The Pakistan Credit Rating Agency Limited

Rating Report

Ghandhara Nissan Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
13-Dec-2019	A	A1	Stable	Maintain	-
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 Nissan Limited (GNL) operates in the truck segment of the automobile sector. Presently, the company deals in Chinese and European brands. Company's performance was diluted owing to discontinuation of UD Trucks, which they managed to beef up with other alternative products. Ghandhara Nissan has solidified its position in the market through the launch of JAC X-200 and Renault Trucks, recently. The company is also working to come into the passenger car segment. Keeping in view of the current market scenario the turnout of these initiatives is pivotal. The current economic slowdown and rupee devaluation though added pressure on the business profile of the company. 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 company had arranged long term debt for its expansion project.

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

Name of Rated Entity	Ghandhara Nissan Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-19),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria | Rating Modifier(Jun-19)
Related Research	Sector Study | Trucks & Buses(Dec-19)
Rating Analysts	Usama Liaquat | usama.liaquat@pacra.com | +92-42-35869504

Profile

Legal Structure Ghandhara Nissan Limited is a public listed entity with a free float of ~35% shares, as to date Oct'19. It got listed on Karachi Stock Exchange (now ‘‘Pakistan Stock Exchange’’) in 1992.

Background Ghandhara Nissan Limited 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 principle business of the company is assembly/progressive marketing of vehicles including JAC trucks, import and sale of Nissan, Dongfeng and Renault vehicles in completely built up conditions and assembling of other vehicles under contract agreement. The 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 Ghandhara Nissan is situated in Karachi while its manufacturing facilities are located at Port Qasim.

Ownership

Ownership Structure Bibojee Services (Private) Limited directly owns 57.76% shares in the company. Other shareholders includes Insurance Companies (5%), general public (19%) and remaining is held by Banks, DFI, NBFI 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” denotes formal structure of the group and given platform for relatively smooth execution of succession matters among family members.

Business Acumen Bibojee Services (Pvt) Limited is the holding company of the group companies under whose umbrella comes automobile companies, textile, insurance, construction and tyre manufacturing concern. 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 and construction. Financial strength of the group is strong.

Governance

Board Structure The overall control of the company vests in ten members board of directors. The board structure comprises six non-executive directors, three independent directors and one executive 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 independent director and consist of 5 members each. Attendance in meetings held during FY19 was good.

Financial Transparency An effective Internal Audit department reporting to the Audit Committee is in place. M/s. Shine Wing Hameed Chaudhari & Company, a QCR rate firm, has expressed unmodified opinion on financial statements of FY19.

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) Plant operation

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 implemented Sidat Hyder Financial-business software package. The company has regular update and technical support agreement with the vendor.

Control Environment The 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 and buses industry is dominated by domestic players such as Ghandhara Industries, Ghandhara Nissan, HinoPak and Master Trucks. Lately, Ghandhara Industries has outperformed HinoPak in terms of market share and now occupies the highest share in the industry followed by HinoPak, Ghandhara Nissan and Master. According to Pakistan Automotive Manufacturers Association only 5,828 units of trucks were sold during FY19 as compared to 9,331 units in FY18 with a decline of ~38%. Current economic slowdown and muted CPEC related activities, which coupled with high interest rates and rupee devaluation has further affected the overall LSM segment of the country, Hence, demand for trucks has slowed down significantly.

Relative Position Ghandhara Nissan’s market share reduced in the past due to discontinuation of UD trucks which diverted the company’s focus to add more revenue generating lines. DongFeng trucks continue to be the major product line. In the recent past, introduction of Renault and JAC X-200 trucks was expected to bring improvement to the topline. However, due to overall slowdown growth in the economy, the off-take of the trucks has not yet taken a steady pace. Datsun cars, is another planned product avenue by the business.

Revenues Revenue increased by ~7% during FY19 and decreased by ~25% during 1QFY20 as compared to the corresponding periods. Despite of stringent market conditions and decreasing trend in overall trucks and buses market the company managed to maintain its revenue which stands at PKR 2,374mln in FY19 (FY18: PKR 2,219mln). The decrease in the company’s revenues due to discontinuation of UD trucks, is being compensated with the sales from Dong Feng and JAC trucks.

Margins Instilling impact of decreased revenues along with high cost of raw material and significant currency devaluation drive the decrease in gross profit margin of the company, which reduced by ~26% in FY19, standing at PKR 320mln. For 1QF20 gross profit decline was ~81% as compared to corresponding period. Decrease in gross profit margin led to decrease in operating margin in FY19. The Company has made an after tax loss of PKR 29mln in FY19 as against profit after tax of PKR 1,037mln in the corresponding period on account of one-time cost of arrangement of project financing amounting to PKR 190mln. Further profit of FY18 included one time gain from sale of investment in Ghandhara Industries amounting to PKR 926mln.

Sustainability The Company is taking steps to aim long-term sustainability to address the challenging macro-economic environment. The Company has positioned itself as an organization delivering appropriate solutions to the changing market requirements.

Financial Risk

Working Capital Average inventory days increased to ~194 days as of Sep19 (~100 days Sep18) due to (i) slower than anticipated growth in sales and (ii) local assembly of JAC trucks. Thereby, net working capital days also increased to 227 days in 1QFY19 as compared to ~110 days in 1QFY18.

