The Pakistan Credit Rating Agency Limited

Rating Report

Ghani Gases Ltd | Sukuk | Feb-17

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
20-Jun-2018	A	-	Stable	Maintain	-
01-Nov-2017	A	-	Stable	Maintain	-
27-Feb-2017	A	-	Stable	Initial	-
20-Jan-2017	A	-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The ratings recognize the company's significant position in the industrial and medical 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 as the company has successfully managed to add new customers in health sector, merchandise market and industrial undertakings. Although the company's financial structure is leveraged, incremental cash flows and, in turn, coverages are adequate and hence adequate financial profile. Given the group's expansionary stance, sustained vigilance and support from sponsors is essential. Timely completion of GGL-III and subsequently smooth functioning is important. The sponsoring family has demonstrated support to the company in the past.

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. Whereas, company's market share and in turn sustained margins would support ratings.

Disclosure

Name of Rated Entity	Ghani Gases Ltd | Sukuk | Feb-17
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology | Sukuk Rating Methodology(Jun-17),Methodology | Corporate Rating Methodology(Jul-17),Methodology | Correlation between long-term and short-term rating scale(Jun-17),Methodology | Criteria Modifiers(Jun-17)
Related Research	Sector Study | Chemical | Industrial Gases(Oct-17)
Rating Analysts	Hamza Ghalib | hamza.ghalib@pacra.com | +92-42-35869504

GHANI GASES LIMITED – SUKUK TERMS	
Amount	1,300mln
Period	6 years
Repayment	Quarterly
Pricing	3M Kibor + 100 BPS

INDUSTRY SNAPSHOT

- The country's overall production capacity for industrial gases is ~675TPD.
- The major consumption of these gases is in the ship breaking industry, oil & exploration, hospitals, fertilizers, steel, food & packaging, pharmaceuticals and other industrial activities.
- The two large players cater ~60% of the country demand with Pakistan Oxygen Limited (formerly Linde Pakistan Limited) in the leading position.
- Going forward, with the new capacity to come on line by GGL, they will become the market leader with the total production capacity of ~320TPD

OWNERSHIP

- 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 the largest company in the fast expanding Ghani Global Group. The group is involved in real estate, manufacturing of industrial gases and tubing glass, and calcium carbide. With international educational backgrounds and sound business skills, the sponsors have a vast experience in glass, mining, automobile and engineering industries.

GOVERNANCE

- GGL nine member board is majorly represented by members of sponsoring family with six members, two 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 AND CONTROL

- 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.
- Company is using a customized ERP system named, Computer System Integration (CSI). Sales, Purchase, Payroll, Receivables, Payables and Inventory modules have been implemented while Fixed Assets module is under implementation**.** Currently, company is implementing Oracle ERP and is in finalization stage. This new system will add value to the reporting system of the company.
- The Company generates MIS reports on daily, fortnightly, monthly and annual basis.

BUSINESS RISK

- Company's revenue stream is mainly contributed from two segments (i) Industrial and medical gases (9MFY18: ~90%, 9MFY17: ~84%) and (ii) Calcium carbide (9MFY18: ~10%, 9MFY17: ~16%).
- Oxygen, which is a medical gas, contributes a sizeable margin (~76%) to the company's topline in industrial and medical gases segment, followed by Nitrogen (20%), and Argon (~4%).
- During 9MFY18, the company observed an uptick in the revenue. Overall increase in the revenues is primarily coming from industrial and medical gases segments (9MFY18: PKR 1,332mln, 9MFY17: PKR ~947mln). The growth is primarily emanating due to volumetric growth as the company has successfully managed to add new customers in health sector, merchandise market and industrial undertakings. Prices largely remained at the same level.
- Gross profit margin of the company largely maintained at the same level (9MFY18: ~35.7%, 9MFY17: ~35.6%) owing to proportionate increase in both revenue and cost i.e. ~30%.
- SG&A has increased in comparison to SPLY, as the company has defrayed more on distribution network in line with the growth in revenue base. However, as a percent of sales, SG&A has reduced during SPLY (9MFY18: ~16%, 9MFY17: ~18%), reflecting operational efficiency.
- Other income has reduced significantly (9MFY18: PKR ~12mln, 9MFY17: PKR ~17mln), which mainly includes return on bank deposits and commission on a guarantee provided to Ghani Global Glass.
- Finance cost of the company has surged (9MFY18: PKR ~88mln, 9MFY17: PKR ~75mln) during the period under review, as company is more exposed to the exposure of short-term and long-term borrowings. Accounting for taxation, net profit of the company stood at PKR ~197mln (9MFY17: PKR ~124mln).
- Going forward, with the new capacity to come online (Expected: Jan-19), GGL will become the market leader in term of production capacity [Current Capacity: 220TPD, Expected Capacity: 320TPD).

