



**THE PAKISTAN CREDIT RATING AGENCY LIMITED**

## **ENTITY RATINGS REPORT**

### **GHANDHARA INDUSTRIES LIMITED**

ENTITY	RATINGS	OUTLOOK	ACTION
Ghandhara Industries Ltd	Long Term: A+ Short Term: A1	Stable	Initial

#### **RATING RATIONALE**

Ghandhara Industries Limited (GIL) operates in the truck & buses segment of the automobile sector. The strength of the company is its alliance with ISUZU – a leading Japanese brand in the aforementioned segment. ISUZU has enabled the company to build a strong fortress in the competitive industry of Pakistan. The volumes have been steadily rising – boosting the relative market share of GIL. The company ranks 2nd in the market and has recently announced to launch its pickup range by the name of Isuzu D-Max. 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. GIL has enhanced its market share over the last couple of years. 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 cash cum advances sale mechanism.

#### **KEY RATING DRIVER**

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 while benefiting from positive demand fundamentals is crucial.

#### **Report Contents**

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

GHANDHARA INDUSTRIES LTD	
<b>Incorporated</b>	1963
<b>Major business lines</b>	Assembly, body fabrication and sale of Isuzu buses and trucks
<b>Legal status</b>	Listed
<b>Head Office</b>	Karachi

INDUSTRY SNAPSHOT
Pakistan's truck industry is largely dominated by domestic players such as HinoPak, Ghandhara Industries, Master Trucks and Ghandhara Nissan. The country produced a record 6,736 units of trucks and buses in fiscal year 2016-17. Sales of trucks and buses have rebounded strongly due to a relative improvement in security and macroeconomic stability in the country and is complimented by the government's new auto policy which has attracted new entrants into the auto market. Furthermore, CPEC has created a demand for fuel efficient and high speed long haul vehicles, paving the way for increased sales in the foreseeable future.

