The Pakistan Credit Rating Agency Limited

Rating Report

Ghandhara Tyre & Rubber Company Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
01-Aug-2024	A+	A1	Stable	Maintain	Yes
01-Aug-2023	A+	A1	Stable	Maintain	Yes
10-Aug-2022	A+	A1	Stable	Maintain	-
10-Aug-2021	A+	A1	Stable	Upgrade	-
10-Aug-2020	A	A1	Stable	Maintain	-
10-Oct-2019	A	A1	Stable	Downgrade	-
10-Apr-2019	A+	A1	Stable	Maintain	-
10-Oct-2018	A+	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Ghandhara Tyre & Rubber Company Limited is a prominent automotive tyre manufacturer in the country catering to different market segments, including Original Equipment Manufacturers (OEMs), Replacement/After Market (RM), Institutions (Govt, Defense, etc.) and Export. The ratings reflect the Company's strong business profile and long-standing presence in Pakistan's tyre industry. The Company is the sole manufacturer of PCR tyres in Pakistan and fulfils ~75% of the demand of OEMs besides offering a diverse product range in the PCR, LTB/R, TBB, Agri, OTR and 2-wheeler segments, enabling the company to sustain its market share by catering to the needs of a wide range of users.. During the past couple of years, Pakistan's tyre industry faced operational challenges due to import restrictions. Moreover, the profitability matrix of the industry remained under pressure owing to increased production costs on the back of high energy prices and elevated interest rates. The OEMs' sales have substantially declined owing to massive price increases due to PKR depreciation and decreased purchasing power of the consumers on the back of high inflation. However, the demand for tyres remains intact as the industry derives ~80% of its demand from the replacement market. During 9MFY24, the Company registered a topline growth of ~34.5% YoY owing to increased volumetric offtake in the replacement market augmented by price adjustments Profitability matrix of the company benefitted from the PKR stabilization during the review period and ease in imports leading to a marginal NP Margin of ~1.3% (FY23, -1.1%). The financial risk matrix is demonstrated by a stretched working capital cycle, modest coverages and leveraged capital structure. Going forward, the potential decrease in the discount rate is expected to support the Company in terms of lower financial charges. Moreover, it may also improve OEM sales due to lower auto financing rates. The Company's envisaged strategies are to hold a strong foothold in its respective niche in the local market and focus on enhancing its export segment. To ensure business growth, the management of the Company has consistently invested in the modernization and capacity enhancement of the plant. Going forward, the Company is expected to benefit from the entry of new OEMs in the market as it has already started supplying SUV tyres to two Japanese OEMs. A well-devised governance framework and close association with major sponsors alongside an experienced management team are considered positive for the ratings. Technical collaboration with Continental AG; Germany (one of the world's leading tyre manufacturers) has supported the Company in developing expertise on the technical front, which assures adherence to international quality standards.

The ratings are dependent on the Company's ability to improve its business risk vis-à-vis financial risk profile along with sustainable margins. Cautious management strategies amidst a challenging industry environment are pertinent. Moreover, prudent management of financial affairs remains important.

Disclosure

Name of Rated Entity	Ghandhara Tyre & Rubber Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-24),Methodology | Corporate Rating(Jul-23)
Related Research	Sector Study | Tyres(Oct-23)
Rating Analysts	Sohail Ahmed Qureshi | sohail.ahmed@pacra.com | +92-42-35869504

Profile

Legal Structure Ghandhara Tyre & Rubber Company Limited (hereinafter referred to as 'the Company' or 'GTR') is a Public Listed Entity with a free float of ~30% shares as on June 30th, 2024. It was listed on the Pakistan Stock Exchange in 1982.

Background The Company was initially established by General Tire International Corporation (GTIC) of USA in 1963, with an initial production capacity of ~120,000 tyres per annum. Currently, Bibojee Services (Private) Limited and Pakistan Kuwait Investment Company (Private) Limited are the two major sponsors of the Company.

Operations The primary business of the Company is manufacturing and sale of radial tyres for Cars, LCVs, Vans, Jeeps, Pickups, Buses and Bias Tyres for Trucks, Tractors, Rickshaws and Motorcycles. The current capacity of the Company stands at ~2.7mln for automotive tyres per annum. While the motorcycle plant capacity is ~1.6mln tyres per annum.

Ownership

Ownership Structure Bibojee Services (Private) Limited and Pakistan Kuwait Investment Company (Private) Limited are the major shareholders of the Company and hold ~27.8% and ~30% shares, respectively.

Stability Bibojee Services (Private) Limited is a strong conglomerate diversified into various sectors including Textile, Automobile, Insurance, Tyres & Rubber and Construction. Pakistan Kuwait Investment Company (Private) Limited is a state-owned joint venture between the Government of Pakistan and the Government of Kuwait, regarded as one of the top investment companies in Pakistan.

Business Acumen Apart from GTR, both sponsors have strategic stakes in other sectors too. Under the ownership of current sponsors, the Company has achieved many milestones and has established a formidable position in the tyre sector, which is a representation of strong sponsor acumen.

