



The Pakistan Credit Rating Agency Limited

## Rating Report

### Ghandhara Nissan Limited

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
05-Nov-2020	A	A1	Stable	Maintain	-
13-Dec-2019	A	A1	Stable	Maintain	-
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 Nissan Limited (GNL) operates in the truck segment of the automobile sector. Presently, the company deals in Chinese and European brands. Ghandhara Nissan has solidified its position in the market through the launch of JAC X-200 and Renault Trucks. Keeping in view of the current market scenario the turnout of these initiatives is pivotal. Covid19 and associated lockdown has worsened the existing economic slowdown which has hampered the overall demand, impacting the business volumes of the company. Further, under absorption of overheads on account of declining volumes has resulted in lower margins leading to inflated loss for FY20. Relatively higher losses and low cash flows have dampened the coverages. 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.

The ratings are dependent on upholding of the company's business as well as financial risk profile. Improvement in margins and intact coverages are imperative. Key element is company's stance on working capital management. Moreover, management's ability to sustain its market share while benefiting from positive demand fundamentals is crucial.

#### Disclosure

<b>Name of Rated Entity</b>	Ghandhara Nissan Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Ratings(Jun-20),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria   Rating Modifier(Jun-20)
<b>Related Research</b>	Sector Study   Trucks & Buses(Dec-19)
<b>Rating Analysts</b>	Sohail Ahmed   sohail.ahmed@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Ghandhara Nissan Limited is a public listed entity with a free float of ~35% shares, as to date Sep'20. It got listed on Karachi Stock Exchange (now "Pakistan Stock Exchange") in 1992.

**Background** Ghandhara Nissan Limited was incorporated on August 8, 1981 as a private limited company and subsequently converted into a public limited company on May 24, 1992. The company is a subsidiary of Bibojee Services (Private) Limited.

**Operations** The principle business of the company is assembly/ progressive marketing of vehicles including JAC trucks, import and sale of Nissan, Dongfeng and Renault vehicles in completely built up conditions and assembling of other vehicles under contract agreement. The company has a capacity to manufacture 4,800 units of trucks and buses and 6,000 cars on a single shift basis. The registered office of Ghandhara Nissan is situated in Karachi while its manufacturing facilities are located at Port Qasim.

## Ownership

**Ownership Structure** Bibojee Services (Private) Limited directly owns 57.76% shares in the company. Other shareholders includes Insurance Companies (7.6%), general public (~20%) and remaining is held by Banks, DFI, NBFI and others.

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

**Business Acumen** Bibojee Services (Pvt) Limited is the holding company of the group companies under whose umbrella comes automobile companies, textile, insurance, construction and tyre manufacturing concern. 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 and construction. Financial strength of the group is strong.

## Governance

**Board Structure** The overall control of the company vests in ten members board of directors. The board structure comprises six non-executive directors, three independent directors and one executive director.

**Members' Profile** The Board members are professionals with experiences of managing business affairs in different sectors. Mr. Raza 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 being headed by independent directors and consist of 5 members each. Attendance in meetings held during FY20 was good.

**Financial Transparency** An effective Internal Audit department reporting to the Audit Committee is in place. M/s. Shine Wing Hameed Chaudhari & Company, a QCR rate firm, has expressed unmodified opinion on financial statements of FY20.

## Management

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

**Management Team** Management of the company comprises qualified and experienced professionals with a wide range of skills and diversified experience. Mr. Ahmed Kuli Khan is the CEO of the company. He is an experienced professional in the Auto & Allied industry, and 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 Sidat Hyder Financial-business software package. The company has regular update and technical support agreement with the vendor.

**Control Environment** The 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 and buses industry is dominated by domestic players such as Ghandhara Industries, Ghandhara Nissan, HinoPak and Master Trucks. Ghandhara Industries occupies the highest share in the industry followed by HinoPak, Ghandhara Nissan and Master. According to Pakistan Automotive Manufacturers Association only 3,647 units of trucks & Buses were sold during FY20 as compared to 6,763 units in FY19 with a decline of ~46%. Covid-19 crisis has worsened the overall economy particularly the LSM segment of the country which was already affected by economic slowdown and macroeconomic variables of the country. Hence, purchasing power and demand has slowed down significantly.

