of these initiatives is crucial. Majority ownership of the company is held by Bibojee Group of Companies. Their business acumen is further enriched by the group's stake in the country's leading tyre manufacturing company. Foreign players are also taking interest in the local market. The landscape of the industry is expected to change – although it is yet to be seen. The financial risk profile of GNL is strong. The company intends not to raise any long term debt borrowing for its existing operations. The working capital is supported by cash cum advances sale mechanism.

#### **KEY RATING DRIVER**

The ratings are dependent on upholding of the company's business as well as financial risk profile. Two key elements are company's stance on long term debt and working capital management. Moreover, management's ability to sustain its market share while benefiting from positive demand fundamentals is crucial.

#### **Report Contents**

1. Rating Analyses
2. Financial Information
3. Rating Scale
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GHANDHARA NISSAN LTD	
<b>Incorporated</b>	1981
<b>Major business lines</b>	Assembly, import and sale of DongFeng and JAC trucks
<b>Legal status</b>	Listed
<b>Head Office</b>	Karachi

INDUSTRY SNAPSHOT
<p>Pakistan's truck industry is largely dominated by domestic players such as HinoPak, Ghandhara Industries, Master Trucks and Ghandhara Nissan. The country produced a record 6,736 units of trucks and buses in fiscal year 2016-17. Sales of trucks and buses have rebounded strongly due to a relative improvement in security and macroeconomic stability in the country and is complimented by the government's new auto policy which has attracted new entrants into the auto market. Furthermore, CPEC has created a demand for fuel efficient and high speed long haul vehicles, paving the way for increased sales in the foreseeable future.</p>

PROFILE	GOOD
<ul style="list-style-type: none"> <li>Ghandhara Nissan Limited (GNL) was incorporated on August 8, 1981 in Pakistan as a private limited company and subsequently converted into a public limited company on May 24, 1992.</li> <li>The principal business of GNL is assembly, import and sale of DongFeng and JAC trucks.</li> <li>GNL was previously involved in the assembly and sale of UD trucks in collaboration with UD Trucks Corporation, Japan and the product had traditionally been its forte. The product was recently withdrawn after its worldwide discontinuation.</li> <li>The Assembly Plant of Ghandhara Nissan Limited is situated at Port Bin Qasim. The production capacity has been recently increased to 4,800 units (2016: 2,500 units).</li> </ul>	
OWNERSHIP	GOOD
<ul style="list-style-type: none"> <li>Majority ownership of the company is held by Bibojee Group of Companies with Bibojee Services holding 62.3%, followed by UD Truck Corporation (8.1%).</li> <li>Bibojee Group was founded by Gen. Habibullah Khattak in 1960's and has interests in various industrial sectors including Textile, Auto, Insurance, Tyres &amp; Rubber and Construction.</li> </ul>	
GOVERNANCE	GOOD
<ul style="list-style-type: none"> <li>Nine member board of directors including the Chief Executive Officer (CEO).</li> <li>Three directors represent the sponsoring family.</li> <li>There are two sub-committees of the board namely; (i) Audit and (ii) Human Resource &amp; Remuneration</li> <li>The auditors of the company Messrs ShineWing Hameed Chaudhary &amp; Co and Junaid Shoaib Asad, have issued an unqualified audit opinion pertaining to annual financial statements for FY17.</li> </ul>	
MANAGEMENT	GOOD
<ul style="list-style-type: none"> <li>The Chairman, Mr. Raza Kulli Khan Khattak, is a reputed business professional whereas Mr. Ahmed Kulli Khan Khattak serves as the CEO. He is also the Chief Executive of Ghandhara Industries Ltd and Rehman Cotton Mills Ltd; both associated companies.</li> <li>Management team is a balanced blend of highly experienced professionals from the industry having long association with Ghandhara Nissan Limited.</li> </ul>	
BUSINESS STRATEGY	GOOD
<ul style="list-style-type: none"> <li>GNL's business strategy is based on expanding its product line by offering new option/choices and has been introducing new products in order to fill the vacuum left by the discontinuation the UD trucks.</li> <li>The company has recently introduced JAC X-200 pickup, with an aim of increasing foothold in the market. These vehicles are currently being imported in CBU category, however during March 2018, the company plans to start the CKD operations.</li> </ul>	
PERFORMANCE	GOOD
<ul style="list-style-type: none"> <li>During FY17, GNL's topline stood at PKR 4,858mln, registering a decrease of 3% YoY (end-Sep17: PKR 528mln).</li> <li>Decrease in revenue coupled with a stagnant cost in sales, led to a dip in the gross profit as it decreased to 19% (FY16: 22%).</li> <li>Similarly, operating margin was also squeezed to 14% (FY16: 17%, FY15: 14%), despite the company's best efforts to minimize its expenses.</li> <li>The company did manage to reduce its finance cost significantly, primarily due to a reduction in exchange losses and the interest on workers profit participation fund.</li> <li>The bottom-line of the company declined by 35% and stood at PKR 402mln (end-Sep17: PKR 96mln, FY16: 546mln).</li> <li>Furthermore, the company received PKR 51.7mln as dividend from Ghandhara Industries.</li> </ul>	
FINANCIAL RISK	GOOD
<ul style="list-style-type: none"> <li>GNL's working capital needs emanate from financing inventories and trade receivables for which the company relies on internal cash flows.</li> <li>During FY17, GNL's free cash flows (FCFO), amounted to ~PKR 563mln, down by 6% YoY.</li> <li>GNL has no long term borrowings. Also no short term borrowings.</li> <li>At end-FY17, the company has an impressive capital structure, with a debt to equity ratio of 2% (FY16: 2 %).</li> </ul>	



