The Pakistan Credit Rating Agency Limited

# Rating Report

## Ghandhara Nissan Limited

**Report Contents**



**Rating History**

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|---|---|---|---|---|---|
| 30-Jun-2018 | A | A1 | Stable | Maintain | - |
| 29-Dec-2017 | A | A1 | Stable | Initial | - |

**Rating Rationale and Key Rating Drivers**

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.

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 for potential projects and working capital management. Moreover, management's ability to sustain its market share while benefiting from positive demand fundamentals is crucial.

**Disclosure**

| | |
|---|---|
| **Name of Rated Entity** | Ghandhara Nissan Limited |
| **Type of Relationship** | Solicited |
| **Purpose of the Rating** | Entity Rating |
| **Applicable Criteria** | Methodology \| Corporate Rating Methodology(Jul-17) |
| **Related Research** | Sector Study \| Auto and Allied \| Trucks & Buses(Dec-17) |
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| GHANDHARA NISSAN LTD | |
|---|---|
| **Incorporated** | 1981 |
| **Major Business** | Assembly, import and sale of DongFeng and JAC trucks |
| **Legal Status** | Listed |
| **Head Office** | Karachi |

## PROFILE

- 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.
- The principal business of GNL is assembly, import and sale of DongFeng and JAC trucks.
- 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.
- 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).

## OWNERSHIP

- 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%).
- Bibojee Group was founded by Gen. Habibullah Khattak in 1960's and has interests in various industrial sectors including Textile, Auto, Insurance, Construction, Tyres and Rubber.

## GOVERNANCE

- Nine member board of directors including the Chief Executive Officer (CEO).
- Three directors represent the sponsoring family.
- There are two sub-committees of the board namely; (i) Audit and (ii) Human Resource & Remuneration.
- The auditors of the company Messrs ShineWing Hameed Chaudhary & Co and Junaid Shoaib Asad, have issued an unqualified audit opinion pertaining to annual financial statements for FY17.

## MANAGEMENT

- 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.
- Management team is a balanced blend of highly experienced professionals from the industry having long association with Ghandhara Nissan Limited.

## BUSINESS STRATEGY

- 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.
- The company has recently introduced JAC X-200 pickup, with an aim of increasing foothold in the market. These vehicles were initially being imported in CBU category, however the company has started the CKD operations.

## PERFORMANCE

- During 9MFY18, GNL's topline stood at PKR 1,740mln, registering a decrease of 57% YoY (end-Mar17: PKR 4,035mln).
- Although revenues decreased amid stagnant cost of sales, GNL was able to slightly improve its gross profit margin to 20.6% during this period (end-Jun17: 19.2%)
- Similarly, operating margin was also squeezed to ~10% (FY17: 14%, FY16: 17%), despite the company's best efforts to minimize its expenses.
- The company's finance cost is increasing steadily on account of working capital management (end-Mar18: PKR 233.4mln, end-Jun17: PKR 0)
- The bottom-line of the company declined by 44% and stood at PKR 242.8mln (end-Mar17: PKR 437mln, FY17: 409.9mln).
- Furthermore, during the period company received PKR 77.5mln as dividend from Ghandhara Industries (end-Mar17: PKR 51.6mln).

## FINANCIAL RISK

- GNL's working capital needs emanate from financing inventories and trade receivables for which the company is relying increasingly on short-term borrowings.
- GNL has no long term borrowings at the moment and intends to keep it like that in the near future.
- At end-Mar18, the company has an impressive capital structure, with a debt to equity ratio of 4.3% (FY17: 1.9%).