PROFILE	Good
<ul style="list-style-type: none"> <li>Ghandhara Industries Limited (GIL) was founded in 1963 and later nationalized in 1972.</li> <li>In 1992, General Habibullah Khan reacquired the company from the government and renamed it to Ghandhara Industries Limited.</li> <li>GIL is primarily engaged in the assembly, body fabrication and sale of Isuzu buses and trucks and is the exclusive distributor of ISUZU products in Pakistan.</li> </ul>	
OWNERSHIP	Good
<ul style="list-style-type: none"> <li>Majority ownership of the company is held by Bibojee Group of Companies with Bibojee Services holding 39.2%, followed by Ghandhara Nissan (24.2%) and Universal Insurance Ltd (5.6%).</li> <li>Bibojee Group was founded by Gen. Habibullah Khattak in 1960's and has interests in various industrial sectors including Textile, Auto, Tyres &amp; Rubber and Construction.</li> </ul>	
GOVERNANCE	Good
<ul style="list-style-type: none"> <li>Seven member board of directors including the Chief Executive Officer (CEO).</li> <li>Three directors represent the sponsoring family.</li> <li>There are two sub-committees of the board namely; (i) Audit and (ii) Human Resource &amp; Remuneration</li> <li>The auditors of the company Messrs ShineWing Hameed Chaudhary &amp; Co and M/s. Junaidy Shoaib Asad, issued an unqualified audit opinion pertaining to annual financial statements for FY17.</li> </ul>	
MANAGEMENT	Good
<ul style="list-style-type: none"> <li>The Chairman, Mr. Raza Kulli Khan Khattak, is a reputed business professional whereas Mr. Ahmed Kulli Khan Khattak serves as the CEO. He is also the Chief Executive of Ghandhara Nissan Ltd and Rehman Cotton Mills Ltd; both associated companies.</li> <li>The day to day activities of the company are overseen by the Deputy Chief Executive (DCE) Mr. Muhammad Kuli Khan Khattak.</li> <li>Management team is a balanced blend of highly experienced professionals from the industry having long association with Ghandhara Industries Limited.</li> </ul>	
BUSINESS STRATEGY	Good
<ul style="list-style-type: none"> <li>GIL's sales mix comprises mainly of the N-series followed by the F-series and the buses.</li> <li>The F-series has seen tremendous surge in sales unit sold (FY17: 890 units, FY16: 461 units and FY15: 228 units) whereas the N-series similarly has similarly witnessed a mass increase in its units sold (FY17: 1,751 units, FY16: 934 units and FY15: 779 units). The sales of buses remained low (FY17: 262 units, FY16: 170 units and FY15: 82 units).</li> <li>The company is now in process to introduce DMAX pickup truck in mid-2018 which shall be a direct substitute to and will be in a competition with Toyota's Hilux/Revo.</li> <li>Furthermore, the company is also in process to introduce heavy duty truck (Isuzu CYZ) in the year 2020 and buses in next few months.</li> </ul>	
PERFORMANCE	Strong
<ul style="list-style-type: none"> <li>During FY17, GIL's topline stood at PKR 10,740mln, registering a growth of 84% YoY (end-Sep17: PKR 4,001mln).</li> <li>Growth in revenue lifted up the gross profit as it posted an increase of 42% however it could not increase the gross margin which decreased to 20% (FY16: 26%, FY15: 21%) .</li> <li>The decreasing gross margin is mainly attributable to higher raw material cost.</li> <li>Operating margin was also squeezed to 16% (FY16: 21%, FY15: 14%), primarily on the back of higher marketing expense and the provision of Worker profits participation fund (WPPF).</li> <li>The bottom-line of the company registered a growth of 7% and stood at PKR 796mln (end-Sep17: PKR 457mln).</li> </ul>	
FINANCIAL RISK	Good
<ul style="list-style-type: none"> <li>GIL's working capital needs emanate from financing inventories and trade receivables for which the company relies on both internal cash flows as well as short term borrowings (STBs).</li> <li>During FY17, GIL's free cash flows (FCFO), amounted to ~PKR 1,090mln, up 11% YoY.</li> <li>GIL has been debt free since 2005 with all the borrowings currently being short term. At end-FY17, the company has an impressive capital structure, with a debt to debt plus equity ratio of 18% (FY16: 7 %).</li> </ul>	

**Ghandhara Industries Ltd**

<b>BALANCE SHEET</b>	<b>30-Sep-17</b>	<b>30-Jun-17</b>	<b>30-Sep-16</b>	<b>30-Jun-16</b>
	<b>3MCY17</b>	<b>CY17</b>	<b>3MCY16</b>	<b>CY16</b>
<b>Non-Current Assets</b>	<b>2,098</b>	<b>2,058</b>	<b>1,953</b>	<b>1,956</b>
<b>Investments (Incl. Associates)</b>	<b>90</b>	<b>90</b>	<b>90</b>	<b>90</b>
<b>Current Assets</b>	<b>5,871</b>	<b>6,446</b>	<b>3,962</b>	<b>3,114</b>
Inventory	3,961	3,779	2,322	1,624
Trade Receivables	497	485	132	260
Others	1,413	2,181	1,509	1,231
<b>Total Assets</b>	<b>8,060</b>	<b>8,595</b>	<b>6,006</b>	<b>5,160</b>
<b>Debt</b>	<b>989</b>	<b>792</b>	<b>828</b>	<b>194</b>
Short-term	989	792	828	194
Long-term (Incl. Current Maturity of Long-Term Debt)	-	-	-	-
Other Short-term Liabilities	3,174	4,047	1,749	1,732
Other Long-term Liabilities	69	66	140	126
<b>Shareholder's Equity</b>	<b>3,827</b>	<b>3,689</b>	<b>3,288</b>	<b>3,109</b>
<b>Total Liabilities &amp; Equity</b>	<b>8,060</b>	<b>8,595</b>	<b>6,006</b>	<b>5,160</b>