Financial Strength Bibojee Services (Private) Limited has strategic stakes in companies from different sectors including Textile, Insurance, Automobile and Construction. The financial strength of the group is strong. Pakistan Kuwait Investment Company (Private) Limited also holds ~30% shares in Meezan Bank Limited, ~30% in Al-Meezan Investment Management Limited and ~17.6% in National Clearing Company of Pakistan Limited.

Governance

Board Structure The Board of Directors consists of 10 members, out of which three are independent directors, six are non-executive directors, and one is executive director. Management control vests with Bibojee Services (Pvt.) Ltd.

Members' Profile Lt. Gen. (Retd.) Ali Kuli Khan Khattak is the Chairman of the Board and possesses diverse experience in the Auto & Allied sector. Other members are also highly qualified professionals and have sufficient experience in managing the Company's affairs.

Board Effectiveness Two sub-committees on the Board exist; (i) Audit Committee and (ii) HR & Remuneration Committee. Attendance recorded during the board and its sub-committees' meetings was good and minutes of the meetings have been properly documented.

Financial Transparency An effective Internal Audit department reporting to the Audit Committee is in place. The External Auditor of the Company are M/s ShineWing Hameed Chaudhri & Co - Chartered Accountants. They expressed an unqualified opinion on the financial statements of the Company for the period ended June 30th, 2023.

Management

Organizational Structure A well-defined organizational structure exists. Operations are segregated into various departments wherein clear lines of responsibilities are defined for each cadre.

Management Team Mr. Hussain Kuli Khan - the CEO of the Company, has an overall experience of over ~25 years. He did his degree in Business Administration from Gettysburg College, USA. He also underwent training for six months in the tyre manufacturing plants of Continental AG in Europe. He is supported by a team of experienced professionals working under various sub-divisions to ensure smooth reporting.

Effectiveness The management committee is headed by CEO, Mr. Hussain Kuli Khan. The committee also includes the Chief Financial Officer, Executive Director Works, Executive Director Corporate Service & HR and Executive Director Marketing. Further, different departments' heads are responsible for ensuring smooth running of their relevant departments.

MIS The Company has implemented an all-in-one version of SAP consisting of 9 modules. A detailed business continuity plan to address risk assessment and disaster recovery policy is in place.

Control Environment The corporate structure of the Company is diverged into various departments each having an effective Internal Control System. Robust MIS to assist the reporting needs of management strengthens the control environment.

Business Risk

Industry Dynamics Pakistan's Tyre industry is composed of three segments, (i) 2 & 3-wheeler tyres (ii) Tyres for Cars & LCVs, and (iii) Tyres for Trucks, Buses & Tractors. Tyres demand is driven by sales of new vehicles and demand from the replacement market. According to PAMA numbers, the demand revived during FY22 on the back of economic activities. However, during the review period of FY24, quantitative demand of Tyres & Tubes seemed under pressure owing to unfavorable macroeconomic conditions in the country. Negative indicators like inflationary pressure, currency devaluation, and policy rate hikes have shown unfortunate results, purchasing power deteriorated which instigated rigid demand, particularly from the OEM market.

Relative Position GTR optimizes its strong competitive position in the upper niche segment of the tyres sector i.e., 4-wheeler tyres. In addition to being the only local producer of passenger car tyres in the country, it has also developed a strong grasp on the production of tractor tyres. In the 2 & 3-wheeler domain, GTR is in the process of penetrating its presence and currently holds a small share. The Company has increased its efforts to increase its foothold in the RM segment, while catering for the requirements of OEMs.

Revenues During 9MFY24, the revenue of the Company reflected a growth of ~34.5% on a YoY basis when compared with a negative growth of ~19.2% during FY23. The topline clocked in at PKR 15,150mln at end Mar'24 from PKR 15,019mln in FY23 primarily attributable to price adjustments seconded by volumetric increase.

Margins Gross profit margin has slightly increased to ~16% during 9MFY24 (FY23: ~15.3%). Similarly, operating margin of the Company also ramped up and stood at ~10% at the end Mar'24 (FY23: ~9%). The NP Margin of the company improved to ~1.3% as of 9MFY24 (-1.1%: FY23) on account of stability in currency exchange rates that helped the company to record a bottom line of PKR 201mln during the period as compared to a net loss of PKR 167mln during FY23.

Sustainability GTR is working on strategies to reduce the cost and go for leaner production. The Company is also working on new sizes and designs for both OEM and RM segments. The company is working to enhance its exports. Further, it is in close coordination with all new OEMs to develop products to cater to their needs.

Financial Risk

Working Capital GTR relies on short-term borrowings (STBs) & internal capital to fund working capital needs. STBs increased in 9MFY24 to PKR 6,841mln (FY23: PKR 6,251mln). The gross working capital cycle decreased to ~150 days in 9MFY24 (FY23: ~189 days) owing to credit and inventory management. Hence, the net working capital days also decreased to ~109 days (FY23: ~138 days).

