THE PAKISTAN CREDIT RATING AGENCY LIMITED

ENTITY RATINGS REPORT

GHANDHARA INDUSTRIES LIMITED

ENTITY	RATINGS	OUTLOOK	ACTION
Ghandhara Industries Ltd	Long Term: A+ Short Term: A1	Stable	Initial

RATING RATIONALE

Ghandhara Industries Limited (GIL) operates in the truck & buses segment of the automobile sector. The strength of the company is its alliance with ISUZU – a leading Japanese brand in the aforementioned segment. ISUZU has enabled the company to build a strong fortress in the competitive industry of Pakistan. The volumes have been steadily rising – boosting the relative market share of GIL. The company ranks 2nd in the market and has recently announced to launch its pickup range by the name of Isuzu D-Max. The group has built synergies between the two companies operating in the same sector. The sponsoring group upholds good corporate governance standards. Their business acumen is further enriched by the group's stake in the country's leading tyre manufacturing company. GIL has enhanced its market share over the last couple of years. It is important to sustain the growth while managing the rising competition. 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 GIL is strong. The working capital is supported by cash cum advances sale mechanism.

KEY RATING DRIVER

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 and working capital management. Moreover, management's ability to sustain its market share while benefiting from positive demand fundamentals is crucial.

Report Contents

DECEMBER 2017

GHANDHARA INDUSTRIES LTD	
Incorporated	1961
Major business lines	Assembly, body fabrication and sale of Isuzu buses and trucks
Legal status	Listed
Head Office	Karachi

INDUSTRY SNAPSHOT

Pakistan's truck industry is largely dominated by domestic players such as HinoPak, Ghandhara Industries, Master Trucks and Ghandhara Nissan. The country produced a record 6,736 units of trucks and buses in fiscal year 2016-17. Sales of trucks and buses have rebounded strongly due to a relative improvement in security and macroeconomic stability in the country and is complimented by the government's new auto policy which has attracted new entrants into the auto market. Furthermore, CPEC has created a demand for fuel efficient and high speed long haul vehicles, paving the way for increased sales in the foreseeable future.

PROFILE — GOOD

- Ghandhara Industries Limited (GIL) was founded in 1963 and later nationalized in 1972.
- In 1992, General Habibullah Khan reacquired the company from the government and renamed it to Ghandhara Industries Limited.
- GIL is primarily engaged in the assembly, body fabrication and sale of Isuzu buses and trucks and is the exclusive distributor of ISUZU products in Pakistan.

OWNERSHIP — GOOD

- Majority ownership of the company is held by Bibojee Group of Companies with Bibojee Services holding 39.2%, followed by Ghandhara Nissan (24.2%) and Universal Insurance Ltd (5.6%).
- Bibojee Group was founded by Gen. Habibullah Khattak in 1960's and has interests in various industrial sectors including Textile, Auto, Tyres & Rubber and Construction.

GOVERNANCE — GOOD

- Seven member board of directors including the Chief Executive Officer (CEO).
- Three directors represent the sponsoring family.
- There are two sub-committees of the board namely; (i) Audit and (ii) Human Resource & Remuneration
- The auditors of the company Messrs ShineWing Hameed Chaudhary & Co, issued an unqualified audit opinion pertaining to annual financial statements for FY17.

MANAGEMENT — GOOD

- The Chairman, Mr. Raza Kulli Khan Khattak, is a reputed business professional whereas Mr. Ahmed Kulli Khan Khattak serves as the CEO. He is also the Chief Executive of Ghandhara Nissan Ltd and Rehman Cotton Mills Ltd; both associated companies.
- The day to day activities of the company are overseen by the Deputy Chief Executive (DCE) Mr. Muhammad Kuli Khan Khattak.
- Management team is a balanced blend of highly experienced professionals from the industry having long association with Ghandhara Industries Limited.

BUSINESS STRATEGY — GOOD

- GIL's sales mix comprises mainly of the N-series followed by the F-series and the buses.
- The F-series has seen tremendous surge in sales unit sold (FY17: 890 units, FY16: 461 units and FY15: 228 units) whereas the N-series similarly has similarly witnessed a mass increase in its units sold (FY17: 1,813 units, FY16: 968 units and FY15: 739 units). The sales of buses remained low (FY17: 5 units, FY16: 2 units and FY15: 3 units).
- The company is now in process to introduce DMAX pickup truck in mid-2018 which shall be a direct substitute to and will be in a competition with Toyota's Hilux/Revo.
- Furthermore, the company is also in process to introduce heavy duty truck (Isuzu CYZ) in the year 2020 and buses in next few months.

