The Pakistan Credit Rating Agency Limited

Rating Report

Ghandhara Automobiles 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	Maintain	-
05-Nov-2020	A	A1	Stable	Maintain	-
13-Dec-2019	A	A1	Stable	Maintain	-
13-Jun-2019	A	A1	Stable	Maintain	-
12-Dec-2018	A	A1	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Ghandhara Automobiles Limited (‘GAL’ or ‘the Company’) is an authorized automobile assembler of multiple automobile brands in Pakistan. The assigned ratings are supported by the Company’s strong ownership structure, solid business profile, and established presence in Pakistan's automobile sector. GAL maintains partnerships with leading Chinese multinational manufacturers, including JAC Motors, China Dongfeng Motor Industry Import & Export Company Limited, and Dongfeng Motor Corporation, for the local assembly of light, medium, and heavy-duty commercial vehicles, and with Chery Automobile Co. Ltd. for the local assembly of Chery passenger vehicles, such as the Chery Tiggo 4/8 Pro SUV (sport utility vehicle). Additionally, GAL is the authorized distributor of Renault trucks, providing complete built-up units from the French commercial vehicle manufacturer. The company also undertakes the assembly of other commercial motor vehicles through contract agreements with Ghandhara Industries Limited, Ghandhara DF (Pvt.) Limited, and Bibojee Services (Pvt.) Limited. In FY24, growth in Pakistan's trucks and buses sector remained subdued, closely linked to overall economic activity. Local bus assembly saw a significant decline of ~40.23% year-on-year (YoY), while local truck assembly decreased by ~28.30% compared to the previous year. This downturn was primarily driven by the challenging state of foreign exchange reserves, higher policy interest rates aimed at curbing inflation, delays in the establishment of letters of credit (L/Cs) for importing CKD (Complete Knock Down) kits, and the impact of the Red Sea crisis. During the period under review, the sector's performance remained uncertain due to fluctuations in product demand, and the prevailing macroeconomic challenges increased the cost of doing business. GAL's consolidated revenue for FY24 contracted to ~PKR 9,413mln, compared to ~PKR 13,104mln in FY23. This decline was largely attributable to a significant YoY reduction of ~80.7% in Chery Tiggo sales. However, the period saw a notable growth in sales of Dongfeng (DF) light and heavy-duty trucks, as well as JAC light commercial vehicles. DF trucks accounted for ~42% of total revenue, while JAC vehicles contributed ~36%. Backed by a highly experienced management team with a diverse skill set, the company has established strong internal controls and consistently upholds corporate governance standards. Financial risk profile is characterized by modest coverages and cashflows. The working capital cycle is stretched and depicts industry norms. Capital structure is moderately leveraged, where borrowings are majorly comprised of short-term borrowings for working capital management.

The ratings are dependent on upholding the Company’s consolidated and standalone business profiles amidst the unfavorable macroeconomic challenges in the automobile and allied industries. Enhancing coverages, cash flows, and working capital management will remain imperative. Moreover, the Company's stance on timely execution of strategic projects is crucial for expanding revenue streams. Improvement in GAL’s standalone profitability and growth remains crucial.

Disclosure

Name of Rated Entity	Ghandhara Automobiles 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 Automobiles Limited (GAL) is a public listed entity with a free float of ~35% shares as of Oct'24. It got listed on Karachi Stock Exchange (now 'Pakistan Stock Exchange') in 1992.

Background Ghandhara Automobiles Limited was incorporated on August 8, 1981 as a private limited entity and was subsequently converted into a public limited company on May 24, 1992. The Company is a subsidiary of "Bibojee Services (Private) Limited".

Operations GAL focuses on the assembly and progressive manufacturing of vehicles, including JAC Trucks and Chery SUVs (Sport Utility Vehicles), importing and selling parts, as well as CBU vehicles from Nissan, Dongfeng, and Renault. With a manufacturing capacity of around 4,800 trucks and buses, and 6,000 cars per shift, GAL's registered office is in Karachi, while its manufacturing facilities are at Port Qasim. It also provides toll manufacturing services to Ghandhara Industries Limited and Ghandhara DF (Private) Limited.

Ownership

Ownership Structure Bibojee Services (Private) Limited directly owns ~57.7% stake in the Company. Other shareholders include Banks (~2%), and Insurance Companies (~1.1%), while the remaining are held by DFIs, NBFIs, the general public & others.

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 with interests in various industries, including automobiles, textiles, insurance, construction, and tyre manufacturing. 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 ten members: one executive director, six non-executive directors, and three independent directors. This balanced mix of independent and executive directors equips the board to ensure comprehensive decision-making and robust governance practices.

Members' Profile The Board members are professionals with diverse experience across various sectors. Lt. Gen. (Retd.) Ali Kuli Khan Khattak, the Chairman, brings specialized knowledge from the Auto & Allied sector. Each board member offers a unique blend of seasoned expertise and skills, collectively ensuring 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 unmodified opinion on the financial statements of the Company for financial period ending June 30, 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 Plant Operations. This well-balanced structure allows for efficient communication and collaboration within different departments.

Management Team The Company's management team consists of highly qualified professionals with a wide range of skills and diverse experience. Mr. Ahmad Kuli Khan Khattak, the CEO, has over 15 years of experience and is supported by an adept management team. Mr. Faisal, the CFO, brings over 10 years of experience and a diverse skill set, providing exceptional financial leadership and strategic guidance. Clearly defined roles and responsibilities further enhance 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 Company's management team add to the effectiveness of the Company's structure.

MIS GAL has implemented the Sidat Hyder Financial Business software package, supported by a regular update and technical support agreement with the vendor. These technological advancements enable GIL to remain competitive and achieve its strategic goals in a dynamic business environment.

Control Environment The Company's structure comprises various departments, each with an effective Internal Control System. A robust MIS supports management's reporting needs and strengthens the control environment, with built-in controls to avoid conflicts of interest.

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. Currently, ISUZU is leading the Japanese market with 25%, whereas Dongfeng leading the Chinese market with 27% market share.

Relative Position GAL & DF, a leading industry player, sold 1,432 units in FY24 (FY23: 2,312 units). GIL (ISUZU) followed with 1,333 units (FY23: 1,600 units), Master (YUTONG) with 835 units (FY24: 1,234 units), and HINO with 332 units (FY24: 838 units). While JAC X-200 light trucks boosted the Company's top line, the newly launched Chery SUVs saw a significant decline of around ~80% during the review period. DongFeng trucks remain GAL's major product line, with future projects expected to further enhance revenue. The company's strong relationship with its customers positions it well to sustain its market share.

Revenues Due to the highly cyclical nature of the auto-industry and wider macroeconomic challenges engulfing the fragile economy, the top-line of GAL took a hit. GAL's consolidated revenue for FY24 contracted to ~PKR 9,413mln, compared to ~PKR 13,104mln in FY23. This decline was largely attributable to a significant YoY reduction of ~80.7% in Chery Tiggo sales. However, the bottom line of the Company improved and clocked in at ~PKR 365mln in FY24 (FY23: ~PKR 174mln).

Margins The Company's margins improved due to enhanced operational and cost efficiency. The gross margin ratio increased to ~12% in FY24, up from ~8.6% in FY23. GAL's operating margin increased to ~6.7% in FY24, compared to ~4.7% in the previous year. Similarly, the net profit margin improved to ~3.9%, up from ~1.3% 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 needs stem from trade payables, relying on both internal cash flows and short-term borrowings. Average inventory days rose to around 112 days in FY24 (FY23: 93 days) due to import congestion in 1QFY24. Consequently, trade receivable days increased to approximately 51 days by June '24 (FY23: 26 days), pushing net working capital days to about 119 days (FY23: 96 days).