Coverages Free cash flow from operations increased to PKR~2,055mln during 9MFY24 (FY23: PKR~1,432mln) on account of an increase in the topline and better profitability. Coverages have improved during 9MFY24. Interest coverage ratio was recorded at ~1.7x (FY23: ~1.1x). Similarly, the debt coverage ratio improved to 1.4x from 0.7x in FY23.

Capitalization GTR has a leveraged capital structure as reflected by the gearing ratio of ~55.7% at the end Mar'24. The total debt exposure of the Company clocked in at PKR~7,508mln (FY23: PKR ~7,119mln). The increase stemmed purely from STBs, which constitute ~91% of the total borrowings of the company.

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Financial Summary
PKR mln

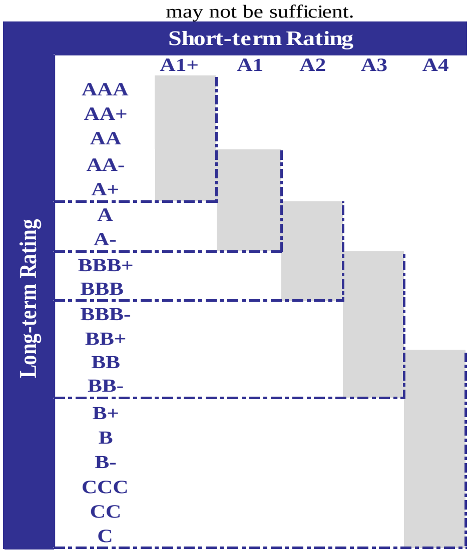
Ghandhara Tyre and Rubber Company Ltd. Tyres	Mar-24 9M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	7,436	7,709	5,531	5,236
2 Investments	-	-	-	-
3 Related Party Exposure	32	25	26	19
4 Current Assets	11,596	10,540	10,497	8,768
a Inventories	*5,372*	*4,812*	*5,299*	*4,841*
b Trade Receivables	*3,460*	*2,941*	*2,518*	*1,718*
5 Total Assets	19,064	18,275	16,054	14,023
6 Current Liabilities	4,861	4,697	3,881	2,675
a Trade Payables	*1,969*	*2,541*	*1,689*	*900*
7 Borrowings	7,508	7,119	7,360	7,191
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	733	705	968	641
10 Net Assets	5,962	5,754	3,845	3,516
11 Shareholders' Equity	5,962	5,754	3,845	3,516
B INCOME STATEMENT				
1 Sales	15,150	15,019	18,588	13,924
a Cost of Good Sold	*(12,724)*	*(12,727)*	*(16,136)*	*(11,820)*
2 Gross Profit	2,426	2,292	2,453	2,104
a Operating Expenses	(904)	(938)	(1,020)	(912)
3 Operating Profit	1,521	1,353	1,433	1,191
a Non Operating Income or (Expense)	*86*	*(255)*	*(61)*	*110*
4 Profit or (Loss) before Interest and Tax	1,608	1,098	1,372	1,302
a Total Finance Cost	*(1,270)*	*(1,292)*	*(748)*	*(504)*
b Taxation	*(137)*	*26*	*(268)*	*(225)*
6 Net Income Or (Loss)	201	(167)	356	573
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*2,055*	*1,432*	*1,556*	*1,518*
b Net Cash from Operating Activities before Working Capital Changes	*822*	*337*	*866*	*964*
c Changes in Working Capital	*(976)*	*391*	*(263)*	*(1,208)*
1 Net Cash provided by Operating Activities	(154)	728	603	(244)
2 Net Cash (Used in) or Available From Investing Activities	(113)	(223)	(761)	(596)
3 Net Cash (Used in) or Available From Financing Activities	367	(503)	221	732
4 Net Cash generated or (Used) during the period	101	2	63	(108)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	34.5%	-19.2%	33.5%	58.3%
b Gross Profit Margin	16.0%	15.3%	13.2%	15.1%
c Net Profit Margin	1.3%	-1.1%	1.9%	4.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	7.1%	12.1%	7.0%	2.2%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	4.6%	-3.5%	9.7%	17.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	150	189	141	145
b Net Working Capital (Average Days)	109	138	116	126
c Current Ratio (Current Assets / Current Liabilities)	2.4	2.2	2.7	3.3
3 Coverages				
a EBITDA / Finance Cost	1.7	1.4	2.7	3.7
b FCFO / Finance Cost+CMLTB+Excess STB	1.4	0.7	1.1	1.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.7	7.5	1.8	1.9
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	55.7%	55.3%	65.7%	67.2%
b Interest or Markup Payable (Days)	90.9	108.5	90.7	96.6
c Entity Average Borrowing Rate	22.0%	16.4%	9.3%	7.2%

Credit Rating

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

Long-term Rating	
Scale	**Definition**
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ **AA** **AA-**	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ **A** **A-**	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ **BBB** **BBB-**	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ **BB** **BB-**	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ **B** **B-**	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC **CC** **C**	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating	
Scale	**Definition**
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

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

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

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 Companies Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 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