The Pakistan Credit Rating Agency Limited

Rating Report

Ghandhara Industries Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Oct-2022	A+	A1	Stable	Maintain	-
22-Oct-2021	A+	A1	Stable	Upgrade	-
05-Nov-2020	A	A1	Stable	Maintain	-
13-Dec-2019	A	A1	Stable	Downgrade	-
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 Industries Limited ('GIL' or 'the Company') has been one of the leading automobile entities in its niche of trucks & buses. The primary business activities of the Company includes; assembling & marketing of trucks (LDTs, MDTs & HDTs), buses, D-MAX pickups, and body fabrication services. GIL's core strength can be defined by its alliance with ISUZU – a leading Japanese brand in the Country's trucks & buses segment. ISUZU has enabled the Company to build a strong fortress in the competitive industry of Pakistan. Though, localization level in trucks & buses segment is lowest as compared to other segments of the automobile industry. The year FY2022 was a 'ballooning period' for the auto sector. The buying interest among consumers started to revive after the pandemic crises as trucks sales soared by 57%, followed by 49% in jeeps & pickups, and 7% in buses. The Company managed to translate the same in its topline and achieve significant revenue growth of 62% at end Jun'22. GIL's profitability matrix during period under review is affected by ramped up cost of doing business. The Company's exposure to more advances has proved to be beneficial as business relies less on borrowed capital to fuel growth and other initiatives. The cash flows of GIL from its operations are considered adequate, thus strengthening coverages position. Over the years, the Company has been able to sustain its prominent edge in the domestic automotive market while managing uprising competition and secured high share. The sponsoring group built synergies between the associated concerns operating in the auto & allied sector. Besides, it upholds good corporate governance standards. Their business acumen is enriched by the group's stake in the country's leading tyre manufacturing company. Financial risk profile is signified by finer working capital cycle and leveraged capital structure (mainly comprising short-term borrowings).

The ratings are dependent on upholding of the Company's business as well as financial risk profile amid unfavorable macroeconomic conditions. Improvement in margins and intact coverages are imperative. Key element is management's ability to strategies sustenance of market share during the demand crunch is quite crucial.

Disclosure

Name of Rated Entity	Ghandhara 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 | Trucks & Buses(Dec-21)
Rating Analysts	Sohail Ahmed Qureshi | sohail.ahmed@pacra.com | +92-42-35869504

Profile

Legal Structure Ghandhara Industries Limited (hereinafter referred as 'GIL' or 'the Company') is a public listed entity with a free float of ~30% at Oct'22. The corporate office of the Company is in F-3, Hub Chawki Road, S.I.T.E. area, Karachi.

Background The Company was founded in 1953 by General Motors Overseas Distribution Company and was purchased in 1963 by Late Lt. General (R) Habibullah Khan Khattak. The Company was later nationalized in 1972 and renamed as National Motors Limited. In 1992, Late Lt. General (R) Habibullah Khan Khattak reacquired the Company from the Government and renamed it to "Ghandhara Industries Limited".

Operations GIL is primarily engaged in the assembly (outsourced), body fabrication and sale of Isuzu pickups, trucks & buses and is the exclusive distributor and authorised assembler and dealer of ISUZU products in Pakistan. The Company has outsourced the assembly of its pickups, truck & buses to its associated concern named "Ghandhara Nissan Limited".

Ownership

Ownership Structure Majority stake of the entity is held by Bibojee Group of Companies, whereas Bibojee Services (Private) Limited directly owns ~39% shares, Ghandhara Nissan Limited has ~19% and Universal Insurance Company Limited (another associate concern) holds ~6% shares. Other shares are held by Corporates, Financial Institutions, Banks, and individual members.

Stability Bibojee Group of Companies, represents a family with history of entrepreneurship spanning over four decades. The group operates through holding company "Bibojee Services (Private) Limited". This provides a formal structure to the group and a platform for relatively smooth execution of succession matters amongst family members.

Business Acumen Bibojee is the parent company of Bibojee Group of companies under whose umbrella come automobile companies, textile, insurance, construction and tyre manufacturing concerns. Bibojee's group understanding of the business is strong.

Financial Strength Bibojee Services (Private) 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 seven members board of directors. The board structure comprises one executive director, four non-executive directors and two independent directors.

Members' Profile The Board members are professionals with experiences of managing business affairs in different sectors. Mr. Lt. Gen. (Retd.) Ali Kuli Khan Khattak is the Chairman of the Board having diversified experience in the Auto & Allied sector, which brings specialized and comprehensive experience and 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 headed by an independent director and consist of 5 and 4 members, respectively. Attendance in the meetings held during FY22 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 an unqualified audit opinion on financial statements of the Company for financial period ended June 30th, 2022.

Management

Organizational Structure The organizational structure of the Company is divided broadly into various functional departments and all the HODs report directly to Deputy CEO. Major departments include (i) Finance, (ii) HR & Admin (iii) Quality Control (iv) Sales & Marketing and (v) Material Management.

Management Team Management of the Company comprises qualified professionals with a wide range of skills and diversified experience. Mr. Ahmad Kuli Khan Khattak is the CEO of the Company, Mr. Muhammad Kuli Khan Khattak is the Deputy CEO. He has an overall experience of over 15 years and he 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 company's structure.

MIS GIL has implemented ERP-business software package designed to integrate all areas of a business. Going forward, strong MIS system is expected to add value to the Company's operations.

Control Environment 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, Ghandhara Nissan, & HinoPak. According to PAMA numbers; 6,498 units of trucks & buses were sold during FY22 as compared to 4,347 units in FY21 representing growth of ~49% when compared with ~20% growth in FY21. The overall demand of the market revived post Global Pandemic Crises. However, currently, the overall industry is going through a recessionary phase owing to economic instability in the country backed by rising inflation, policy hikes, exchange rate volatility, and contractionary monetary & fiscal policies.

Relative Position GIL - a strong player in the industry, possessing ~46% market share as at end-June22. Much of the trucks demand of the Company is generated through commercial customers, such as oil marketing companies. The Company sold 2,893 units of ISUZU trucks, 123 units of ISUZU buses, & 473 units of ISUZU D-Max Pickups during FY22 as compared to 1,903 units of trucks, 113 units of buses, and 316 units of D-Max in FY21. Due to strong relationship with its customers, GIL is well poised to retain its market share.

Revenues Overall truck & bus market posted an increase of ~50% during end June 30th, 2022 when compared with same period preceding year. Following the trajectory of GIL's growth, the total sales units were increased by ~62%. Subsequently, the Company managed to achieve significant revenue growth of ~61.8% during FY22. Top-line of the Company stood at PKR 24,265mln in FY22 (FY21: PKR 14,999mln, FY20: PKR 11,788mln).

Margins Owing to unfavourable macroeconomic conditions, the profitability matrix of the Company slightly reduced, however partially offset by increasing volumes and better prices. During FY22, the Company recorded gross profit margin at 12.2% (FY21: 13.8%), subsequently net margin was reduced to 3.0% in FY22 from 4.0% during preceding year.

Sustainability Keeping in view the economic trends, the Company is making all necessary efforts to improve its position on back of enhanced product line and improved competitiveness which will create sufficient potential demand in local market.

Financial Risk

Working Capital The Company's working capital requirement emanates from financing inventories and trade receivables for which the GIL relies on both internal cash flows as well as short-term borrowings. During FY22, the Company's gross working capital days decreased to ~120 days when compared with ~185 days in FY21. Resultantly, the net working capital days were recorded at ~106 days (FY21: ~172 days).

Coverages Free cash flow from operations (FCFO) increased to PKR 1,559mln in FY22 from PKR 1,160mln in FY21. Increased cash flows led to improved interest coverage and core coverage ratios of the Company. During FY22, the interest coverage ratio stood at 5.0x and core-coverage ratio stood at 3.3x when compared with 3.4x and 2.1x, respectively in FY21. Going forward, strengthened cash flow streams are essential to keep the coverages intact.

Capitalization The Company has a leveraged capital structure. Total debt of GIL in FY22 clocked at PKR ~4,555mln as compared to PKR~3,107mln in FY21. Due to increase in borrowings during the period, gearing ratio was increased and stood at ~42.4% at end of FY22 (FY21: ~35.4%). GIL's debt book was ramped up mainly owing to increase in short-term borrowings which comprises 97% in total debt.

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Financial Summary
PKR mln

Ghandhara Industries Limited Auto & Allied Trucks & Buses	Jun-22 12M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	4,395	4,447	4,482	2,884
2 Investments	-	88	88	88
3 Related Party Exposure	1	1	1	1
4 Current Assets	13,237	10,368	14,358	12,949
a Inventories	*7,297*	*6,431*	*7,547*	*10,359*
b Trade Receivables	*1,655*	*581*	*639*	*88*
5 Total Assets	17,634	14,905	18,929	15,923
6 Current Liabilities	6,478	6,076	7,058	4,762
a Trade Payables	*1,197*	*616*	*452*	*517*
7 Borrowings	4,555	3,107	6,614	6,362
8 Related Party Exposure	145	-	146	118
9 Non-Current Liabilities	67	46	37	33
10 Net Assets	6,389	5,675	5,075	4,648
11 Shareholders' Equity	6,389	5,675	5,075	4,648
B INCOME STATEMENT				
1 Sales	24,265	14,999	11,788	13,910
a Cost of Good Sold	*(21,307)*	*(12,924)*	*(11,095)*	*(12,308)*
2 Gross Profit	2,958	2,075	693	1,602
a Operating Expenses	(1,317)	(924)	(766)	(803)
3 Operating Profit	1,640	1,151	(73)	799
a Non Operating Income or (Expense)	*(48)*	*53*	*32*	*91*
4 Profit or (Loss) before Interest and Tax	1,592	1,204	(41)	890
a Total Finance Cost	*(452)*	*(466)*	*(971)*	*(751)*
b Taxation	*(412)*	*(134)*	*(271)*	*(79)*
6 Net Income Or (Loss)	728	604	(1,283)	60
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,559*	*1,160*	*(393)*	*360*
b Net Cash from Operating Activities before Working Capital Changes	*1,155*	*575*	*(1,316)*	*(240)*
c Changes in Working Capital	*(2,539)*	*3,344*	*1,013*	*(1,899)*
1 Net Cash provided by Operating Activities	(1,384)	3,920	(302)	(2,138)
2 Net Cash (Used in) or Available From Investing Activities	(79)	32	(95)	(212)
3 Net Cash (Used in) or Available From Financing Activities	1,414	(3,561)	238	2,353
4 Net Cash generated or (Used) during the period	(49)	391	(160)	3
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	61.8%	27.2%	-15.3%	-17.1%
b Gross Profit Margin	12.2%	13.8%	5.9%	11.5%
c Net Profit Margin	3.0%	4.0%	-10.9%	0.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-4.0%	30.0%	5.3%	-11.1%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	12.1%	11.2%	-26.4%	1.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	120	185	288	229
b Net Working Capital (Average Days)	106	172	273	215
c Current Ratio (Current Assets / Current Liabilities)	2.0	1.7	2.0	2.7
3 Coverages				
a EBITDA / Finance Cost	5.0	3.4	0.2	1.5
b FCFO / Finance Cost+CMLTB+Excess STB	3.3	2.1	-0.4	0.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.3	0.3	-0.1	-0.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	42.4%	35.4%	56.6%	57.8%
b Interest or Markup Payable (Days)	131.6	88.4	90.0	99.5
c Entity Average Borrowing Rate	8.8%	8.7%	14.2%	11.0%

Credit Rating

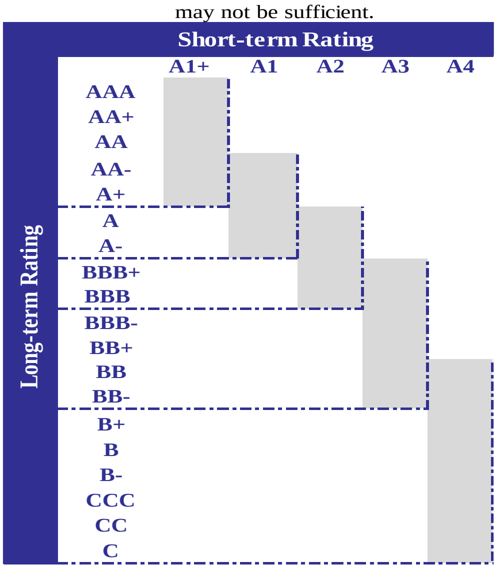
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

Entities

a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk 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