



The Pakistan Credit Rating Agency Limited

## Rating Report

### Ghandhara Nissan Limited

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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 Nissan Limited (GNL) operates in the truck segment of the automobile sector. Presently, the company deals in Chinese brands. There has been a slowdown in the company's performance with the discontinuation of UD Trucks, however, Ghandhara Nissan has tried to regain the lost market share with the introduction of new products; including JAC X-200, Renault trucks recently. The company is also working to come into the passenger car segment. The success of these initiatives is crucial. Majority ownership of the company is held by Bibojee Group of Companies. Their business acumen is further enriched by the group's stake in the country's leading tyre manufacturing company. Foreign players are also taking interest in the local market. The landscape of the industry is expected to change – although it is yet to be seen. The financial risk profile of GNL is strong. The company intends to raise long term debt borrowing for its expansion projects, which is expected to remain in comfortable range. The working capital is supported by cash cum advances sale mechanism.

The ratings are dependent on upholding of the company's business as well as financial risk profile. Two key elements are company's stance on long term debt for potential projects and working capital management. Moreover, management's ability to sustain its market share while benefiting from positive demand fundamentals is crucial.

#### Disclosure

<b>Name of Rated Entity</b>	Ghandhara Nissan Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Ratings(Jun-18),Methodology   Criteria   Rating Modifier(Jun-18),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
<b>Related Research</b>	Sector Study   Auto and Allied   Trucks & Buses(Dec-18)
<b>Rating Analysts</b>	Nadeem sheikh   nadeem.sheikh@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Ghandhara Nissan Limited (hereinafter referred to as "the Company" or "Ghandhara") is a public listed entity with a free float of ~27% shares. It got listed on Karachi Stock Exchange (now "Pakistan Stock Exchange") in 1992.

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

**Operations** The principal business of the GNL is assembly, import and sale of DongFeng, JAC and ISUZU trucks (on behalf of its associate, Ghandhara Industries Limited). The company is entering into the production of Datsun cars in collaboration with Nissan Motor. In addition to that, the company has recently launched Renault Trucks in market. Currently, all Renault trucks are imported completely but local assembling will start at End-2019. Currently, company has a capacity to manufacture 4,800 units of trucks and buses and 6,000 cars on a single shift basis. The registered office of the Ghandhara is situated at Karachi while its manufacturing facilities are located at Port Qasim.

## Ownership

**Ownership Structure** Bibojee Services (Private) Limited directly owns 64% shares in the company. Other shareholders includes Insurance Companies (5%), General public (19%) and remaining is held by Banks, DFI, NBF1 and others.

**Stability** Bibojee Group of Companies, representing 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 concern. Bibojee's group understanding of the business is strong.

**Financial Strength** Financial strength of Ghandhara's sponsors is deemed strong.

## Governance

**Board Structure** The overall control of the company vests in nine members board of directors. The board structure comprises one independent director, seven non-executive directors and one independent director.

**Members' Profile** The Board members are professionals with experiences of managing business affairs in different sectors. Mr. Raza Kuli Khan Khattak is the Chairman of the Board having diverse experience in the Auto and 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 and Remuneration Committee and (ii) Audit Committee. Chairman of the Audit committee is an Independent director whereas HR and Remuneration Committee is being headed by an executive director and consist of 4 members each. Attendance in meetings held during FY18 was good.

**Financial Transparency** An effective Internal Audit department reporting to the Audit Committee is in place. M/s. Shine Wing Hameed Chaudhari & Co. along with M/s Junaidy Shoaib Asad has expressed unqualified opinion on financial accounts of FY18.

## Management

**Organizational Structure** The organizational structure of the company is divided broadly into various functional departments and all the department heads report to Chief Executive Officer. Major departments include (i) Finance, (ii) Human Resources and Admin (iii) Quality control (iv) Sales and Marketing (v) Material Management.

**Management Team** Management of the company comprises qualified and experienced professionals with a wide range of skills and diversified experience. Mr. Ahmed Kuli Khan is the CEO of the company. He is an experienced professional in the Auto & Allied industry, and is assisted by able management team.

**Effectiveness** Every department head is responsible to manage the affairs of their departments. Clearly defined rules and responsibilities in organization add to the effectiveness of the organization structure.

**MIS** The company has Sidat Hyder Financial-business software package which was implemented in 1st July 2009. The company has regular update and technical support agreement with the vendor.

**Control Environment** The company has a Technical Assistance Agreement with Nissan Motor Co. Japan and joint Venture Agreement with Nissan Diesel Co. Japan for the progressive Assembly of Passenger Cars, Light Commercial Vehicles and Heavy Duty Vehicles. Representative from these international organizations regularly visit the company to ensure quality of operations.

## Business Risk

**Industry Dynamics** Pakistan's truck and bus industry is largely dominated by domestic players such as HinoPak, Ghandhara Industries, Master Trucks and Ghandhara Nissan. According to Pakistan Automotive Manufacturer Association a record 10,093 units of trucks and buses were sold in FY18 with 17% YOY growth. HinoPak was the top seller in FY18.

