



The Pakistan Credit Rating Agency Limited

Rating Report

Ghandhara Industries Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
20-Oct-2023	A+	A1	Stable	Maintain	-
21-Oct-2022	A+	A1	Stable	Maintain	-
22-Oct-2021	A+	A1	Stable	Upgrade	-
05-Nov-2020	A	A1	Stable	Maintain	-
13-Dec-2019	A	A1	Stable	Downgrade	-
13-Jun-2019	A+	A1	Stable	Maintain	-
12-Dec-2018	A+	A1	Stable	Maintain	-
30-Jun-2018	A+	A1	Stable	Maintain	-
29-Dec-2017	A+	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Ghandhara Industries Limited ('GIL' or 'the Company') is one of the prominent automobiles entity in its niche of trucks & buses. The primary business activities of the Company include; assembling & marketing of trucks (LDTs, MDTs & HDTs), buses, D-MAX pickups, and body fabrication services. GIL's core strength can be defined by its alliance with ISUZU – a leading Japanese brand in the trucks & buses sector. ISUZU has enabled the Company to build a strong fortress in the competitive industry of Pakistan. The level of localization in the trucks and buses segment is relatively low when compared to other sectors operating in Pakistan. During FY23, the growth in trucks and buses industry of Pakistan remained historically laggard, as it is directly related to economic activities. Local truck manufacturing experienced a massive decline in FY23 as it fell by ~45.15% YoY; while total bus manufacturing declined by ~6.03% compared to same period last year, mainly due to import restrictions imposed on auto and allied sector while opening of LCs on back of depletion of FX reserves. The sectoral performance remained uncertain and also kept the margins under pressure owing to macroeconomic challenges, thereby affected the overall cost of doing business. Consequently, GIL reflected the same in its topline and recorded negative growth of ~40% at end Jun'23. The Company's net profitability matrix deteriorated explicitly due to lower sales volume and ramped up finance cost during review period. In future, the Company intends to cover against principal risks and uncertainties by securing undisrupted supply of CKDs and expanding its customer base to ensure targeted growth in sales volumes and profits. Generally, GIL's strategy to cover from customers' advances has proved to be beneficial as business relies less on borrowed capital to fuel growth and other initiatives. The cash flows of GIL from its operations are considered adequate; showing reasonable level of coverages. Over the years, the Company has been able to sustain its edge in the domestic automotive market while managing uprising competition and secured high share. The sponsoring group has successfully built synergies between the associated concerns operating in the auto & allied sector of Pakistan. Besides, it upholds good corporate governance standards. Their business acumen is enriched by the group's stake in the country's tyre manufacturing company as well. Financial risk profile is signified by finer working capital cycle and leveraged capital structure (majorly comprised of short-term borrowings).

The ratings are dependent on upholding of the Company's business as well as financial risk profile amid unfavorable macroeconomic conditions. Improvement in margins and intact coverages shall remain imperative. Key element is management's ability to strategies sustenance of market share during the demand crunch is quite crucial.

Disclosure

Name of Rated Entity	Ghandhara Industries Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jul-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Trucks & Buses(Dec-22)
Rating Analysts	Iqra Toqeer iqra.toqeer@pacra.com +92-42-35869504

Profile

Legal Structure Ghandhara Industries Limited (hereinafter referred as 'GIL' or 'the Company') is a public listed entity with a free float of ~30% at Sep'23. The corporate office of the Company is in F-3, Hub Chawki Road, S.I.T.E. area, Karachi.

Background The Company was founded in 1953 by General Motors Overseas Distribution Company and was purchased in 1963 by Late Lt. General (R) Habibullah Khan Khattak. The Company was later nationalized in 1972 and renamed as National Motors Limited. In 1992, Late Lt. General (R) Habibullah Khan Khattak reacquired the Company from the Government and renamed it to "Ghandhara Industries Limited".

Operations GIL is primarily engaged in the assembly (outsourced), body fabrication and sale of Isuzu pickups, trucks & buses and is the exclusive distributor and authorised assembler and dealer of ISUZU products in Pakistan. The Company has outsourced the assembly of its pickups, truck & buses to its associated concern named "Ghandhara Automobiles Limited".

Ownership

Ownership Structure Majority stake of the entity is held by Bibojee Group of Companies, whereas Bibojee Services (Private) Limited directly owns ~39% shares, Ghandhara Automobiles Limited has ~19% and Universal Insurance Company Limited (another associate concern) holds ~6% shares. Other shares are held by Corporates, Financial Institutions, Banks, and individual members.

Stability Bibojee Group of Companies, represents a family with history of entrepreneurship spanning over four decades. The group operates through holding company "Bibojee Services (Private) Limited". This provides a formal structure to the group and a platform for relatively smooth execution of succession matters amongst family members.

Business Acumen Bibojee is the parent company of Bibojee Group of companies under whose umbrella come automobile companies, textile, insurance, construction and tyre manufacturing concerns. Bibojee's group understanding of the business is strong.

Financial Strength Bibojee Services (Private) Limited has strategic stakes in companies from different sectors including Textile, Insurance, Automobile & Construction. Hence, the financial strength of the group is considered strong.

Governance

Board Structure The overall control of the Company vests in seven members board of directors. The board structure comprises two executive directors, three non-executive directors, and two independent directors.

Members' Profile The Board members are professionals with experiences of managing business affairs in different sectors. Lt. Gen. (Retd.) Ali Kuli Khan Khattak is the Chairman of the Board having diversified experience in the Auto & Allied sector, which brings specialized and comprehensive experience and knowledge on the board.

Board Effectiveness In line with the guidelines of Code of Corporate Governance, the Board has formed two sub-committees – (i) HR & Remuneration Committee and (ii) Audit Committee. Both committees are headed by an independent director and consist of 5 and 4 members, respectively. Attendance in the meetings held during FY23 was good.

Financial Transparency An effective Internal Audit department reporting to the Audit Committee is in place. M/s. ShineWing Hameed Chaudhari & Company, a QCR rated firm, has expressed an unqualified audit opinion on financial statements of the Company for financial period ended June 30th, 2023.

Management

Organizational Structure The organizational structure of the Company is divided broadly into various functional departments and all the HODs report directly to Deputy CEO. Major departments include (i) Finance, (ii) HR & Admin (iii) Quality Control (iv) Sales & Marketing and (v) Material Management.

Management Team Management of the Company comprises qualified professionals with a wide range of skills and diversified experience. Mr. Ahmad Kuli Khan Khattak is the CEO of the Company, Mr. Muhammad Kuli Khan Khattak is the Deputy CEO. He has an overall experience of over 15 years and he is assisted by able management team.

Effectiveness Every department head is responsible to manage the affairs of their departments. Clearly defined rules & responsibilities in organization add to the effectiveness of the company's structure.

MIS GIL has implemented ERP-business software package designed to integrate all areas of a business. Going forward, strong MIS system is expected to add value to the Company's operations.

Control Environment 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 Trucks & Buses sector is dominated by domestic players. Ghandhara Industries occupies the highest share in the industry followed by Master, HinoPak, and Ghandhara Automobiles Limited. According to PAMA numbers; 3,836 units of trucks & Buses were sold during FY23 as compared to 6,498 units in FY22 showing a negative growth of ~40.97% when compared with positive ~49% growth during FY22.

Relative Position GIL - a strong player in the industry, possessing ~41.7% market share as at end-June23. Much of the trucks demand of the Company is generated through various commercial customers. The company sold 1,463 units of ISUZU trucks, 137 units of ISUZU buses and 194 units of ISUZU D-Max pickups during FY23 as compared to 2,893 units of trucks, 123 units of buses and 473 units of ISUZU D-Max pickups in FY22. Due to strong relationship with its customers, the company is well poised to retain its market share.

Revenues Due to challenging industry environment caused by macroeconomic instability in Pakistan (mainly due to import restrictions imposed on auto and allied sector while opening of LCs on back of depletion of FX reserves), the Company posted a negative topline growth of ~40.1% at end of Jun'23. Revenue of the Company stood at PKR 14,543mln in FY23 (FY22: PKR 24,265mln, FY21: PKR 14,999mln).

Margins The Company posted gross profit margin of 15.8% during FY23 (FY22: 12.2%, FY21: 13.8%). Accordingly, operating margin also slightly improved, and recorded at 6.9% in FY23 (FY22: 6.8%, FY21: 7.7%). Whereas, net margin recorded at 1.2% only in FY23 (FY22: 3.0%, FY21: 4.0%).

Sustainability Keeping in view the economic trends, the Company is making all necessary efforts to improve its position on back of enhanced product line and improved competitiveness which will create sufficient potential demand in local market.