**Relative Position** Ghandhara Nissan - a strong player in the industry, possessing adequate market share as at End Jun-20. Much of the trucks demand of the company is generated through commercial customers, such as oil marketing companies. DongFeng trucks continue to be the major product line. JAC X-200 trucks has augmented the top-line of the Company and Renault trucks are expected to bring further improvement to the revenue. Due to strong relationship with its customers, the company is well poised to retain its market share.

**Revenues** Due to economic slowdown and decreasing trend in overall trucks and buses market exacerbated by Covid-19 and associated lockdown, Revenue decreased by 30% during FY20 as compared to the last year. Revenue of GNL stands at PKR 1,663m in FY20 (FY19: PKR 2,374m). DongFeng trucks, major product line of the Company has suffered substantially as these are mostly heavy duty trucks and demand in this segment was impacted significantly.

**Margins** Declining volumes along with high cost of raw material and rising cost of energy drive the decrease in gross profit margin of the company. Gross margin ratio in FY20 was just 0.3% as compared to 13.5% in FY19 on account of under-absorption of overheads due to contract assembly volumes. This staggering decline in gross profit led to operating loss of PKR 301m in FY20 as compared to profit of PKR 22m in FY19. Accordingly, operating margins turned into negative -18% as compared to 0.9% last year. The Company has made an after tax loss of PKR 207m in FY20 as against loss after tax of PKR 29m in last year.

**Sustainability** The overall economic outlook remains uncertain. However, the Company is keen to address the challenges of ever changing market dynamics by bringing in right product mix in commercial vehicles segment while offering flexible payment terms to support the customers in this time of financial stress. Management is determined to avail full benefits of the opportunities offered by the market with continued focus on quality improvement, productivity, cost control and after sales service to improve its competitiveness and market share.

## Financial Risk

**Working Capital** Average inventory days increased to ~216 days as of Jun20 ( Jun19: ~139 days) due to declining sales. Covid-19 pandemic has impacted the financial position of the Company with increasing working capital requirement as a result of minimal sales operations and delay in recoveries from customers. Hence, receivable days have increased to 63 days in FY20 from 39 days in FY19. Thereby, net working capital days also increased to 252 days as at Jun20 as compared to ~149 days at Jun19.

**Coverages** Free cash flow from operations (FCFO) significantly dropped due to loss to PKR -232m in FY20 from PKR -55m in FY19. Decreased cash flows led to deteriorated interest coverage and core coverage ratio of the company. Going forward, strengthened cashflow streams are essential to keep the coverages intact.

**Capitalization** The company has a low leveraged capital structure. Total debt of the company in FY20 clocked in at PKR~222m as compared to PKR~237m in FY19. Out of the total debt of, PKR~51m was short term. Strong equity base kept the debt to equity ratio intact: FY20:~3.6% (FY19:~3.7%), still stand to be low.



Ghandhara Nissan Limited Trucks & Buses	Jun-20 12M	Jun-19 12M	Jun-18 12M
--	---------------	---------------	---------------

**A BALANCE SHEET**

1 Non-Current Assets	4,139	3,938	2,163
2 Investments	-	389	101
3 Related Party Exposure	786	875	992
4 Current Assets	1,977	1,895	2,569
<i>a Inventories</i>	902	1,070	738
<i>b Trade Receivables</i>	322	252	261
<b>5 Total Assets</b>	<b>6,902</b>	<b>7,098</b>	<b>5,825</b>
6 Current Liabilities	456	404	818
<i>a Trade Payables</i>	136	111	269
7 Borrowings	222	237	65
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	345	373	274
<b>10 Net Assets</b>	<b>5,879</b>	<b>6,084</b>	<b>4,668</b>
<b>11 Shareholders' Equity</b>	<b>5,879</b>	<b>6,084</b>	<b>4,668</b>