**Relative Position** Ghandhara's market share reduced recently due to discontinuation of UD trucks. The company's major focus, has therefore diverted to Dong Feng and JAC trucks. This along with introduction of Renault trucks is expected to boost the reduce topline. Introduction of Datsun cars in 2019 is also expected to improve the position of the company in industry.

**Revenues** Ghandhara's revenue decreased by 25% on YOY basis. The company's revenue decreased to PKR 4,896.6mln (consolidated) due to discontinuation of UD trucks during FY18. The same is expected to recover from Dong Feng and JAC trucks sales. The company posted revenue of PKR 1,784mln in 1QFY19 with growth of 81% YOY basis.

**Margins** Gross margin of the company reduced to ~12% in 1QFY19 as compare to ~24% in 1QFY18 mainly due to increase in cost of raw material. Decrease in gross profit margin led to decrease in operating margin in 1QFY19. Margins are expected to remain under pressure, going forward as the recent devaluation of currency will make its impact.

**Sustainability** Sale of the company is expected to increase due to strong local demand for Dong Feng and JAC trucks. Further the launch of Renault trucks will add to the company's revenue. The company is also looking to launch Datsun Cars in range of 1,000-1,300cc engine power. To fund this project company has raised PKR ~1.18bln through right issue and PKR ~945mln from sale of Ghandhara Industries Limited shares. Ghandhara is planning to raise remaining funds from debt market.

## Financial Risk

**Working Capital** Average inventory days of the company increased to 78 days at the end of 1QFY19 (~62 days FY18) due to local assembly of JAC trucks. Net working capital days also increased to 70 days in 1QFY19 as compared to ~25 days in 1QFY18. The decrease in payable days also adversely impacted the working capital cycle.

**Coverages** Free cash flow from operations (FCFO) increased by 17% on YOY basis in 1QFY19 clocking in at PKR~74mln (1QFY18: PKR~64 million). Cash flows increased due to improved profitability during the period under review, though remained small in absolute numbers. Increased cash flows led to improvement in interest coverage and core coverage ratio of the company.

**Capitalization** At present, the company has very low leverage. But the gearing ratio of the company is expected to increase going forward as the company plans to raise debt to finance its production of Datsun cars.



## Ghandhara Nissan Ltd

BALANCE SHEET	30-Sep-18	30-Jun-18	30-Jun-17	30-Jun-16
	3MFY18	FY18	FY17	FY16
<b>Non-Current Assets</b>	<b>2,798</b>	<b>2,930</b>	<b>2,325</b>	<b>2,358</b>
<b>Investments (Incl. Associates)</b>	<b>223</b>	<b>223</b>	<b>243</b>	<b>243</b>
Equity	223	223	243	243
Debt	-	-	-	-
<b>Current Assets</b>	<b>2,922</b>	<b>2,672</b>	<b>1,290</b>	<b>1,481</b>
Inventory	643	738	278	605
Trade Receivables	260	262	181	188
Others	2,019	1,671	831	688
<b>Total Assets</b>	<b>5,943</b>	<b>5,825</b>	<b>3,858</b>	<b>4,081</b>
<b>Debt</b>	<b>18</b>	<b>18</b>	<b>-</b>	<b>-</b>
Short-term	-	-	-	-
Long-term (Incl. Current Maturity of Long-Term Debt)	18	18	-	-
Other Short-term Liabilities	726	818	720	1,140
Other Long-term Liabilities	314	322	346	322
<b>Shareholder's Equity</b>	<b>4,885</b>	<b>4,668</b>	<b>2,792</b>	<b>2,619</b>
<b>Total Liabilities &amp; Equity</b>	<b>5,943</b>	<b>5,825</b>	<b>3,858</b>	<b>4,081</b>

## INCOME STATEMENT

<b>Turnover</b>	<b>631</b>	<b>2,219</b>	<b>4,858</b>	<b>5,005</b>
Gross Profit	153	433	931	1,092
Other Income/Expense	39	1,109	59	19
Financial Charges	(4)	(23)	(8)	(18)
<b>Net Income</b>	<b>89</b>	<b>1,038</b>	<b>410</b>	<b>546</b>

## Cashflow Statement

Free Cashflow from Operations (FCFO)	74	96	563	599
Net Cash changes in Working Capital	(28)	(535)	(60)	523
Net Cash from Operating Activities	38	(463)	445	1,074
Net Cash from Investing Activities	(1,064)	454	(70)	(626)
Net Cash from Financing Activities	118	810	(236)	(402)
Net Cash generated during the period	(908)	800	139	46

## Ratio Analysis

<b>Performance</b>				
Gross Margin	24%	20%	19%	22%
Net Margin	14%	47%	8%	11%
<b>Coverages</b>				
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncove	9	2	69	32
Interest Coverage (x) (FCFO/Gross Interest)	20	4	69	32
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Terr	0	1	0	0
<b>Liquidity</b>				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	70	46	39	29
<b>Capital Structure</b> (Total Debt/Total Debt+Equity)	1%	1%	2%	2%

## Credit Rating Scale & Definitions

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

Long Term Ratings		Short Term Ratings	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	<b>B</b>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	<b>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> 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.		
<b>D</b>	Obligations are currently in default.		



**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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Disclaimer:** PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

### **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.
- (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**

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent