The Pakistan Credit Rating Agency Limited

Rating Report

Ghandhara Automobiles Limited (formerly known as Ghandhara Nissan Limited)

Report Contents

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	Maintain	-
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 Automobiles Limited (‘GAL’ or ‘the Company’) is principally an authorized automobile assembler of multiple brands in Pakistan. The ratings reflect its adequate business profile and accepted presence in the automobile sector of Pakistan. GAL holds connections with renowned multinational automobile manufacturers like JAC Motors, Dongfeng Motor Corporation, Renault trucks, and Chery Automobile Co.Ltd. The Company has solidified its position in the market through assembling & progressive manufacturing of JAC trucks and Chery SUVs, import & sale of Dongfeng and Renault trucks in complete built-up units, and assembly of other commercial MVs under contract agreements with Ghandhara Industries Limited, Ghandhara DF (Pvt.) Limited and Bibojee Services (Pvt.) Limited. During FY23, the growth in trucks & buses sector of Pakistan remained historically laggard, as it is directly related to economic activities. Local trucks segment experienced a massive decline in FY23 as it fell by ~45.15% YoY, total buses sold declined by ~6.03%, while sale of jeeps & pickups also fell by ~33.31% during same period last year. The sectoral performance remained uncertain and also kept the margins under pressure owing to macroeconomic challenges, thereby affected the overall cost of doing business. However, GAL managed to achieve topline growth of ~87.2% at end Jun’23 on account of 1200+ units sold of newly launched Chery Tiggo vehicle. Despite, augmentation in Company’s net revenue figure, it was not translated well in overall profitability matrix. Gross and net profits of the Company are affected by increased cost of doing business such as, high raw material prices, increase in minimum wage, energy prices, and finance cost, respectively. Going forward, the Company intends to cover against principal risks and uncertainties by securing long-term growth momentum in its entire product line. Financial risk profile of the GAL is considered adequate as both the cash flows and debt coverage metrics witnessed slight improvements. Further, the Company funded its expansion for assembling & distribution of Chery vehicles (launch of Tiggo 4 Pro & Tiggo 8 Pro in domestic market) by means of debt availed at concessionary rates under SBP's TERF scheme. The amount of leverage in the Company’s capital structure stands at moderate levels. The Company possesses competitive edge, high brand value, and solid sponsorship support. 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 entity, and auto companies leading in heavy commercial sector.

The ratings are dependent on upholding of the Company’s business as well as financial risk profile amidst current challenges faced by the automobile & allied industry. Improvement in margins and intact coverages shall remain imperative. Key element is Company’s stance on working capital management. Moreover, management’s ability to sustain its market share during the demand crunch is quite crucial.

Disclosure

Name of Rated Entity	Ghandhara Automobiles Limited (formerly known as Ghandhara Nissan 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 Automobiles Limited - formerly known as Ghandhara Nissan Limited (hereinafter referred as 'GAL' or 'the Company') is a public listed entity with a free float of ~35% shares as to date Sep'23. It got listed on Karachi Stock Exchange (now 'Pakistan Stock Exchange') in 1992.

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

Operations The principal business of GAL is assembly/progressive manufacturing of vehicles including JAC Trucks & Chery SUVs, import & sale of parts, Dongfeng & Renault vehicles in CBU condition, and assembly of other vehicles under contract agreement. The Company has a capacity to manufacture ~4,800 units of trucks & buses & ~6,000 cars on a single shift basis. Its registered office is situated in Karachi while its manufacturing facilities are located at Port Qasim.

Ownership

Ownership Structure Bibojee Services (Private) Limited directly owns ~58% stake in the Company. Other shareholders include General Public (~25%), Banks (~2%), Insurance Companies (~1.1%) while remaining (~15%) is held by DFIs, NBFIs & others.

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

Business Acumen Bibojee Services (Pvt.) Limited is the holding entity of group companies under whose umbrella comes Automobile Companies, Textile, Insurance, Construction & Tyre manufacturing concerns. Bibojee's group understanding of the business is strong.

Financial Strength Bibojee Services (Pvt.) 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 ten members board of directors. The board structure comprises six non-executive directors, three independent directors, and one executive director.

Members' Profile Board members are professionals with experiences of managing business affairs in different sectors. Mr. Lt. Gen. (Retd) Ali Kulli Khan Khattak is the Chairman of the Board. He holds diverse experience in the Auto & Allied sector, which brings specialized and comprehensive 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 being headed by independent directors and consist of 5 members each. 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 unmodified opinion on the financial statements of the Company for financial period ending June 30, 2023.

Management

Organizational Structure The organizational structure of the Company is broadly divided into various functional departments and all the HODs report to CEO. Major departments include (i) Finance, (ii) HR & Admin (iii) Quality Control (iv) Sales & Marketing (v) Plant Operations (vi) Supply Chain & Procurement (vii) After sales & services, and (viii) parts.

Management Team The Company's management comprises qualified 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 & responsibilities in organization add to the effectiveness of the business structure.

MIS GAL 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 & 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 Pakistan Automotive Manufacturers Association (PAMA); 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. Presently, negative macro indicators like high interest rate, policy hikes, rising inflation, exchange rate volatility, contractionary monetary & fiscal policies, and stiff competition from import marker have shown bad results, purchasing power has decreased which further instigated the demand to slow down in upcoming months.

Relative Position GAL - a strong player in the industry, possessing adequate market share as at end Jun'23. Much of the trucks demand of the Company is generated through commercial customers, such as oil marketing companies. JAC X-200 trucks augmented the top-line of the Company along with newly launched Cherry Tiggo 4 Pro and 8 Pro vehicles. DongFeng trucks continues to be the major product line whereas 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 In FY22, the volumes in truck and bus market improved, however during FY23, the entire auto and allied sector faced serious challenges owing to macroeconomic instability in Pakistan. However, the Company managed to show significant growth in its revenue at 87.2% during FY23 as compared to ~66.1% growth during FY22. Revenue of the Company stood at PKR 10,033mln in FY23 (FY22: PKR 5,359mln).

Margins Besides upward shift in the Company's topline, the challenging economic activities drove the gross profit margin. Gross margin ratio of the company in FY23 recorded at ~6.3% as compared to ~7.7% in FY22. Owing to better operating profitability matrix, GAL recorded 2.1% operating margin in FY23 (FY22: 1.5%). However, the Company's net margin stood at 0.6% only during FY23 (FY22: 1.9%).

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. GAL also entered into formal arrangements with M/s. Chery International Corporation - Wuhu, China for manufacturing & distribution of Chery passenger cars (SUVs/ Crossovers) and launched two versions of vehicles i.e., Chery Tiggo 4 and Chery Tiggo 8 in FY22. And, GAL successfully sold more than a thousand units in FY23.

Financial Risk

Working Capital The Company's working capital requirement emanates from financing inventories and trade payables for which the Company relies on both internal cash flows as well as short-term borrowings. Average inventory days decreased to ~80 days as of Mar'23 (FY22: ~116 days) due to declining inventories and rising sales volume. Trade receivable days were decreased to ~11 days in FY23 from ~23 days in FY22. Thereby, net working capital days also reduced to ~69 days as at end Jun'23 as compared to ~106 days in FY22.

Coverages In FY23, the Company recorded FCFO of PKR 211mln as compared to just PKR 31mln in FY23. Consequently, the interest coverage and core-debt coverage ratios of the Company slightly improved to 0.7x and 0.3x, respectively when compared with 0.2x and 0.1x during FY22. Going forward, the strengthened cash flow streams are essential to keep the coverages intact.