Coverages Free cash flow from operations (FCFO) significantly dropped to PKR -55mln in FY19 from PKR 96mln in FY18. Cash flows decreased due to loss during the period under review. Decreased cash flows led to deteriorated interest coverage and core coverage ratio of the company. Going forward, strengthened cashflow streams are essential to keep the coverages intact.

Capitalization The company's leveraging has picked up its pace, mainly dominated by short term borrowings. Strong equity base kept the debt to equity ratio intact: 1QFY19:~2.6% (1QFY18:~1.2%), still stand to be low. Going forward, gearing ratio is expected to further increase as the company plans to raise debt to finance its potential expansion project.

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Financial Summary
PKR mln

Ghandhara Nissan Limited Trucks & Buses	Sep-19 3M	Jun-19 12M	Jun-18 12M	Jun-17 12M
A BALANCE SHEET				
1 Non-Current Assets	3,992	3,938	2,163	2,012
2 Investments	395	389	101	-
3 Related Party Exposure	731	875	992	556
4 Current Assets	1,828	1,895	2,569	1,290
a Inventories	*945*	*1,070*	*738*	*278*
b Trade Receivables	*301*	*252*	*261*	*181*
5 Total Assets	6,946	7,098	5,825	3,858
6 Current Liabilities	357	414	818	720
a Trade Payables	*98*	*111*	*269*	*142*
7 Borrowings	159	237	65	54
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	362	363	274	292
10 Net Assets	6,069	6,084	4,668	2,792
11 Shareholders' Equity	6,069	6,084	4,668	2,792
B INCOME STATEMENT				
1 Sales	474	2,374	2,219	4,858
a Cost of Good Sold	*(444)*	*(2,054)*	*(1,785)*	*(3,927)*
2 Gross Profit	29	320	433	931
a Operating Expenses	(71)	(298)	(267)	(242)
3 Operating Profit	(41)	22	166	689
a Non Operating Income or (Expense)	*42*	*55*	*1,109*	*59*
4 Profit or (Loss) before Interest and Tax	1	77	1,275	749
a Total Finance Cost	*(10)*	*(71)*	*(23)*	*(8)*
b Taxation	*(6)*	*(34)*	*(215)*	*(331)*
6 Net Income Or (Loss)	(15)	(29)	1,038	410
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*(23)*	*(55)*	*96*	*563*
b Net Cash from Operating Activities before Working Capital Changes	*(13)*	*(114)*	*71*	*505*
c Changes in Working Capital	*(6)*	*(749)*	*(535)*	*(60)*
1 Net Cash provided by Operating Activities	(19)	(863)	(463)	445
2 Net Cash (Used in) or Available From Investing Activities	64	(582)	454	(70)
3 Net Cash (Used in) or Available From Financing Activities	(82)	281	810	(236)
4 Net Cash generated or (Used) during the period	(37)	(1,165)	800	139
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-20.2%	7.0%	-54.3%	-2.9%
b Gross Profit Margin	6.2%	13.5%	19.5%	19.2%
c Net Profit Margin	-3.2%	-1.2%	46.8%	8.4%
d Cash Conversion Efficiency (EBITDA/Sales)	-0.7%	7.6%	12.7%	16.5%
e Return on Equity (ROE)	-1.0%	-0.5%	27.8%	15.2%
2 Working Capital Management				
a Gross Working Capital (Average Days)	247	178	120	61
b Net Working Capital (Average Days)	227	149	86	52
c Current Ratio (Total Current Assets/Total Current Liabilities)	5.1	4.6	3.1	1.8
3 Coverages				
a EBITDA / Finance Cost	-0.3	2.7	14.2	132.8
b FCFO / Finance Cost+CMLTB+Excess STB	-1.6	-0.6	2.6	93.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-0.4	-0.5	0.9	0.1
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	2.6%	3.7%	1.4%	1.9%
b Interest or Markup Payable (Days)	76.6	121.5	123.8	0.0
c Average Borrowing Rate	19.3%	44.3%	33.4%	12.9%

Credit Rating Scale & Definitions

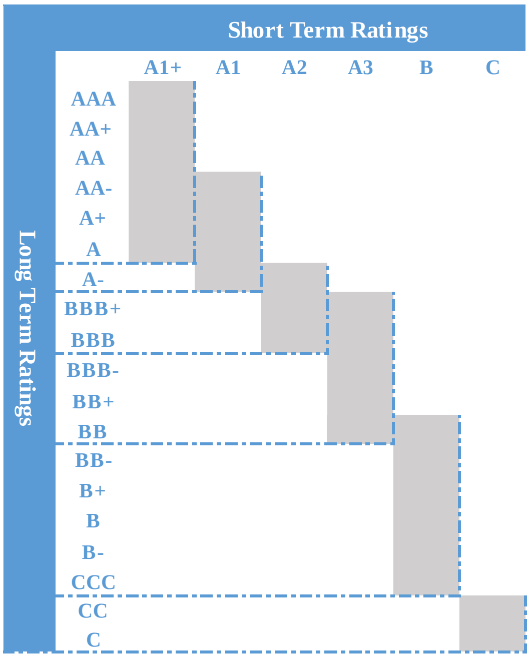
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

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 Ratings

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.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



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 surveill the opinion due to lack of requisite information.

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

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

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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.
(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)

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