



The Pakistan Credit Rating Agency Limited

# GHANI GASES LIMITED (GGL)

## INSTRUMENT RATING REPORT

	INITIAL [FEB-17]	PRELIMINARY [JAN-17]
Privately-Placed and secured (PKR 1,300mln)	A	A
Outlook	Stable	Stable

### REPORT CONTENTS

1. RATING ANALYSES
2. FINANCIAL INFORMATION
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

FEBRUARY 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 has issued 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 cyclical nature 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%, FY15: 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.



## Ghani Gases Limited

## BALANCE SHEET

	30-Sep-16 3MFY17	30-Jun-16 Annual	30-Jun-15 Annual	30-Jun-14 Annual
<b>Non-Current Assets</b>	<b>2,845</b>	<b>2,831</b>	<b>2,635</b>	<b>2,413</b>
Investments (Incl. associates)	45	1	45	45
Equity	45	1	45	45
Debt	-	-	-	-
Investment property	-	-	-	-
<b>Current Assets</b>	<b>1,700</b>	<b>2,070</b>	<b>963</b>	<b>680</b>
Inventory	88	26	36	23
Trade Receivables	353	406	295	157
Others	1,259	1,637	632	499
<b>Total Assets</b>	<b>4,590</b>	<b>4,901</b>	<b>3,643</b>	<b>3,137</b>
<b>Debt</b>	<b>1,420</b>	<b>1,565</b>	<b>1,215</b>	<b>957</b>
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
<b>Shareholder's Equity</b>	<b>2,226</b>	<b>2,212</b>	<b>1,114</b>	<b>1,000</b>
<b>Total Liabilities &amp; Equity</b>	<b>4,589</b>	<b>4,902</b>	<b>2,618</b>	<b>3,137</b>

## 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)
<b>Net Income</b>	<b>14</b>	<b>163</b>	<b>159</b>	<b>73</b>

## 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

<b>Performance</b>				
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%
<b>Coverages</b>				
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
<b>Liquidity</b>				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	69.4	57.3	995.6	2440.5
<b>Capital Structure</b> (Total Debt/Total Debt+Equity)	38.6%	42.9%	74.6%	48.9%

## 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.	

<b>Rating Watch</b> 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.	<b>Outlook (Stable, Positive, Negative, Developing)</b> 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’.	<b>Suspension</b> 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.	<b>Withdrawn</b> 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.
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**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
27-Feb-17	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 pari 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 building

**Related Criteria and Research**

Rating Methodology

Corporate Rating Methodology

**Rating Analysts**

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## Regulatory and Supplementary Disclosure

### Repayment Schedule GGL -Sukuk

Amount (PKR mln)	1,300mln
Period (years)	6
Repayment	Quarterly
Pricing	7.11%

Annexure A

### Ghani Gases Limited | Sukuk | Redemption Schedule

Due Date Principle*	Opening Principal	Principal Repayment	No of Days. Markup/ Profit	Markup/Profit Rate	Markup/Profit Payment	Installment Payable	Principal Outstanding
							PKR in mln
3-Feb-17							1,300.0
3-May-17	54.2	54.2	89	7.11%	22.5	76.7	1,245.8
3-Aug-17	54.2	54.2	92	7.11%	22.3	76.5	1,191.7
3-Nov-17	54.2	54.2	92	7.11%	21.4	75.5	1,137.5
3-Feb-18	54.2	54.2	92	7.11%	20.4	74.6	1,083.3
3-May-18	54.2	54.2	89	7.11%	18.8	72.9	1,029.2
3-Aug-18	54.2	54.2	92	7.11%	18.4	72.6	975.0
3-Nov-18	54.2	54.2	92	7.11%	17.5	71.6	920.8
3-Feb-19	54.2	54.2	92	7.11%	16.5	70.7	866.7
3-May-19	54.2	54.2	89	7.11%	15.0	69.2	812.5
3-Aug-19	54.2	54.2	92	7.11%	14.6	68.7	758.3
3-Nov-19	54.2	54.2	92	7.11%	13.6	67.8	704.2
3-Feb-20	54.2	54.2	92	7.11%	12.6	66.8	650.0
3-May-20	54.2	54.2	90	7.11%	11.4	65.6	595.8
3-Aug-20	54.2	54.2	92	7.11%	10.7	64.8	541.7
3-Nov-20	54.2	54.2	92	7.11%	9.7	63.9	487.5
3-Feb-21	54.2	54.2	92	7.11%	8.7	62.9	433.3
3-May-21	54.2	54.2	89	7.11%	7.5	61.7	379.2
3-Aug-21	54.2	54.2	92	7.11%	6.8	61.0	325.0
3-Nov-21	54.2	54.2	92	7.11%	5.8	60.0	270.8
3-Feb-22	54.2	54.2	92	7.11%	4.9	59.0	216.7
3-May-22	54.2	54.2	89	7.11%	3.8	57.9	162.5
3-Aug-22	54.2	54.2	92	7.11%	2.9	57.1	108.3
3-Nov-22	54.2	54.2	92	7.11%	1.9	56.1	54.2
3-Feb-23	54.2	54.2	92	7.11%	1.0	55.1	0.0