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
19-Oct-2024	A+	A1	Stable	Maintain	-
20-Oct-2023	A+	A1	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

Ghandhara Industries Limited ('GIL' or 'the Company') is one of the prominent automobile entities in its niche of trucks & buses. The primary business activities of the Company include; assembling & marketing trucks (Light-Duty Trucks, Medium-Duty Trucks & Heavy-Duty Trucks), 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 trucks & buses sector. During FY24, the demand for trucks and buses in Pakistan remained subdued, as it is directly related to economic activities. According to the Pakistan Automotive Manufacturers Association (PAMA) data, the trucks & buses volumes continued to decline by ~30% in FY24 (FY23: -40.7%), reflecting the overall adverse impact of cost-push inflation on the auto industry. Local bus assembling experienced a decline in FY24 as it fell by ~40.23% YoY and local truck assembling also declined by ~28.30% compared to the same period last year, mainly due to the dire situation of forex reserves, higher policy rate to curb inflation, and import restrictions due to financing limitations. During the year, GIL maintained a market share of ~50% in the trucks and buses market followed by Master, Hino Pak, and Ghandhara Automobiles Limited (JAC & DF). Subsequently, the company's financial performance improved in FY24, with net profitability surging to PKR ~781mln, representing a net profit margin of ~5.3%. This marked an increase from the ~1.2% margin achieved in FY23, driven by enhanced operational efficiency, cost reduction measures, and a decline in finance cost. Leveraging its core competencies, the Company is strategically diversifying its offerings to create new value propositions for its customers. This expansion is expected to drive synergistic growth, enhance profitability, and solidify the Company's market leadership. GIL's strategic approach to managing customer advances has effectively fueled its growth and expansion. The sponsoring group's synergistic approach and commitment to good corporate governance have been instrumental in GIL's sustainability. Financial risk profile is signified by comfortable cash flows, coverages, and an adequate working capital cycle. Capital structure of the company is low-leveraged (majorly comprised of short-term borrowings).

The ratings are dependent on upholding of the Company's business as well as financial risk profile amid unfavorable macroeconomic conditions. Sustenance in working capital management and intact coverages shall remain imperative. Key factor is management's ability to maintain the sales momentum during 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 | Rating Modifiers(Apr-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24),Methodology | Corporate Rating(Jul-24)
Related Research	Sector Study | Trucks & Buses(Sep-24)
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 ~33% as of Sep'24. 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 National Motors Limited. In 1992, Late Lt. General (R) Habibullah Khan Khattak reacquired the Company from the Government and renamed it "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 authorized assembler and dealer of ISUZU products in Pakistan. The Company has outsourced the assembly of its Pickups, Trucks & Buses to its associated concern named "Ghandhara Automobiles 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 and Ghandhara Automobiles Limited has ~19%. Other shares are held by Corporates, Financial Institutions, Banks, and individual members.

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

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

Financial Strength With strategic investments across the Textile, Insurance, Automobile, and Construction sectors, this business group reflects strong financial strength. Fortified by robust risk management strategies, ensuring sustained growth across varied market conditions.

Governance

Board Structure The board maintains separate roles for the Chairman and the CEO, comprising nine members: two executive directors, four non-executive directors and three independent directors. Comprising a balanced mix of independent and executive directors, the board is well-equipped to ensure the comprehensive decision-making and robust governance practices.

Members' Profile The Board members are professionals with experience in managing business affairs in different sectors. Lt. Gen. (Retd.) Ali Kuli Khan Khattak the Chairman of the Board has diversified experience in the Auto & Allied sector, which brings specialized and comprehensive experience and knowledge to the board. Each board member brings an impressive blend of seasoned expertise and diverse skill sets, which collectively ensures robust governance.

Board Effectiveness The board, comprised of skilled and diverse individuals, conducts frequent meetings to ensure clear communication and responsiveness to stakeholders. Its effectiveness is demonstrated through its strategic vision, diverse expertise, and rigorous governance practices. Minutes are meticulously documented following each meeting, facilitating seamless follow-up actions.