**B INCOME STATEMENT**

1 Sales	1,663	2,374	2,219
<i>a Cost of Good Sold</i>	(1,658)	(2,054)	(1,785)
<b>2 Gross Profit</b>	<b>5</b>	<b>320</b>	<b>433</b>
<i>a Operating Expenses</i>	(306)	(298)	(267)
<b>3 Operating Profit</b>	<b>(301)</b>	<b>22</b>	<b>166</b>
<i>a Non Operating Income or (Expense)</i>	149	55	1,109
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>(152)</b>	<b>77</b>	<b>1,275</b>
<i>a Total Finance Cost</i>	(64)	(71)	(23)
<i>b Taxation</i>	9	(34)	(215)
<b>6 Net Income Or (Loss)</b>	<b>(207)</b>	<b>(29)</b>	<b>1,038</b>

**C CASH FLOW STATEMENT**

<i>a Free Cash Flows from Operations (FCFO)</i>	(232)	(55)	96
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	(175)	(114)	71
<i>c Changes in Working Capital</i>	204	(749)	(535)
<b>1 Net Cash provided by Operating Activities</b>	<b>29</b>	<b>(863)</b>	<b>(463)</b>
<b>2 Net Cash (Used in) or Available From Investing Activities</b>	<b>212</b>	<b>(582)</b>	<b>454</b>
<b>3 Net Cash (Used in) or Available From Financing Activities</b>	<b>(80)</b>	<b>281</b>	<b>810</b>
<b>4 Net Cash generated or (Used) during the period</b>	<b>161</b>	<b>(1,165)</b>	<b>800</b>

**D RATIO ANALYSIS**

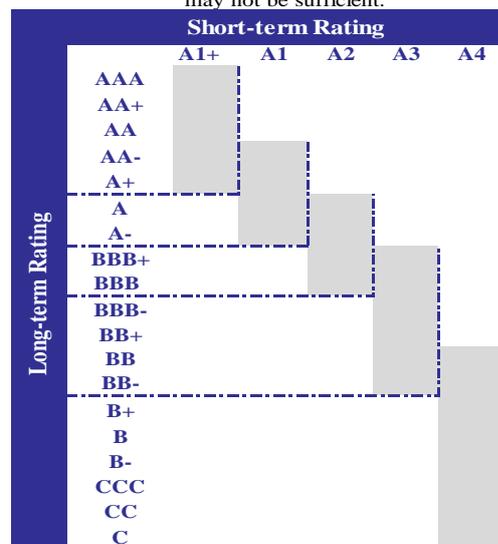
<b>1 Performance</b>			
<i>a Sales Growth (for the period)</i>	-29.9%	7.0%	-54.3%
<i>b Gross Profit Margin</i>	0.3%	13.5%	19.5%
<i>c Net Profit Margin</i>	-12.4%	-1.2%	46.8%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	-1.7%	-33.9%	-19.8%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	-3.5%	-0.5%	26.7%
<b>2 Working Capital Management</b>			
<i>a Gross Working Capital (Average Days)</i>	279	178	120
<i>b Net Working Capital (Average Days)</i>	252	149	86
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	4.3	4.7	3.1
<b>3 Coverages</b>			
<i>a EBITDA / Finance Cost</i>	-2.0	2.7	14.2
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	-2.1	-0.6	2.6
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	-0.6	-0.5	0.9
<b>4 Capital Structure</b>			
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	3.6%	3.7%	1.4%
<i>b Interest or Markup Payable (Days)</i>	71.8	121.5	123.8
<i>c Entity Average Borrowing Rate</i>	31.8%	27.1%	17.2%

**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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<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.
AA-	
A+	
A	<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.
A-	
BBB+	
BBB	<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 and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	<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.
BB	
BB-	
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-	
CCC	
CC	<b>Very high credit risk.</b> 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):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
--	---

**Disclaimer:** PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

### **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)

### **Proprietary Information**

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent