The Pakistan Credit Rating Agency Limited

Rating Report

Ghani Chemical Industries Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
13-Jun-2023	A	A1	Stable	Maintain	-
14-Jun-2022	A	A1	Stable	Maintain	-
14-Jun-2021	A	A1	Stable	Upgrade	-
03-Feb-2021	A-	A2	Stable	Maintain	-
07-Feb-2020	A-	A2	Negative	Maintain	Yes
30-Oct-2019	A-	A2	Negative	Maintain	-
30-Apr-2019	A-	A2	Developing	Maintain	Yes
28-Dec-2018	A-	A2	Stable	Maintain	-
20-Jun-2018	A-	A2	Stable	Maintain	-
01-Nov-2017	A-	A2	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The rating reflects the prominent position of Ghani Chemical Industries Limited (GCIL) in the manufacturing, sale, and trading of medical & industrial gases and chemicals. The industry largely possesses an oligopolistic structure, benefiting the players, which allows GCIL to consistently deliver high-quality products and services. These gases find diverse applications across various industries encompassing medical, chemical processes, metal fabrication, food processing, oil and gas exploration, and many more. During Covid-19, the installation of dedicated medical gas capacities in hospitals resulted in a change in the revenue mix and showed considerable growth in the healthcare segment. As of now, the product portfolio has stabilized along the demand yield curve, indicating a more balanced and consistent state in the industry. The demand from the steel, automotive, and shipbreaking industries remained weak due to the country’s macroeconomic challenges. In line with its commitment to expanding and strengthening its operations, the board of directors of GCIL has merged G3 Technologies Limited with/ GCIL and successfully achieved its objective of getting listed on the Pakistan Stock Exchange (PSX). During 6MFY23, the topline of the company declined by ~8% as compared to the same period last year, and margins also showed dilution at all levels due to macroeconomic turbulence which resulted in reduced demand by large-scale manufacturing. All four plants of Ghani Chemical Industries Limited are currently operational and overall capacity utilization stood at ~65%. Due to reduced demand from one of the renowned customers, the company’s dedicated plant was under-utilization. The Company has already commenced the construction work for the setup of its 5th Air Separation Unit (ASU) Plant of 275 TPD capacity for medical and industrial gases in KPK. As a part of the import substitution strategy, the company is also setting up a calcium carbide manufacturing plant in KPK and is in the process of receiving necessary approvals from the environment protection agency. The financial risk profile of the company is deemed satisfactory, with comfortable coverages, cash flows, and a stretched working capital cycle which is an industry norm. The company's capital structure is leveraged, with borrowings consisting of long-term to support expansion and short-term for working capital management.

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

Name of Rated Entity	Ghani Chemical Industries Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Industrial Gases(Oct-22)
Rating Analysts	Sohail Ahmed Qureshi | sohail.ahmed@pacra.com | +92-42-35869504

Profile

Legal Structure Ghani Chemical Industries Limited. was incorporated as a private limited company on November 23, 2015, under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017), and was converted into a public limited company on April 20, 2017. The company got listed on PSX on 14 November 2022. The Registered Office of the Company is located at 10-N Model Town Extension, Lahore, whereas production facilities are situated at Phool Nagar, District Kasur and Industrial Zone, Port Qasim, Karachi.

Background As a part of the Ghani Global Group of Companies, to set 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”).

Operations Ghani Chemicals is engaged in the manufacturing, sale, and trading of medical and industrial gases and chemicals including Liquid Nitrogen, Liquid Oxygen, Argon, and Calcium Carbide. The Company’s total production capacity of now stands at ~435TPD.

Ownership

Ownership Structure The majority stake in Ghani Chemicals is presently held by the Group holding company i.e., Ghani Global Holdings Limited, which is majorly owned by the Ghani Family (~58%). The remaining shareholding lies in Ghani Products (Pvt.) Ltd ~18%, directors of the company and the general public.

Stability The restructuring undertaken by the Ghani Group in January 2020 and has resulted in the transition of Ghani Gases Limited – formerly a manufacturing entity – into the Group holding company, Ghani Global Holdings Limited.

Business Acumen The sponsors have over five decades of entrepreneurial experience in vastly diversified sectors including industrial gases, engineering, mining, glass, real estate, automobiles, and food.

Financial Strength The Ghani Group, which includes Ghani Global Holdings Limited, Ghani Global Glass Limited, and Ghani Chemical Industries Limited, had total equity of PKR ~12.7bln at the year-end December 22. The Group has adequate financial muscle and has shown a willingness and ability to support the Company.

Governance

Board Structure The oversight of the Company lies with a seven-member Board of Directors, chaired by Mr. Masroor Ahmad Khan. The remaining Board comprises six members of the sponsoring family including the CEO and one Group employee. Mahmood Ahmad and Hafiz Imran Latif are the independent directors of the company.

Members’ Profile Mr. Masroor Ahmad Khan – Chairman – has been associated with the family business since 1985. Most Directors have been associated with the Board since the inception of the Company and have extensive experience in diversified sectors.

Board Effectiveness Board meetings of the Company are held quarterly in compliance with the principles of corporate governance for public, listed companies. However, all minutes are documented.

Financial Transparency M/s, ShineWing Hameed Chaudhri & Co. Chartered Accountants is the external auditor of the Company. The auditor is QCR listed and also appears on the State Bank of Pakistan’s panel of auditors. M/s, ShineWing Hameed Chaudhri & Co. Chartered Accountants has conducted a special audit of the company as of December 2022.

Management

Organizational Structure The Company’s overall operations are segregated into six broad functional divisions with divisional heads reporting directly to the CEO.

Management Team Mr. Hafiz Farooq Ahmad holds the office of CEO. The Company's management team comprises qualified and experienced professionals with a diversified range of skills related to the industrial gases industry and other sectors

Effectiveness Ghani Chemicals maintains adequate IT infrastructure and related controls by regularly presenting reports to senior management. Management committees are in place to attend to relevant matters with documentation of minutes.

MIS The Company has deployed an Oracle ERP solution which has resulted in the quality enhancement of its reporting system.

Control Environment MIS reports are presented on a regular basis to the senior management including inventory, finance, production, sales & operations. The Company has implemented the Oracle technology network into its database. This ensures the timely availability of information for efficient decision-making

Business Risk

Industry Dynamics Prices of Industrial gases mainly depend on the market forces such as energy costs, oil & natural gas price fluctuation, quality/special gas, customized products, etc. Overall production capacity for industrial gases currently stands at ~1,300TPD, with a significant capacity lying with Ghani Chemicals and Pakistan Oxygen (formerly Linde Pakistan). The total production capacity of Pakistan oxygen is 533TPD out of which 430TPD is in operational while the total production capacity of Ghani Chemical Industries stood at ~435TPD. The incremental pandemic effect almost settled to dust and is expected to return to its normal distribution between industry and medical(hospitals).

Relative Position Pakistan Oxygen currently holds the leading position in the industrial gases industry with a market share of ~40%, whereas Ghani Chemicals follows with a share of ~34%. Ghani Chemicals’ share might increase once its new plant becomes operational. Other players have much lower capacity and hence lower market share.

Revenues The Company’s topline is led by industrial gases, mainly Liquid Oxygen and Liquid Nitrogen, followed by the chemicals segment mainly including Calcium Carbide. During 1HFY23, net sales of the company were recorded at 2,124mln (FY22: 4,191mln; FY21:3,838mln).

Margins The company posted a ~36.4% gross margin as of 1HFY23 (FY22: 41.7%; FY21:43.2%). Net margins of the company clocked at 12% as of 1HFY23 (FY22:19.4%; FY21:18%)

Sustainability The impact of the new plant's operations on revenue and gross margins is yet to be materialized. Further, many new contracts are in the pipeline, which will improve the company's financial position.

Financial Risk

Working Capital In IHFY23, Company's inventory days reached ~9 days (FY22: ~10 days) as the Company’s working cycle is well maintained to cater to upcoming demand needs. Meanwhile, in IHFY23, trade receivable days have reached ~87 days (FY22: ~76 days). Gross working capital days reached to ~96 days (FY22: ~86 days). The trade payable days during IHFY23 were clocked at ~11 days (FY22: ~10 days). Resultantly, the net working capital days clocked in at 85 days (FY22: ~76 days).

Coverages The Company's free cashflows (FCFO) as of 1HFY23 to PKR ~605mln (FY22: PKR~1,225mln, FY21:PKR~1,200mln) The interest coverage ratio clocked at 4.0x (FY22: 8.8x; FY21: 6.6x) whereas, the debt coverage ratio reached 1.7x (FY22: 2.2x; FY21: 2.2x) due to increase of finance cost.

Capitalization Ghani Chemicals' leveraging reached ~29.2% as of 1HFY23 (FY22: 26.2%). Short-term borrowings in IHFY23 constitute ~47.2% of the Company’s total borrowings (FY22: ~50.5%; FY21: ~38.2%). Meanwhile, the Company’s Sukuk, issued in FY17, had an outstanding value of ~PKR 270.83mln as of Dec 2022.

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Financial Summary
PKR mln

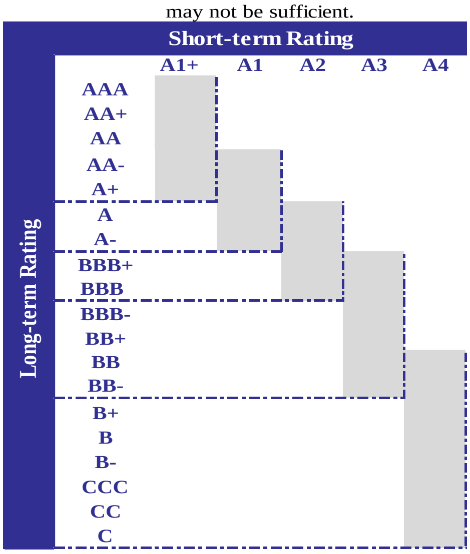
Ghani Chemical Industries Limited Industrial gases	Dec-22 6M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	6,464	7,218	4,198	4,035
2 Investments	-	-	-	-
3 Related Party Exposure	0	0	0	0
4 Current Assets	6,065	4,307	1,792	1,340
a Inventories	*72*	*135*	*101*	*55*
b Trade Receivables	*975*	*1,051*	*687*	*482*
5 Total Assets	12,528	11,525	5,990	5,375
6 Current Liabilities	515	718	504	465
a Trade Payables	*129*	*135*	*90*	*171*
7 Borrowings	3,332	2,669	2,137	2,522
8 Related Party Exposure	1	32	52	285
9 Non-Current Liabilities	602	501	385	268
10 Net Assets	8,079	7,605	2,912	1,836
11 Shareholders' Equity	8,079	7,605	2,912	1,836
B INCOME STATEMENT				
1 Sales	2,124	4,191	3,838	2,049
a Cost of Good Sold	*(1,351)*	*(2,444)*	*(2,181)*	*(1,555)*
2 Gross Profit	773	1,747	1,657	494
a Operating Expenses	(225)	(467)	(448)	(425)
3 Operating Profit	547	1,279	1,209	69
a Non Operating Income or (Expense)	*116*	*112*	*(34)*	*(666)*
4 Profit or (Loss) before Interest and Tax	663	1,392	1,175	(597)
a Total Finance Cost	*(214)*	*(228)*	*(208)*	*(320)*
b Taxation	*(195)*	*(351)*	*(276)*	*63*
6 Net Income Or (Loss)	254	812	691	(855)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*605*	*1,226*	*1,200*	*296*
b Net Cash from Operating Activities before Working Capital Changes	*605*	*1,226*	*1,200*	*296*
c Changes in Working Capital	*(1,900)*	*(523)*	*(489)*	*313*
1 Net Cash provided by Operating Activities	(1,295)	703	711	608
2 Net Cash (Used in) or Available From Investing Activities	681	(951)	(271)	(589)
3 Net Cash (Used in) or Available From Financing Activities	722	685	(462)	(42)
4 Net Cash generated or (Used) during the period	108	437	(22)	(23)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	1.4%	9.2%	87.3%	-11.0%
b Gross Profit Margin	36.4%	41.7%	43.2%	24.1%
c Net Profit Margin	12.0%	19.4%	18.0%	-41.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales	-61.0%	16.8%	18.5%	29.7%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/*	6.5%	15.4%	29.1%	-44.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	96	86	63	106
b Net Working Capital (Average Days)	85	76	51	81
c Current Ratio (Current Assets / Current Liabilities)	11.8	6.0	3.6	2.9
3 Coverages				
a EBITDA / Finance Cost	4.0	7.8	8.5	0.7
b FCFO / Finance Cost+CMLTB+Excess STB	1.7	2.2	2.2	0.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.1	1.2	1.2	-82.4
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	29.2%	26.0%	42.3%	57.9%
b Interest or Markup Payable (Days)	130.1	174.2	90.2	68.7
c Entity Average Borrowing Rate	12.7%	7.0%	5.9%	11.9%

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