Financial Transparency An effective Internal Audit department reporting to the Audit Committee is in place that ensures transparency & compliance, identifies risks, and provides valuable insights to the management. M/s. ShineWing Hameed Chaudhari & Company, a QCR-rated firm, has expressed an unqualified audit opinion on the financial statements of the Company for the financial period ended June 30th, 2024.

Management

Organizational Structure The Company's organizational structure is divided into functional departments, with HODs reporting to the CEO. Major departments include Finance, HR & Admin, Quality Control, Sales & Marketing, and Material Management. This well-balanced structure allows for efficient communication and collaboration within different departments.

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. He has an overall experience of over 15 years and he is assisted by an able management team. Muhammad Aamir, the CFO of the Company, brings over 20 years of experience and a diverse skill set, ensuring exceptional financial leadership and strategic guidance. Clearly defined rules & responsibilities in an organization add to the effectiveness of the Company's structure.

Effectiveness Every department head is responsible to manage the affairs of their departments. Clearly defined rules & responsibilities, operational agility, and strategic foresight of management team add to the effectiveness of the Company's structure.

MIS GIL has integrated an ERP business software package that unifies all aspects of its operations. This software streamlines processes, enhances data accuracy, and delivers real-time insights, empowering informed decision-making. These technological advancements position GIL to remain competitive and achieve its strategic goals in a dynamic business environment.

Control Environment The Company's corporate structure is organized into various departments, each with its own effective Internal Control System. A robust MIS supports management's reporting needs and strengthens the overall control environment. Built-in controls are in place to ensure that conflicts of interest are avoided.

Business Risk

Industry Dynamics Pakistan's Trucks & Buses sector, dominated by domestic players, experienced a 30.6% volumetric decline in sales in FY24 due to macroeconomic challenges like high interest rates, PKR devaluation, soaring inflation, and increasing fuel prices. Despite a short-term increase in production and sales in 2MFY25, sustainable growth is not warranted. However, technological advancements and digital transformation offer growth opportunities for the companies. Furthermore, the recent reduction in interest rates could ease financial pressures, making it easier for companies to invest in new technologies and fleet expansions for FY25.

Relative Position GIL – a strong player in the industry sold a total of 1,333 units of trucks and buses in FY24 (FY23: 1,600 units) followed by Master (YUTONG) sold a total of 835 units of trucks and buses in FY24 (FY23: 1,234 units), HINO sold a total of 332 units of trucks and buses in FY24 (FY23: 838 units), and GAL (JAC & DF) sold 164 units of trucks in FY24 and FY23 as well. Much of the truck demand of the Company is generated through commercial customers, such as oil marketing companies. Due to the company's strong relationship with its customers, it is well poised to sustain its top line and increase its market share.

Revenues During FY24, the Company performed well and sustained its top line at PKR 14,666mln in FY24 (PKR FY23:14,543mln) with 0.9% of growth YoY. However, the net profitability of the Company improved and clocked in at PKR ~781mln in FY24 (FY23: PKR ~179mln).

Margins The Company's margins improved during the review period due to better pricing, operational & cost-effectiveness, and decreased finance cost. GIL recorded gross profit margin of 19.6% during FY24 (FY23: 15.8%), operating margin at 9.6% in FY24 up from 6.9% in FY23. Whereas net margin also improved and reached at 5.3% in FY24 compared to 1.2% in FY23.

Sustainability Although the Company generally prepares financial projections, developing prudent projections that align with industry dynamics and market trends is essential to navigate market fluctuations, and ensure long-term resilience.

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. Gross working capital days improved and stood at ~163 days in FY24 compared to ~196 days in FY23. Resultantly, net working capital days of the Company also decreased to ~150 days in FY24 as compared to ~175 days in FY23.

Coverages Free cash flow from operations (FCFO) recorded at PKR 1,203mln in FY24, up from 985mln in FY23. Increased cash flows led to better coverage position of the Company. During FY24, the interest coverage and core-coverage ratios stood at 2.5x and 2.3x respectively, when compared to 1.3x of both ratios in FY23.

Capitalization The Company maintains a low-leverage capital structure. Total debt decreased from approximately PKR 3,353mln in FY23 to PKR 1,452mln by the end of June '24, with short-term borrowings accounting for PKR 1,346mln. The gearing ratio improved, standing at 14.2% as of June '24, compared to 29.8% in the previous year.

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Financial Summary
PKR mln

Ghandhara Industries Limited Trucks & Buses	Jun-24 12M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	6,087	6,067	4,395	4,447
2 Investments	-	-	-	88
3 Related Party Exposure	-	-	1	1
4 Current Assets	11,970	10,429	13,237	10,368
a Inventories	*5,808*	*5,391*	*7,297*	*6,431*
b Trade Receivables	*647*	*1,290*	*1,655*	*581*
5 Total Assets	18,057	16,495	17,634	14,905
6 Current Liabilities	7,512	4,673	6,478	6,076
a Trade Payables	*544*	*506*	*1,197*	*616*
7 Borrowings	1,452	3,353	4,555	3,107
8 Related Party Exposure	29	134	145	-
9 Non-Current Liabilities	80	113	67	46
10 Net Assets	8,984	8,222	6,389	5,675
11 Shareholders' Equity	8,984	8,222	6,389	5,675
B INCOME STATEMENT				
1 Sales	14,666	14,543	24,265	14,999
a Cost of Good Sold	*(11,797)*	*(12,242)*	*(21,307)*	*(12,924)*
2 Gross Profit	2,869	2,301	2,958	2,075
a Operating Expenses	(1,458)	(1,293)	(1,317)	(924)
3 Operating Profit	1,411	1,007	1,640	1,151
a Non Operating Income or (Expense)	*177*	*186*	*(48)*	*53*
4 Profit or (Loss) before Interest and Tax	1,589	1,193	1,592	1,204
a Total Finance Cost	*(519)*	*(769)*	*(452)*	*(466)*
b Taxation	*(288)*	*(244)*	*(412)*	*(134)*
6 Net Income Or (Loss)	781	179	728	604
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,203*	*985*	*1,559*	*1,160*
b Net Cash from Operating Activities before Working Capital Changes	*551*	*299*	*1,155*	*575*
c Changes in Working Capital	*3,258*	*618*	*(2,539)*	*3,344*
1 Net Cash provided by Operating Activities	3,809	916	(1,384)	3,920
2 Net Cash (Used in) or Available From Investing Activities	79	40	(79)	32
3 Net Cash (Used in) or Available From Financing Activities	(1,961)	(1,243)	1,414	(3,561)
4 Net Cash generated or (Used) during the period	1,927	(287)	(49)	391
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	0.9%	-40.1%	61.8%	27.2%
b Gross Profit Margin	19.6%	15.8%	12.2%	13.8%
c Net Profit Margin	5.3%	1.2%	3.0%	4.0%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	30.4%	11.0%	-4.0%	30.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	9.1%	2.5%	12.1%	11.2%
2 Working Capital Management				
a Gross Working Capital (Average Days)	163	196	120	185
b Net Working Capital (Average Days)	150	175	106	172
c Current Ratio (Current Assets / Current Liabilities)	1.6	2.2	2.0	1.7
3 Coverages				
a EBITDA / Finance Cost	3.0	1.6	5.0	3.4
b FCFO / Finance Cost+CMLTB+Excess STB	2.3	1.3	3.3	2.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.2	1.0	0.3	0.3
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	14.2%	29.8%	42.4%	35.4%
b Interest or Markup Payable (Days)	38.5	100.5	131.6	88.4
c Entity Average Borrowing Rate	18.0%	16.1%	8.8%	8.7%

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.

Scale	Long-Term Rating
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.

Scale	Short-Term Rating
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.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.

Rating Modifiers | Rating Actions

Outlook (Stable, Positive, Negative, Developing)	Rating Watch	Suspension	Withdrawn	Harmonization
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'.	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.	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.	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 surveil the opinion due to lack of requisite information.	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. Rating actions may include "maintain", "upgrade", or "downgrade".

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 Company

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

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(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).
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(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)

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(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
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