Capitalization Historically, the Company had a low leveraged capital structure. Total debt of the Company in FY23 was clocked at PKR~1,968mln as compared to PKR~1,261mln in FY22. Out of the total debt, PKR~833mln was long-term borrowings. Strong equity base kept the debt-to-equity ratio intact to some extent, and still stand to be reasonable. At end Jun'23, gearing ratio was increased to ~24.2% as compared to ~17.1% in FY22.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Ghandhara Automobiles Limited Trucks & Buses	Jun-23 12M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	5,422	5,457	4,101	4,139
2 Investments	-	676	-	-
3 Related Party Exposure	497	1,021	773	786
4 Current Assets	4,173	6,044	2,426	1,977
a Inventories	*1,655*	*2,731*	*688*	*902*
b Trade Receivables	*248*	*330*	*356*	*322*
5 Total Assets	10,092	13,198	7,300	6,902
6 Current Liabilities	1,442	5,363	618	456
a Trade Payables	*397*	*754*	*238*	*136*
7 Borrowings	1,968	1,261	350	222
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	512	477	325	345
10 Net Assets	6,170	6,097	6,008	5,879
11 Shareholders' Equity	6,170	6,097	6,008	5,879
B INCOME STATEMENT				
1 Sales	10,033	5,359	3,226	1,663
a Cost of Good Sold	*(9,397)*	*(4,947)*	*(2,880)*	*(1,658)*
2 Gross Profit	636	412	346	5
a Operating Expenses	(429)	(332)	(312)	(306)
3 Operating Profit	208	80	34	(301)
a Non Operating Income or (Expense)	*330*	*196*	*105*	*149*
4 Profit or (Loss) before Interest and Tax	537	277	139	(152)
a Total Finance Cost	*(294)*	*(146)*	*(23)*	*(64)*
b Taxation	*(180)*	*(29)*	*15*	*9*
6 Net Income Or (Loss)	64	101	131	(207)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*211*	*31*	*208*	*(232)*
b Net Cash from Operating Activities before Working Capital Changes	*(48)*	*(78)*	*182*	*(175)*
c Changes in Working Capital	*(2,685)*	*2,339*	*415*	*204*
1 Net Cash provided by Operating Activities	(2,733)	2,261	598	29
2 Net Cash (Used in) or Available From Investing Activities	1,320	(2,302)	13	212
3 Net Cash (Used in) or Available From Financing Activities	596	1,132	107	(80)
4 Net Cash generated or (Used) during the period	(818)	1,091	718	161
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	87.2%	66.1%	94.0%	-29.9%
b Gross Profit Margin	6.3%	7.7%	10.7%	0.3%
c Net Profit Margin	0.6%	1.9%	4.1%	-12.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-24.7%	44.2%	19.3%	-1.7%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	1.0%	1.7%	2.2%	-3.5%
2 Working Capital Management				
a Gross Working Capital (Average Days)	90	140	128	279
b Net Working Capital (Average Days)	69	106	107	252
c Current Ratio (Current Assets / Current Liabilities)	2.9	1.1	3.9	4.3
3 Coverages				
a EBITDA / Finance Cost	2.0	2.2	10.4	-2.0
b FCFO / Finance Cost+CMLTB+Excess STB	0.3	0.1	1.3	-2.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-16.0	-10.7	1.3	-0.6
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	24.2%	17.1%	5.5%	3.6%
b Interest or Markup Payable (Days)	86.3	96.1	105.0	71.8
c Entity Average Borrowing Rate	16.4%	10.7%	6.4%	31.8%

Credit Rating

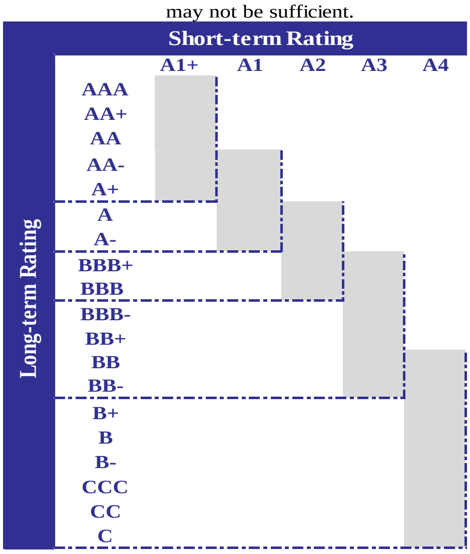
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
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.
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.
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+ 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.
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.

Short-term Rating

Scale	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
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 surveill 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

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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 | 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)
(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