The Pakistan Credit Rating Agency Limited

GHANI GASES LIMITED

(GGL)

INSTRUMENT RATING REPORT

	INITIAL [JAN-17]
Long-Term	A
Short-Term	-
Outlook	Stable

REPORT CONTENTS

JANUARY 2017

RATING ANALYSES (JANUARY 2017)

GHANI GASES LIMITED (GGL)

RATING RATIONALE

The rating recognizes Ghani Gases significant position in the industrial gases sector. The industry largely possesses oligopolistic structure: benefiting the players. With an expected growth in demand due to increase in industrialization and uptick in economic activity, GGL is pursuing an expansive strategy to become the market leader. The company's performance has improved on account of higher volumes, mainly achieved through capacity expansion and improved margins. Although the company's financial structure is leveraged, cashflows and, in turn, coverages are adequate. Given the group's expansionary stance, sustained vigilance and support from sponsors is essential. Timely completion of projects and subsequently smooth functioning is important. The sponsoring family has demonstrated support to the company in the past. The proceeds from the sukuk issue would be utilized for swapping the multiple existing longterm and shortterm loan facilities into a single facility.

KEY RATING DRIVERS

The rating is dependent on the company's ability to effectively utilize enhanced capacities. At the same time, management of financial risk particularly debt coverages, remain important, wherein any significant dilution would have negative implications for the ratings.

- **About the Sukuk:** The Company intends to issue a rated, privately placed and secured sukuk amounting to PKR 1,300mln. The sukuk will have a maturity of six years. The principal amount would be repaid in twenty four consecutive quarterly instalments commencing from the 90days from the date of issue. The profit repayment would also be made on a quarterly basis on the outstanding principal amount. The instrument would be having a profit rate of 3M-KIBOR plus 100bps. The proposed sukuk issue is secured by way of a first parri passu charge over present and future fixed asset of the company inclusive of a 20% margin.
- **Capacity Utilization:** GGL's product mix comprises industrial gases along with calcium carbide. Taking into account the increased demand for the industrial gases the capacity utilization levels increased during the year (FY16: 65%, FY15: 60%). Resulting in an enhanced production in comparison to previous year. The sale of calcium carbide observes a cyclicality and increases in the last quarter owing to the higher demand from fruit consumption mainly mangoes during March till August.
- **Profitability:** In FY16, the company observed an uptick in the revenue from the gases segment on account of increase in volume. However, a dip in the overall sales from the CaC was observed due to relatively low demand during the period. The top line observed a slight uptick of ~2.5%. Company's gross margins largely remained intact in comparison to previous year. (FY16: 32.5%, FY16: 33.1%) resulting in a maintained level of gross profit on a YoY basis. The rise in the operating cost due to enhancement in the distribution network negatively impacted the company's operating profit which declined by 10% on a YoY basis. The one-time gain of PKR 68mln owing to the sale of its stake in GGGL alongwith a largely maintained level of financial charges supported the company's performance (FY16: PKR162mln, FY15: PKR159mln). The company's performance during 1QFY17 largely remained at the same level in comparison to previous year after excluding the impact of one-time gain of sale of its stake in GGGL.
- **Working Capital Management:** GGL's working capital requirement emanate from its need to finance its inventory of calcium carbide along with offering relaxed credit terms (60-70 days) to its customers. Inventory of calcium carbide is procured internationally and an L/C based payment system is used to settle debts owed by GGL limiting GGL's ability to stretch its payables. This leads to reliance on short term borrowings to bridge liquidity needs. The company maintained its cash cycle with the slight uptick in both the receivables and payables days.
- **Cash Flows & Coverages:** The Company's cashflows remain a function of its profitability. During FY16, the company's cashflows largely remained same on a YoY basis. GGL's coverage's remain adequate owing to sizeable debt repayments during the period. Going forward, the company plans to acquire debt for the expansion and new projects. Herein, timely completion of the projects in order to generate incremental cashflows in line with the debt repayments avoiding any pressure on the coverages would remain critical.
- **Capital Structure**: GGL currently has a leveraged capital structure (Total debt/Total debt + Equity: 1QFY17: 51%, FY16: 54%, FY15: 69%). The improvement in the capital structure is on account of retirement of borrowings. In addition to that GGL successfully concluded a right issue amounting to PKR 1bln during FY16 further reducing the leveraging. The company's leveraging further reduces if the sponsor's loan is adjusted as equity. The management intends to swap its existing long-term and short-term loan facility with a sukuk amounting to PKR 1,300mln.
- **About the Issuer:** Ghani Gases Limited (GGL) was incorporated in 2007 as a private limited company. Ghani Gases (GGL) is one of the two market leaders in industrial gas producing industry in Pakistan. GGL-I plant is strategically located near demand hubs – hospitals, pharmaceutical units and steel mills – in the northern region, while GGL- II is located near Chemical Area, Eastern Industrial Zone. In order to cater to the rising demand in the southern market, the management has planned to establish a third production facility for the manufacturing of industrial gases – GGL III – in the southern market. GGL III with an installed capacity of ~ 100TPD is planned to be operational during FY18.

