



The Pakistan Credit Rating Agency Limited

## Rating Report

### Ghani Chemical Industries Limited | ICP

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-Jun-2021	A	A1	Stable	Preliminary	-

#### Rating Rationale and Key Rating Drivers

The ratings recognize Ghani Chemical Industries Limited's (GCIL) leading and prominent position in the industrial and medical gases sector in terms of production capacity. The industry largely possesses an oligopolistic structure, benefiting the players. Demand of medical gases in health sector has significantly escalated during third wave of Covid-19 and is expected to sustain in short to medium term. On the other side manufacturing and construction industry has comprehended recovery which led to improved demand for industrial gases. The company was able to capitalize growth from (a) Underutilized free capacity, which was available as a result of 3rd 110TPD plant expansion (b) price rationalization of medical and industrial gases also witnessed from financial performance of the company recorded in 9MFY21. Company's margins, coverages and working capital cycle showed improvement at all levels. Cash flows of the Company also posted a healthy growth. All three plants are operational with higher capacity utilization. Capacity expansions are underway and currently the Company is setting up its fourth 105TPD dedicated plant which will cater the need of a renowned big industrial customer through a long term sale contract and would play a vital role towards top-line and bottom line growth. GCIL also intends to setup the largest 275TPD plant in KPK in future as well. Going forward the Company is expected to receive benefits from (a) rising demand from industrial and medical gases which will be translated into better financial performance and are evident in future financial projections (b) Capacity expansions with new plants and enhancement of current % utilization to ensure maximum production (c) reduce reliance towards borrowings from financial institutions with rationalize leveraging policy (d) stock exchange listing to capitalize future growth. The Company is contemplating to issue a short term commercial paper, as bridge finance, for another expansion project. This will be repaid through internal sources and/or other equity sources.

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, remains important, wherein any further deterioration would have negative implications for the ratings. Consistent growth in market share and improved margins would support ratings.

#### Disclosure

<b>Name of Rated Entity</b>	Ghani Chemical Industries Limited   ICP
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Debt Instrument Rating
<b>Applicable Criteria</b>	Methodology   Corporate Ratings(Jun-20),Criteria   Rating Modifier(Jun-20),Methodology   Debt Instrument(Jun-21)
<b>Related Research</b>	Sector Study   Chemical(Jul-20)
<b>Rating Analysts</b>	Kanwal Ejaz   kanwal.ejaz@pacra.com   +92-42-35869504

## Issuer Profile

**Profile** Ghani Chemicals was established as a private limited company in Nov-15, as part of the Ghani Global Group of Companies, for the purpose of setting up a chemical manufacturing plant in Hattar Economic Zone. However, due to economic and political challenges, the said project was postponed. In Jul-19, as part of the Scheme of Compromises, Arrangement and Reconstruction undertaken by the Ghani Global Group of Companies, the manufacturing undertaking of Ghani Gases Limited, along with all assets and liabilities, was transferred to Ghani Chemicals. The Company is a subsidiary of Ghani Global Holdings Limited (formerly “Ghani Gases Limited”).

**Ownership** The majority stake in Ghani Chemicals (~74.45%) is presently held by the Group holding company, Ghani Global Holdings Limited, which is majorly owned by the Ghani Family (~52%). The remaining shareholding lies Ghani Products (Pvt.) Ltd.

**Governance** The oversight of the Company lies with a four-member Board of Directors, chaired by Mr. Masroor Ahmad Khan. The remaining Board comprises two members of the sponsoring family including the CEO and one Group employee.

**Management** Mr. Masroor Ahmad Khan – Chairman – has been associated with the family business since 1985. With over three decades of experience, he holds managerial and directorial positions in various Group companies. Most Directors have been associated with the Board since the inception of the Company and have extensive experience in diversified sectors.

**Business Risk** Pakistan's overall production capacity for industrial gases currently stands at ~995TPD, with the major capacity lying with Ghani Chemicals and Pakistan Oxygen (formerly Linde Pakistan). With the expansion of third plant, Ghani Chemicals is now the largest manufacturer of Industrial and medical gases. Pakistan Oxygen has announced its capacity expansion for FY23. Meanwhile, demand for industrial and medical gases is expected to increase in line with the overall economic recovery.

**Financial Risk** Ghani Chemicals' working capital requirements emanate from its need to finance its inventory of imported Calcium Carbide and offering relaxed credit terms to its customers. The Company's net cash cycle remained 67 days as at March 21 ( IHFY21: 69 days, FY20 106 days). Current ratio of the company has improved, as it reached to ~3.4x as at March 21 (IHFY21~3.7x , FY20: ~2.9x).