PERFORMANCE — STRONG

- During FY17, GIL's topline stood at PKR 10,740mln, registering a growth of 84% YoY (end-Sep17: PKR 4,001mln).
- Growth in revenue lifted up the gross profit as it posted an increase of 42% however it could not increase the gross margin which decreased to 20% (FY16: 26%, FY15: 21%) .
- The decreasing gross margin is mainly attributable to higher raw material cost.
- Operating margin was also squeezed to 16% (FY16: 21%, FY15: 14%), primarily on the back of higher marketing expense and the provision of Worker profits participation fund (WPPF).
- The bottom-line of the company registered a growth of 7% and stood at PKR 796mln (end-Sep17: PKR 457mln).

FINANCIAL RISK — GOOD

- GIL's working capital needs emanate from financing inventories and trade receivables for which the company relies on both internal cash flows as well as short term borrowings (STBs).
- During FY17, GIL's free cash flows (FCFO), amounted to ~PKR 1,090mln, up 11% YoY.
- GIL has been debt free since 2005 with all the borrowings currently being short term. At end-FY17, the company has an impressive capital structure, with a debt to debt plus equity ratio of 18% (FY16: 7 %).

Ghandhara Industries Ltd

BALANCE SHEET	30-Sep-17	30-Jun-17	30-Sep-16	30-Jun-16
	3MCY17	CY17	3MCY16	CY16
Non-Current Assets	**2,098**	**2,058**	**1,953**	**1,956**
Investments (Incl. Associates)	**90**	**90**	**90**	**90**
Current Assets	**5,871**	**6,446**	**3,962**	**3,114**
Inventory	3,961	3,779	2,322	1,624
Trade Receivables	497	485	132	260
Others	1,413	2,181	1,509	1,231
Total Assets	**8,060**	**8,595**	**6,006**	**5,160**
Debt	**989**	**792**	**828**	**194**
Short-term	989	792	828	194
Long-term (Incl. Current Maturity of Long-Term Debt)	-	-	-	-
Other Short-term Liabilities	3,174	4,047	1,749	1,732
Other Long-term Liabilities	69	66	140	126
Shareholder's Equity	**3,827**	**3,689**	**3,288**	**3,109**
Total Liabilities & Equity	**8,060**	**8,595**	**6,006**	**5,160**
INCOME STATEMENT				
Turnover	**4,001**	**10,741**	**1,490**	**5,826**
Gross Profit	871	2,203	360	1,547
Other Income	(49)	(222)	12	(4)
Financial Charges	(12)	(225)	(20)	(113)
Net Income	**458**	**796**	**180**	**746**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	384	1,090	221	979
Net Cash changes in Working Capital	(1,195)	(932)	(1,400)	(285)
Net Cash from Operating Activities	(812)	(66)	(1,181)	589
Net Cash from InvestingActivities	(38)	(110)	(2)	(73)
Net Cash from Financing Activities	(3)	(203)	(2)	(58)
Net Cash generated during the period	(854)	(379)	(1,184)	457
Ratio Analysis				
Performance				
Turnover Growth	168.6%	84.4%	-74.4%	76.9%
Gross Margin	21.8%	20.5%	24.2%	26.5%
Net Margin	11.4%	7.4%	12.1%	12.8%
ROE	31.2%	16.6%	15.3%	18.1%
Coverages				
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered	33.0	4.9	0.0	8.7
Interest Coverage (x) (FCFO/Gross Interest)	33.0	4.9	0.0	8.7
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Term B	0.0	0.0	0.0	0.0
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	11.7	81.7	31.2	79.1
Capital Structure (Total Debt/Total Debt+Equity)	20.9%	18.0%	20.8%	6.9%

The Pakistan Credit Rating Agency Limited

STANDARD RATING SCALES & 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
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	**A1+:** The highest capacity for timely repayment.
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.	**A1:**. A strong capacity for timely repayment.
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.	**A2:** A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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 or economic conditions are more likely to impair this capacity.	**A3:** An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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:** The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	**C:** An inadequate capacity to ensure timely repayment.
CCC CC C	**Very high 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.	

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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

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'.

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, a suspended 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, or e) the entity/issuer defaults.

Disclaimer: PACRA's rating is an assessment of the credit standing of an entity/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.