## Ghandhara Nissan Ltd

BALANCE SHEET	30-Sep-17	30-Jun-17	30-Sep-16	30-Jun-16
	3FY17	FY17	3MFY16	FY16
<b>Non-Current Assets</b>	<b>2,502</b>	<b>2,325</b>	<b>2,236</b>	<b>2,358</b>
<b>Investments (Incl. Associates)</b>	<b>243</b>	<b>243</b>	<b>243</b>	<b>243</b>
Equity	243	243	243	243
Debt	-	-	-	-
<b>Current Assets</b>	<b>984</b>	<b>1,290</b>	<b>1,463</b>	<b>1,481</b>
Inventory	196	278	592	605
Trade Receivables	197	181	342	188
Others	590	831	529	688
<b>Total Assets</b>	<b>3,729</b>	<b>3,858</b>	<b>3,941</b>	<b>4,081</b>
<b>Debt</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Short-term	-	-	-	-
Long-term (Incl. Current Maturity of Long-Term Debt)	-	-	-	-
Other Short-term Liabilities	505	720	871	1,140
Other Long-term Liabilities	336	346	323	322
<b>Shareholder's Equity</b>	<b>2,888</b>	<b>2,792</b>	<b>2,747</b>	<b>2,619</b>
<b>Total Liabilities &amp; Equity</b>	<b>3,729</b>	<b>3,858</b>	<b>3,941</b>	<b>4,081</b>

## INCOME STATEMENT

<b>Turnover</b>	<b>528</b>	<b>4,858</b>	<b>1,333</b>	<b>5,005</b>
Gross Profit	153	931	245	1,092
Other Income/Expense	48	52	4	19
Financial Charges	(3)	(8)	(2)	(18)
<b>Net Income</b>	<b>96</b>	<b>410</b>	<b>128</b>	<b>546</b>

## Cashflow Statement

Free Cashflow from Operations (FCFO)	64	563	156	599
Net Cash changes in Working Capital	(169)	(60)	(518)	523
Net Cash from Operating Activities	(105)	445	(361)	1,074
Net Cash from Investing Activities	(15)	(70)	113	(626)
Net Cash from Financing Activities	(6)	(236)	(3)	(402)
Net Cash generated during the period	(125)	139	(251)	46

## Ratio Analysis

<b>Performance</b>				
Gross Margin	29.0%	19.2%	18.4%	21.8%
Net Margin	18.2%	8.4%	9.6%	10.9%
<b>Coverages</b>				
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncove	0.0	69.1	0.0	32.5
Interest Coverage (x) (FCFO/Gross Interest)	0.0	69.1	0.0	32.5
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Terr	0.0	0.1	0.0	0.1
<b>Liquidity</b>				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	2.4	38.9	28.4	28.8
<b>Capital Structure</b> (Total Debt/Total Debt+Equity)	0.0%	1.9%	1.3%	1.5%



## 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		SHORT TERM RATINGS
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<b>A1+:</b> The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> 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.	<b>A1:</b> A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> 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.	<b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> 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.	<b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> 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> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> 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>C:</b> An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> “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.	
<b>D</b>	Obligations are currently in default.	

### 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.

**Disclaimer:** PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.



**Name of Issuer**  
**Sector**  
**Type of Relationship**

Ghandhara Nissan Limited  
 Auto & Allied | Trucks  
 Solicited

**Purpose of the Rating**

Independent Risk Assessment

**Rating History**

Dissemination Date	Long Term	Short Term	Outlook	Action
29-Dec-17	A	A1	Stable	Initial

**Related Criteria and Research**

Rating Methodology  
 Research:

Corporate Rating Methodology  
 Auto & Allied Sector | Overview | December 2017

**Rating Analysts**

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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 \(PD\)](#)

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