



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
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) operates in pickups, trucks & buses segment of the automobile sector. The strength of the company is its alliance with ISUZU – a leading Japanese brand in the country's trucks & buses segment. ISUZU has enabled the company to build a strong fortress in the competitive industry of Pakistan. The current economic slowdown and rupee devaluation has hampered the overall demand, impacting the business volumes of the company. Over the years, the company has improved its ranking and share in the market, however, sustainability of the same is important. Recently launched pickup range of ISUZU D-Max, though slow- has also started its contribution. The group has built synergies between the two companies operating in the same sector. The sponsoring group upholds good corporate governance standards. Their business acumen is further enriched by the group's stake in the country's leading tyre manufacturing company. It is important to sustain the growth while managing the rising competition. 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 GIL is strong. The working capital is supported by short term borrowings.

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 during the demand crunch is crucial.

Disclosure

Name of Rated Entity	Ghandhara Industries Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study Auto and Allied Trucks & Buses(Dec-18)
Rating Analysts	Raniya Tanawar raniya.tanawar@pacra.com +92-42-35869504



Profile

Legal Structure Ghandhara Industries Limited (hereinafter referred to as “the Company” or “Ghandhara Industries”) is a public listed entity. It is the authorized assembler and dealer of ISUZU pickup, truck and buses in Pakistan. The corporate office of the company is in F-3, Hub Chawki Road, S.I.T.E.

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 Ghandhara is primarily engaged in the assembly (outsourced), body fabrication and sale of Isuzu pickup, truck and buses and is the exclusive distributor of ISUZU products in Pakistan. The company has outsourced the assembly of its pickup, truck and buses to Ghandhara Nissan Ltd (an associate).

Ownership

Ownership Structure Majority ownership of the company is held by Bibojee Group of Companies, whereas Bibojee Services (Private.) Limited directly owns ~39% shares, Ghandhara Nissan Limited has ~19% and Universal Insurance Company Limited (another associate company) holds ~6% shares. Other shares are held by corporates, financial institutions and individuals.

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 concern. Bibojee’s group understanding of the business is strong.

Financial Strength Financial strength of Ghandhara’s sponsors 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 director and two independent directors.

Members’ Profile The Board members are professionals with experiences of managing business affairs in different sectors. Mr. Lt. Gen. (Retd.) Ali Kuli Khan Khattak is the Chairman of the Board having diverse experience in the Auto and 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 and Remuneration Committee and (ii) Audit Committee. Both committees are headed by an Independent director and consist of 5 and 4 members respectively. Attendance in meetings held during FY18 was good.

Financial Transparency An effective Internal Audit department reporting to the Audit Committee is in place. M/s. Shine Wing Hameed Chaudhari & Co. along with M/s Junaidy Shoaib Asad have expressed an unqualified opinion on financial accounts of FY18.

Management

Organizational Structure The organizational structure of the company is divided broadly into various functional departments and all the department heads report to Deputy Chief Executive Officer. Major departments include (i) Finance, (ii) Human Resources and Admin (iii) Quality control (iv) Sales and Marketing (v) Material Management.

Management Team Management of the company comprises qualified and experienced 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 Chief Executive Officer. He has an overall experience of over 11 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 and responsibilities in organization add to the effectiveness of the organization structure.

MIS The company has implemented ERP-business software package designed to integrate all areas of a business. Strong MIS system is expected to add value to the company’s operations going forward.

Control Environment The company has outsourced its assembly activity to Ghandhara Nissan Limited and retained body fabrication of the trucks and buses in house.

Business Risk

Industry Dynamics Pakistan’s trucks and buses industry is dominated by domestic players such as HinoPak, Ghandhara Industries, Master Trucks and Ghandhara Nissan. Lately, Ghandhara Industries has outperformed HinoPak in terms of market share and now occupies the highest share in the industry followed by HinoPak, Master and Ghandhara Nissan. According to Pakistan Automotive Manufacturers Association, only 5,428 units of trucks and buses was sold during 9MFY19 with a decline of ~31% from the same period last year. Current economic slowdown has hampered the CPEC related activities, which coupled with high interest rates and rupee devaluation has further affected the overall LSM segment of the country, Hence, demand for trucks and buses has slowed down significantly.

Relative Position Ghandhara Industries - a strong player in the industry, possessing ~40% market share as at End June-18. Much of the trucks demand of the company is generated through commercial customers, such as oil marketing companies. The company sold 4,000 units of ISUZU trucks and buses during FY18. Due to strong relationship with its customers, the company is well poised to retain its market share.

Revenues Ghandhara’s revenue decreased by ~7% during 9MFY19 compared to the corresponding period. The company posted a revenue of PKR 10,742mln (9MFY18: PKR 11,565mln), owing to restricted demand for trucks in the country. Sales of ISUZU buses played well with 184 units sold during the period 9MFY19 (9MFY18 73 units) whereas DMAX contribution towards the revenue has also started, with 232 units sold in 9MFY19.

Margins Instilling impact of decreased revenues along with high cost of raw material drives the decrease in gross profit margin of the company, which reduced by ~42% in 9MFY19e, standing at PKR 1,405mln during 9MFY19. Decrease in gross profit margin led to decrease in operating margin in 9MFY19. Margin are expected to remain under pressure going forward as the recent devaluation of currency will make its impact.

Sustainability Sale of the company in coming periods is expected to pick-up its pace after the resumption of orders from government institutes. Recent Launch of D-Max pick-ups will also add to the revenues.

Financial Risk

Working Capital Average inventory days of the company increased, on annualized figures, to ~325 days at the end of 9MFY19 (~111 days 9MFY18) in anticipation of future sales, launch of new product and less than expected demand. Net working capital days of the company also increased, on annualized figures, to ~229 days in 9MFY19 as compared to ~90 days in 9MFY18. the entire working capital is managed through short term financing.

Coverages Free cash flow from operations (FCFO) decreased by ~41% on YOY basis in 9MFY19 clocking in at PKR~508 million (9MFY18: PKR~1,252 million). 9MFY19 witnessed a decline in FCFO on the backdrop of decreased profits. Decrease in FCFO led to decrease in interest coverage of the company during the period under review, interest coverage ratio decreased to 1.1x in 9MFY19 (FY18: 6.1x).

Capitalization The company has a leveraged capital structure. Total debt, comprising long term loans, short term borrowings and current maturity of long term debt, of the company in 9MFY19 clocked in at PKR~8,942 million as compared to PKR~3,675 million in FY18. Out of the total debt of, PKR~8,904 million pertained to short term and PKR~26 million were long term liabilities against finance lease. Gearing ratio is continuing its upward trend as it stand at ~65% in 9MFY19 (FY18: ~43.8%, FY17:~18%). Cautious management approach is necessitated. .



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Ghandhaara Industries Limited ##	Mar-19 9M	Jun-18 12M	Jun-17 12M	Jun-16 12M
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A BALANCE SHEET

1 Non-Current Assets	2,742	2,481	2,058	1,956
2 Investments	88	89	89	89
3 Related Party Exposure	1	1	1	1
4 Current Assets	14,162	9,463	6,446	3,114
<i>a Inventories</i>	11,550	6,888	3,779	1,624
<i>b Trade Receivables</i>	392	95	485	260
5 Total Assets	16,994	12,034	8,595	5,160
6 Current Liabilities	3,157	3,544	4,047	1,732
<i>a Trade Payables</i>	424	502	887	454
7 Borrowings	8,942	3,675	812	230
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	109	91	46	90
10 Net Assets	4,787	4,724	3,690	3,109
11 Shareholders' Equity	4,787	4,724	3,690	3,109

B INCOME STATEMENT

1 Sales	10,743	16,772	10,741	5,826
<i>a Cost of Good Sold</i>	(9,337)	(13,661)	(8,538)	(4,279)
2 Gross Profit	1,406	3,111	2,203	1,547
<i>a Operating Expenses</i>	(591)	(931)	(510)	(332)
3 Operating Profit	815	2,180	1,693	1,215
<i>a Non Operating Income</i>	64	6	(222)	(4)
4 Profit or (Loss) before Interest and Tax	879	2,186	1,471	1,211
<i>a Total Finance Cost</i>	(507)	(222)	(225)	(113)
<i>b Taxation</i>	22	(602)	(451)	(352)
6 Net Income Or (Loss)	395	1,362	796	746

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	508	1,238	1,090	979
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	210	1,042	867	874
<i>c Changes in Working Capital</i>	(5,403)	(3,413)	(932)	(285)
1 Net Cash provided by Operating Activities	(5,193)	(2,371)	(66)	589
2 Net Cash (Used in) or Available From Investing Activities	(198)	(472)	(110)	(73)
3 Net Cash (Used in) or Available From Financing Activities	(309)	(303)	(203)	(58)
4 Net Cash generated or (Used) during the period	(5,699)	(3,145)	(379)	457

D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	-14.6%	56.2%	84.4%	--
<i>b Gross Profit Margin</i>	13.1%	18.5%	20.5%	26.5%
<i>c Net Profit Margin</i>	3.7%	8.1%	7.4%	12.8%
<i>d Cash Conversion Efficiency (EBITDA/Sales)</i>	9.2%	13.5%	14.4%	21.5%
<i>e Return on Equity (ROE)</i>	11.1%	32.4%	23.4%	24.0%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	241	122	104	88
<i>b Net Working Capital (Average Days)</i>	229	107	82	60
<i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i>	4.5	2.7	1.6	1.8
3 Coverages				
<i>a EBITDA / Finance Cost</i>	2.2	11.6	7.6	12.6
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.1	6.1	5.4	9.8
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.4	0.0	0.0	0.0
4 Capital Structure (Total Debt/Total Debt+Equity)				
<i>a Short-Term Borrowings / Total Borrowings</i>	65.1%	43.8%	18.0%	6.9%
<i>b Interest or Markup Payable (Days)</i>	1.0	1.0	1.0	0.8
<i>c Average Borrowing Rate</i>	9.4%	8.7%	38.9%	43.3%

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		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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 surveil the opinion due to lack of requisite information.

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

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/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.

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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- (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)
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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)

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- (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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