## Ghandhara Nissan Ltd

| BALANCE SHEET | 31-Mar-18 | 31-Dec-17 | 30-Sep-17 | 30-Jun-17 | 30-Jun-16 |
|---|---|---|---|---|---|
| | 9MFY18 | 6MFY18 | 3MFY18 | FY17 | FY16 |
| **Non-Current Assets** | **2,467** | **2,523** | **2,502** | **2,325** | **2,358** |
| **Investments (Incl. Associates)** | **243** | **243** | **243** | **243** | **243** |
| Equity | 243 | 243 | 243 | 243 | 243 |
| Debt | - | - | - | - | - |
| **Current Assets** | **1,404** | **1,179** | **984** | **1,290** | **1,481** |
| Inventory | 490 | 291 | 196 | 278 | 605 |
| Trade Receivables | 499 | 377 | 197 | 181 | 188 |
| Others | 416 | 511 | 590 | 831 | 688 |
| **Total Assets** | **4,114** | **3,945** | **3,729** | **3,858** | **4,081** |
| **Debt** | **233** | **74** | **-** | **-** | **-** |
| Short-term | 233 | 74 | - | - | - |
| Long-term (Incl. Current Maturity of Long-Term Debt) | - | - | - | - | - |
| Other Short-term Liabilities | 724 | 761 | 505 | 720 | 1,140 |
| Other Long-term Liabilities | 346 | 346 | 336 | 346 | 322 |
| **Shareholder's Equity** | **2,810** | **2,764** | **2,888** | **2,792** | **2,619** |
| **Total Liabilities & Equity** | **4,114** | **3,945** | **3,729** | **3,858** | **4,081** |
| **INCOME STATEMENT** | | | | | |
| **Turnover** | **1,740** | **1,015** | **528** | **4,858** | **5,005** |
| Gross Profit | 359 | 237 | 153 | 931 | 1,092 |
| Other Income/Expense | 152 | 136 | 48 | 59 | 19 |
| Financial Charges | (14) | (6) | (3) | (8) | (18) |
| **Net Income** | **243** | **197** | **96** | **410** | **546** |
| **Cashflow Statement** | | | | | |
| Free Cashflow from Operations (FCFO) | 186 | 151 | 64 | 563 | 599 |
| Net Cash changes in Working Capital | (523) | (142) | (169) | (60) | 523 |
| Net Cash from Operating Activities | (423) | (69) | (105) | 445 | 1,074 |
| Net Cash from InvestingActivities | 70 | 37 | (15) | (70) | (626) |
| Net Cash from Financing Activities | (11) | (152) | (6) | (236) | (402) |
| Net Cash generated during the period | (363) | (184) | (126) | 139 | 46 |
| **Ratio Analysis** | | | | | |
| **Performance** | | | | | |
| Gross Margin | 20.6% | 23.3% | 29.0% | 19.2% | 21.8% |
| Net Margin | 14.0% | 19.4% | 18.1% | 8.4% | 10.9% |
| **Coverages** | | | | | |
| Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered | 13.3 | 26.7 | 23.9 | 69.1 | 32.5 |
| Interest Coverage (x) (FCFO/Gross Interest) | 13.3 | 26.7 | 23.9 | 69.1 | 32.5 |
| Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Term E | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 |
| **Liquidity** | | | | | |
| Net Cash Cycle (Inventory Days + Receivable Days - Payable Days) | 24.3 | 19.4 | 25.5 | 38.9 | 28.8 |
| **Capital Structure** (Total Debt/Total Debt+Equity) | 4.3% | 4.3% | 1.7% | 1.9% | 1.5% |

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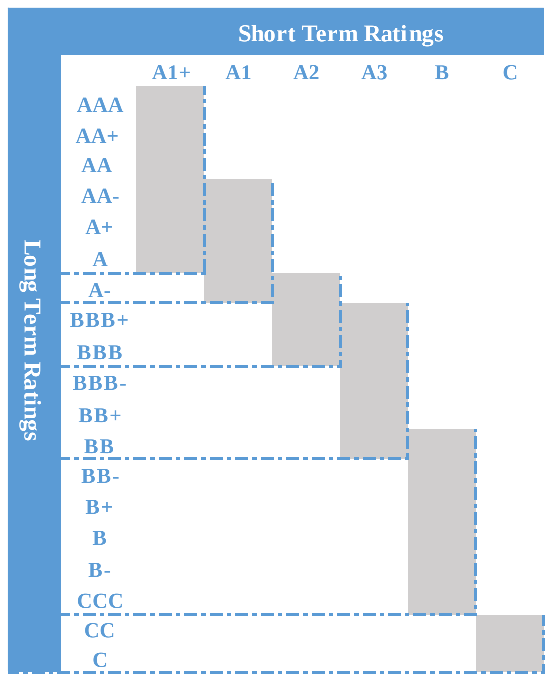
# Rating Scale

## 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+<br>AA<br>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+<br>A<br>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+<br>BBB<br>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+<br>BB<br>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+<br>B<br>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<br>CC<br>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.

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