Financials (Summary)

Ghani Gases Limited

BALANCE SHEET	30-Sep-16	30-Jun-16	30-Jun-15	30-Jun-14
	3MFY17	Annual	Annual	Annual
Non-Current Assets	**2,845**	**2,831**	**2,635**	**2,413**
Investments (Incl. associates)	**45**	**1**	**45**	**45**
Equity	45	1	45	45
Debt	-	-	-	-
Investment property	-	-	-	-
Current Assets	**1,700**	**2,070**	**963**	**680**
Inventory	88	26	36	23
Trade Receivables	353	406	295	157
Others	1,259	1,637	632	499
Total Assets	**4,590**	**4,901**	**3,643**	**3,137**
Debt	**1,420**	**1,565**	**1,215**	**957**
Short-term	211	431	433	391
Long-term (Inlc. Current Maturity of long-term debt)	1,209	1,134	782	566
Other shortterm liabilities	247	344	182	142
Other Longterm Liabilities	696	780	106	1,038
Shareholder's Equity	**2,226**	**2,212**	**1,114**	**1,000**
Total Liabilities & Equity	**4,589**	**4,902**	**2,618**	**3,137**

INCOME STATEMENT				
Turnover	**312**	**1,767**	**1,720**	**1,347**
Gross Profit	140	576	570	327
Net Other Income	7	79	(4)	(4)
Financial Charges	(21)	(117)	(114)	(52)
Net Income	**14**	**163**	**159**	**73**

Cashflow Statement				
Free Cashflow from Operations (FCFO)	102	394	148	158
Net Cash changes in Working Capital	(286)	(318)	(240)	241
Net Cash from Operating Activities	(203)	(29)	(207)	352
Net Cash from InvestingActivities	(38)	(268)	(291)	(855)
Net Cash from Financing Activities	(176)	831	263	494

Ratio Analysis				
Performance				
Turnover Growth	-6.3%	2.7%	27.7%	10.7%
Gross Margin	45.0%	32.6%	33.1%	24.3%
Net Margin	5.8%	64.9%	44.2%	43.4%
ROE	3.2%	59.5%	73.4%	64.6%
Coverages				
Interest Coverage (FCFO/Gross Interest)	4.9	3.4	-3.3	-1.1
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	0.5	0.5	4.1	0.6
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	0.5	0.5	4.1	0.6
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest	3.6	4.5	5.8	5.3
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	69.4	57.3	995.6	2440.5
Capital Structure (Total Debt/Total Debt+Equity)	38.6%	42.9%	74.6%	48.9%

The Pakistan Credit Rating Agency Limited

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

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 or 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**. "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 Ratings

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.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

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.

Rated Entity

Name of Rated Entity Ghani Ghases Limited
Sector Industrial Gases
Type of Relationship Solicited

Purpose of the Rating
Independent Risk Assessment
Regulatory Requirement

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
20-Jan-16	A	-	Stable	Initial

Nature of Instrument	Size of Issue (PKR mln)	Tenor (yrs)	Security	Nature of Assets
Sukuk	1,300mln	6 years	The proposed sukuk issue is secured by way of a first parri passu charge over present and future fixed asset of the company inclusive of a 20% margin.	All present and future fixed assets including land and builidng

Related Criteria and Research
Rating Methodology — Corporate Rating Methodology

Rating Analysts

Rai Aman Zafar
aman.zafar@pacra.com
(92-42-35869504)

Rai Umar Zafar
rai.umar@pacra.com
(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). However, actual transition of rating may not follow the pattern observed in the past