FINANCIAL RISK

- During 9MFY18 free cash flows from operations (FCFO) stood at PKR ~322mln (9MFY18: PKR ~230mln).The growth has been seen due better performance during the period, hence reflected in profitability, culminating in improved coverages [Interest coverage: 9MFY18: ~3.6x, 9MFY17: ~3x].
- GGL currently has a leveraged capital structure (Total debt/Total debt + Equity: 9MFY18: ~46%%, 9MFY17: ~48%). Slight improvement in the capital structure is on account of reduction in the long-term borrowings.
- The Company has issued a rated, privately placed and secured Sukuk amounting to PKR 1,300mln on 3rd February 2017. The Sukuk is having a maturity of six years. Principal repayment had started since May17, while remaining would be repaid in consecutive quarterly installments. The profit repayments are being made on a quarterly basis on the outstanding principal amount on a floating 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. As of May18, Sukuk has an outstanding balance of PKR 1,029mln and will be fully mature in Feb23.

Chemicals

The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Ghani Gases Limited

BALANCE SHEET	31-Mar-18	30-Jun-17	31-Mar-17	30-Jun-16	30-Jun-15
	9M	FY17	9M	FY16	FY15
Non-Current Assets	**3,017**	**2,997**	**2,954**	**2,831**	**2,635**
Investments (Incl. associates)	**617**	**593**	**492**	**1**	**45**
Equity	617	593	492	1	45
Debt	-	-	-	-	-
Investment property	-	-	-	-	-
Current Assets	**1,489**	**1,375**	**1,414**	**2,071**	**963**
Inventory	53	38	34	26	36
Trade Receivables	476	530	368	406	295
Others	960	808	1,013	1,638	632
Total Assets	**5,123**	**4,965**	**4,860**	**4,902**	**3,643**
Debt	**1,754**	**1,543**	**1,393**	**1,606**	**1,215**
Short-term	618	273	66	431	433
Long-term (Inlc. Current Maturity of long-term debt)	1,136	1,270	1,328	1,175	782
Other shortterm liabilities	187	153	135	369	182
Other Longterm Liabilities	728	920	1,022	715	1,132
Shareholder's Equity	**2,454**	**2,349**	**2,310**	**2,212**	**1,114**
Total Liabilities & Equity	**5,123**	**4,965**	**4,860**	**4,902**	**3,643**
INCOME STATEMENT					
Turnover	**1,465**	**1,804**	**1,122**	**1,767**	**1,720**
Gross Profit	523	569	400	576	570
Net Other Income	(6)	6	2	64	(4)
Financial Charges	(89)	(97)	(76)	(118)	(114)
Net Income	**105**	**137**	**98**	**162**	**158**
Cashflow Statement					
Free Cashflow from Operations (FCFO)	322	319	230	391	376
Net Cash changes in Working Capital	(157)	(288)	(220)	14	(240)
Net Cash from Operating Activities	83	(74)	(75)	299	20
Net Cash from InvestingActivities	(123)	(856)	(682)	(224)	(291)
Net Cash from Financing Activities	(71)	75	46	788	263
Ratio Analysis					
Performance					
Turnover Growth	30.5%	2.1%	0.8%	2.7%	27.7%
Gross Margin	35.7%	31.5%	35.6%	32.6%	33.1%
Net Margin	7.2%	7.6%	8.7%	9.2%	9.2%
ROE	5.7%	5.8%	5.7%	7.3%	14.2%
Coverages					
Interest Coverage (FCFO/Gross Interest)	3.6	3.3	3.0	3.3	3.3
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	1.2	1.0	0.9	0.5	1.2
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	1.2	1.0	0.9	0.5	1.2
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	6.4	8.6	10.1	6.1	6.9
Liquidity					
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	89.0	108.0	82.6	47.0	59.9
Capital Structure (Total Debt/Total Debt+Equity)	46.2%	48.1%	48.2%	48.8%	66.8%