## Instrument Rating Considerations

**About The Instrument** Ghani Chemical industries Limited will issue an Islamic Commercial paper (ICP) under the " Issue of Commercial Papers Regulations" dated December 4th 2013. Issue amount is PKR 1000mln. Its indicative Profit / Discount rate is 6M KIBOR+ up to 2.00% p.a. The purpose of this ICP is to finance the working capital requirements of the company.

**Relative Seniority/Subordination Of Instrument** Obligations to holders of the ICP will constitute unsubordinated obligations of the Issuer ranking at least equally in right of payment with all other unsubordinated indebtedness of the Issuer except those preferred mandatory by law of Pakistan.

**Credit Enhancement** The Commercial Paper will be unsecured.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

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<b>A BALANCE SHEET</b>				
1 Non-Current Assets	4,062	4,035	3,411	3,127
2 Investments	-	-	-	-
3 Related Party Exposure	0	0	1	593
4 Current Assets	1,939	1,340	1,754	1,607
a Inventories	55	55	44	94
b Trade Receivables	710	482	607	469
5 Total Assets	6,001	5,375	5,166	5,327
6 Current Liabilities	566	465	311	228
a Trade Payables	385	171	107	94
7 Borrowings	2,428	2,522	2,276	2,045
8 Related Party Exposure	-	285	246	231
9 Non-Current Liabilities	372	268	336	316
10 Net Assets	2,635	1,836	1,997	2,507
11 Shareholders' Equity	2,635	1,836	1,997	2,507
<b>B INCOME STATEMENT</b>				
1 Sales	2,660	2,049	2,301	-
a Cost of Good Sold	(1,538)	(1,555)	(1,722)	(1,410)
2 Gross Profit	1,123	494	579	(1,410)
a Operating Expenses	(314)	(425)	(401)	(346)
3 Operating Profit	809	69	178	(1,756)
a Non Operating Income or (Expense)	(37)	28	11	(12)
4 Profit or (Loss) before Interest and Tax	772	97	189	(1,767)
a Total Finance Cost	(164)	(320)	(213)	(123)
b Taxation	(194)	63	(41)	(1)
6 Net Income Or (Loss)	414	(160)	(65)	(1,892)
<b>C CASH FLOW STATEMENT</b>				
a Free Cash Flows from Operations (FCFO)	831	300	228	281
b Net Cash from Operating Activities before Working Capital Changes	652	(8)	37	165
c Changes in Working Capital	(459)	321	(78)	(90)
1 Net Cash provided by Operating Activities	193	313	(41)	75
2 Net Cash (Used in) or Available From Investing Activities	(112)	(602)	(244)	(236)
3 Net Cash (Used in) or Available From Financing Activities	24	266	221	101
4 Net Cash generated or (Used) during the period	105	(23)	(64)	(61)
<b>D RATIO ANALYSIS</b>				
1 Performance				
a Sales Growth (for the period)	73.1%	-11.0%	--	N/A
b Gross Profit Margin	42.2%	24.1%	25.1%	N/A
c Net Profit Margin	15.6%	-7.8%	-2.8%	N/A
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	14.0%	30.3%	6.5%	N/A
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity) ]	24.7%	-8.4%	-2.9%	N/A
2 Working Capital Management				
a Gross Working Capital (Average Days)	67	106	107	N/A
b Net Working Capital (Average Days)	38	81	91	N/A
c Current Ratio (Current Assets / Current Liabilities)	3.4	2.9	5.6	7.0
3 Coverages				
a EBITDA / Finance Cost	5.8	0.7	1.5	3.3
b FCFO / Finance Cost+CMLTB+Excess STB	1.9	0.4	0.5	0.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.5	-119.8	83.0	8.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	48.0%	60.3%	55.8%	47.6%
b Interest or Markup Payable (Days)	57.6	68.7	80.4	0.0
c Entity Average Borrowing Rate	7.2%	11.7%	8.8%	5.3%

**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
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
<b>AA+</b>	
<b>AA</b>	<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.
<b>AA-</b>	
<b>A+</b>	
<b>A</b>	<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.
<b>A-</b>	
<b>BBB+</b>	
<b>BBB</b>	<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.
<b>BBB-</b>	
<b>BB+</b>	<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.
<b>BB</b>	
<b>BB-</b>	
<b>B+</b>	
<b>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>B-</b>	
<b>CCC</b>	<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.
<b>CC</b>	
<b>C</b>	
<b>D</b>	Obligations are currently in default.

Scale	Short-term Rating Definition
<b>A1+</b>	The highest capacity for timely repayment.
<b>A1</b>	A strong capacity for timely repayment.
<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
<b>A4</b>	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

### **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**

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