Coverages In FY24, the FCFO decreased and reached at PKR ~712mln compared to PKR ~587mln in FY23. Resultantly, the interest coverage and core-debt coverage ratios stood at 1.6x and 0.9x compared to 1.7x and 0.7x in the last period.

Capitalization The Company has a moderately leveraged capital structure. Total debt of the Company was clocked in at PKR ~2,377mln in FY24 as compared to PKR~ 2,445mln in FY23. Out of the total debt, PKR ~1,259mln comprises of short-term borrowings. At end Jun'24, gearing ratio was decreased to ~18.1% in FY24 as compared to ~23.6% in FY23.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Ghandhara Automobiles Limited	Jun-24	Jun-23	Jun-22	Jun-21
Trucks & Buses	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	7,720	5,447	5,482	4,203
2 Investments	-	-	-	-
3 Related Party Exposure	1,629	1,271	1,312	1,050
4 Current Assets	7,255	5,904	9,031	3,807
a Inventories	*3,449*	*2,346*	*4,332*	*1,262*
b Trade Receivables	*1,447*	*1,162*	*697*	*897*
5 Total Assets	16,605	12,623	15,826	9,059
6 Current Liabilities	2,970	1,896	5,811	768
a Trade Payables	*1,595*	*648*	*1,000*	*263*
7 Borrowings	2,377	2,445	1,991	497
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	468	360	285	322
10 Net Assets	10,790	7,921	7,740	7,472
11 Shareholders' Equity	10,790	7,921	7,740	7,472
B INCOME STATEMENT				
1 Sales	9,413	13,105	6,382	4,413
a Cost of Good Sold	*(8,280)*	*(11,972)*	*(5,821)*	*(3,839)*
2 Gross Profit	1,134	1,132	561	574
a Operating Expenses	(501)	(514)	(418)	(397)
3 Operating Profit	633	619	143	178
a Non Operating Income or (Expense)	*256*	*164*	*116*	*65*
4 Profit or (Loss) before Interest and Tax	889	783	259	242
a Total Finance Cost	*(399)*	*(393)*	*69*	*(111)*
b Taxation	*(125)*	*(213)*	*(48)*	*(4)*
6 Net Income Or (Loss)	365	177	281	127
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*712*	*587*	*202*	*492*
b Net Cash from Operating Activities before Working Capital	*253*	*270*	*47*	*445*
c Changes in Working Capital	*(297)*	*(2,221)*	*1,675*	*486*
1 Net Cash provided by Operating Activities	(44)	(1,951)	1,722	931
2 Net Cash (Used in) or Available From Investing Activities	69	655	(2,046)	(117)
3 Net Cash (Used in) or Available From Financing Activities	(164)	382	1,477	(81)
4 Net Cash generated or (Used) during the period	(138)	(914)	1,154	733
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-28.2%	105.3%	44.6%	165.4%
b Gross Profit Margin	12.0%	8.6%	8.8%	13.0%
c Net Profit Margin	3.9%	1.3%	4.4%	2.9%
d Cash Conversion Efficiency (FCFO adjusted for Working C	4.4%	-12.5%	29.4%	22.2%
*e Return on Equity [Net Profit Margin * Asset Turnover * (T*	3.9%	2.3%	3.7%	1.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	163	119	206	140
b Net Working Capital (Average Days)	119	96	169	123
c Current Ratio (Current Assets / Current Liabilities)	2.4	3.1	1.6	5.0
3 Coverages				
a EBITDA / Finance Cost	2.3	2.9	1.9	4.6
b FCFO / Finance Cost+CMLTB+Excess STB	0.9	0.7	0.4	2.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	4.1	6.3	189.8	0.6
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity	18.1%	23.6%	20.5%	6.2%
b Interest or Markup Payable (Days)	56.4	88.7	90.8	41.5
c Entity Average Borrowing Rate	19.3%	17.6%	13.1%	23.9%

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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

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 | 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)
Proprietary Information