Rating Scale

Credit Rating Scale & Definitions

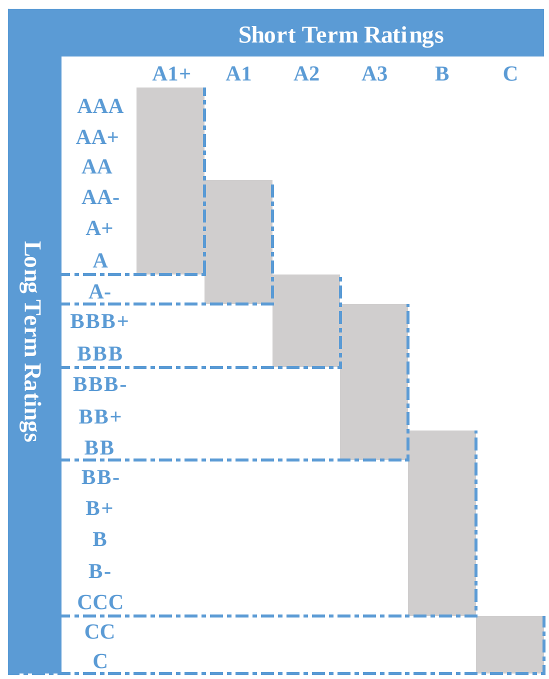
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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 and in 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.** 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.
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.



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

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

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.
(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)
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Regulatory and Supplementary Disclosure

Repayment Schedule | GGL Sukuk

Amount (PKR mln)	1,300mln
Period (years)	6
Repayment	Quarterly
Pricing	3M Kibor+1%

Ghani Gases Limited | Sukuk | Redemption Schedule

Installments #	Due Date	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		
0	03-Feb-17							1,300
1	03-May-17	54.2	54.2	89	7.11%	22.5	77	1,246
2	03-Aug-17	54.2	54.2	92	7.14%	22.4	77	1,192
3	03-Nov-17	54.2	54.2	92	7.15%	21.5	76	1,138
4	03-Feb-18	54.2	54.2	92	7.15%	20.5	75	1,083
5	03-May-18	54.2	54.2	89	7.35%	19.4	74	1,029
6	03-Aug-18	54.2	54.2	92	7.42%	19.2	73	975
7	03-Nov-18	54.2	54.2	92	7.42%	18.2	72	921
8	03-Feb-19	54.2	54.2	92	7.42%	17.2	71	867
9	03-May-19	54.2	54.2	89	7.42%	15.7	70	813
10	03-Aug-19	54.2	54.2	92	7.42%	15.2	69	758
11	03-Nov-19	54.2	54.2	92	7.42%	14.2	68	704
12	03-Feb-20	54.2	54.2	92	7.42%	13.2	67	650
13	03-May-20	54.2	54.2	90	7.42%	11.9	66	596
14	03-Aug-20	54.2	54.2	92	7.42%	11.1	65	542
15	03-Nov-20	54.2	54.2	92	7.42%	10.1	64	488
16	03-Feb-21	54.2	54.2	92	7.42%	9.1	63	433
17	03-May-21	54.2	54.2	89	7.42%	7.8	62	379
18	03-Aug-21	54.2	54.2	92	7.42%	7.1	61	325
19	03-Nov-21	54.2	54.2	92	7.42%	6.1	60	271
20	03-Feb-22	54.2	54.2	92	7.42%	5.1	59	217
21	03-May-22	54.2	54.2	89	7.42%	3.9	58	163
22	03-Aug-22	54.2	54.2	92	7.42%	3.0	57	108
23	03-Nov-22	54.2	54.2	92	7.42%	2.0	56	54
24	03-Feb-23	54.2	54.2	92	7.42%	1.0	55	(0)