**INCOME STATEMENT**

<b>Turnover</b>	<b>4,001</b>	<b>10,741</b>	<b>1,490</b>	<b>5,826</b>
Gross Profit	871	2,203	360	1,547
Other Income	(49)	(222)	12	(4)
Financial Charges	(12)	(225)	(20)	(113)
<b>Net Income</b>	<b>458</b>	<b>796</b>	<b>180</b>	<b>746</b>

**Cashflow Statement**

Free Cashflow from Operations (FCFO)	384	1,090	221	979
Net Cash changes in Working Capital	(1,195)	(932)	(1,400)	(285)
Net Cash from Operating Activities	(812)	(66)	(1,181)	589
Net Cash from Investing Activities	(38)	(110)	(2)	(73)
Net Cash from Financing Activities	(3)	(203)	(2)	(58)
Net Cash generated during the period	(854)	(379)	(1,184)	457

**Ratio Analysis**

<b>Performance</b>				
Turnover Growth	168.6%	84.4%	-74.4%	76.9%
Gross Margin	21.8%	20.5%	24.2%	26.5%
Net Margin	11.4%	7.4%	12.1%	12.8%
ROE	31.2%	16.6%	15.3%	18.1%
<b>Coverages</b>				
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered	33.0	4.9	0.0	8.7
Interest Coverage (x) (FCFO/Gross Interest)	33.0	4.9	0.0	8.7
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Term B	0.0	0.0	0.0	0.0
<b>Liquidity</b>				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	11.7	81.7	31.2	79.1
<b>Capital Structure</b> (Total Debt/Total Debt+Equity)	20.9%	18.0%	20.8%	6.9%

## STANDARD RATING SCALES & 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
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<b>A1+:</b> The highest capacity for timely repayment.
<b>AA+</b> <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>A1:</b> A strong capacity for timely repayment.
<b>A+</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>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</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 or economic conditions are more likely to impair this capacity.	<b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</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>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</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>C:</b> An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> “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>D</b>	Obligations are currently in default.	

### 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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

### 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’.

### 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, a suspended 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, or e) the entity/issuer defaults.

**Disclaimer:** PACRA's rating is an assessment of the credit standing of an entity/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.



**Name of Issuer**  
**Sector**  
**Type of Relationship**

Ghandhara Industries Limited  
Auto & Allied | Trucks  
Solicited

**Purpose of the Rating**

Independent Risk Assessment

**Rating History**

Dissemination Date	Long Term	Short Term	Outlook	Action
29-Dec-17	A+	A1	Stable	Initial

**Related Criteria and Research**

Rating Methodology  
Research:

Corporate Rating Methodology  
Auto & Allied Sector | Overview | December 2017

**Rating Analysts**

Faraan Taimoor <a href="mailto:faraan.taimoor@pacra.com">faraan.taimoor@pacra.com</a> (92-42-35869504)	Jhangeer Hanif <a href="mailto:jhangeer@pacra.com">jhangeer@pacra.com</a> (92-42-35869504)
--	--

[Rating Team Statement](#)

#### Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

[Disclaimer](#)

#### Rating Shopping

PACRA maintains principle of integrity in seeking rating business.

PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public 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.

#### Conflict of Interest

PACRA, the analysts involved in the rating process, and members of its rating committee do not have any conflict of interest relating to the credit rating done by them

The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest

The analysts and members of the rating committees including the external member members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA

The analysts or any of its family members do not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This is, however, not applicable on investment in securities through collective investment schemes. PACRA has established appropriate policies governing investments and trading in securities by its employees

PACRA may provide consultancy/advisory services or other services to any of its clients or to any of its clients' associated companies and associated undertakings that is being rated or has been rated by it. In such cases, PACRA has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities

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 ii) fee mandate - signed with the payer, which can be different from the entity

PACRA ensures that the credit rating assigned to an entity or instrument should 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

#### Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

#### Reporting of Misconduct

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

#### Confidentiality

PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties

Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

#### Prohibition

None of the information in this document may 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 written consent. PACRA reports and ratings constitute opinions, not recommendations to buy or to sell

[Probability of Default \(PD\)](#)

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](http://www.pacra.com)). However, actual transition of rating may not follow the pattern observed in the past