Financial Risk

Working Capital The Company's working capital requirement emanates from financing inventories and trade receivables for which the GIL relies on both internal cash flows as well as short-term borrowings. Gross working capital days stood at ~196 days in FY23 (FY22: ~120 days). Resultantly, net working capital days of the Company also increased to ~175 days in FY23 as compared to ~106 days in FY22.

Coverages Free cash flow from operations (FCFO) decreased to PKR 1,047mln in FY23 from PKR 1,559mln in FY22. Reduced cash flows led to deteriorated interest coverage and core coverage ratio of the Company. During FY23, both the interest coverage and core-coverage ratios stood at 1.4x when compared with 4.1x and 3.3x, respectively in FY22. Going forward, strengthened cashflow streams are essential to keep the coverages intact.

Capitalization The Company has a leveraged capital structure. Total debt of the company in FY22 clocked at PKR ~4,555mln which reduced to PKR~3,353mln at end of FY23. During review period, out of the Company's total debt, PKR ~3,253mln is through short-term borrowings availed from different commercial banks. Gearing ratio of the Company stood at ~29.8% during FY23 (FY22: 42.4%, FY21: 35.4%).



Ghandhara Industries Limited Trucks & Buses	Jun-23 12M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	6,067	4,395	4,447	4,482
2 Investments	-	-	88	88
3 Related Party Exposure	-	1	1	1
4 Current Assets	10,429	13,237	10,368	14,358
<i>a Inventories</i>	5,391	7,297	6,431	7,547
<i>b Trade Receivables</i>	1,290	1,655	581	639
5 Total Assets	16,495	17,634	14,905	18,929
6 Current Liabilities	4,673	6,478	6,076	7,058
<i>a Trade Payables</i>	506	1,197	616	452
7 Borrowings	3,353	4,555	3,107	6,614
8 Related Party Exposure	134	145	-	146
9 Non-Current Liabilities	113	67	46	37
10 Net Assets	8,222	6,389	5,675	5,075
11 Shareholders' Equity	8,222	6,389	5,675	5,075
B INCOME STATEMENT				
1 Sales	14,543	24,265	14,999	11,788
<i>a Cost of Good Sold</i>	(12,242)	(21,307)	(12,924)	(11,095)
2 Gross Profit	2,301	2,958	2,075	693
<i>a Operating Expenses</i>	(1,293)	(1,317)	(924)	(766)
3 Operating Profit	1,007	1,640	1,151	(73)
<i>a Non Operating Income or (Expense)</i>	186	(48)	53	32
4 Profit or (Loss) before Interest and Tax	1,193	1,592	1,204	(41)
<i>a Total Finance Cost</i>	(769)	(452)	(466)	(971)
<i>b Taxation</i>	(244)	(412)	(134)	(271)
6 Net Income Or (Loss)	179	728	604	(1,283)
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	1,047	1,559	1,160	(393)
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	360	1,155	575	(1,316)
<i>c Changes in Working Capital</i>	557	(2,539)	3,344	1,013
1 Net Cash provided by Operating Activities	916	(1,384)	3,920	(302)
2 Net Cash (Used in) or Available From Investing Activities	40	(79)	32	(95)
3 Net Cash (Used in) or Available From Financing Activities	(1,243)	1,414	(3,561)	238
4 Net Cash generated or (Used) during the period	(287)	(49)	391	(160)
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	-40.1%	61.8%	27.2%	-15.3%
<i>b Gross Profit Margin</i>	15.8%	12.2%	13.8%	5.9%
<i>c Net Profit Margin</i>	1.2%	3.0%	4.0%	-10.9%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	11.0%	-4.0%	30.0%	5.3%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	2.5%	12.1%	11.2%	-26.4%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	196	120	185	288
<i>b Net Working Capital (Average Days)</i>	175	106	172	273
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.2	2.0	1.7	2.0
3 Coverages				
<i>a EBITDA / Finance Cost</i>	1.7	5.0	3.4	0.2
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.4	3.3	2.1	-0.4
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.8	0.3	0.3	-0.1
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	29.8%	42.4%	35.4%	56.6%
<i>b Interest or Markup Payable (Days)</i>	100.5	131.6	88.4	90.0
<i>c Entity Average Borrowing Rate</i>	16.1%	8.8%	8.7%	14.2%

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

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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

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- (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)
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- (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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