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COMPARATIVE BUSINESS ANALYSIS OF GHANDHARA INDUSTRIES LIMITED AND HINOPOK MOTORS LIMITED



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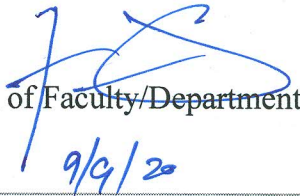
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Abstract

The purpose of this study is to conduct a detailed analysis on the company profiles and financial ratios of Ghandhara Industries Limited and Hinopak Motors Limited. The study aims to discuss and compare the performance of these two huge companies in the automotive sector of the country and find out which one is better in terms of liquidity, solvency, asset management and profitability.



Table of Contents

Chapter 1	13
1.1 Introduction of Automotive Industry	13
1.1.1 Background.....	14
1.1.2 Pakistan’s Original Equipment Manufacture Capacity	15
1.1.3 Current Status of Automotive Sector in Pakistan.....	15
1.2 Ghandhara Industries Limited	16
1.2.1 Introduction.....	16
1.2.1.1 History	18
1.2.1.2 Ghandhara Industries Creation	19
1.2.1.3 Vision	20
1.2.1.4 Mission	20
1.2.2 Company Values	21
1.2.3 Products Offered By Ghandhara Industries.....	22
1.2.4 Departments of the Company	23
1.2.5 Organization Chart	23
1.2.6 Succession Planning.....	25
1.2.7 Credit Rating	25
1.3 Hinopak Motors Limited	26
1.3.1 Introduction.....	26
1.3.1.1 History	28
1.3.1.2 Vision	28
1.3.1.3 Mission	28
1.3.2 Our Values	29
1.3.3 Products offered by Hinopak Motors Limited	31
1.3.4 Departments of the Company	32
1.3.5 Organization Chart	32
1.3.6 Future Outlook	33
1.3.7 Company Policies.....	33
Chapter 2	35



2.1 Problem Statement	36
Chapter 3	37
3.1 Methodology	37
3.1.1 Source of Data	37
3.1.2. Variables Used	37
Chapter 4	38
4.1 PEST Analysis of Ghandhara Industries Limited	38
4.1.1 Political	38
4.1.2 Economical	39
4.1.3 Social.....	39
4.1.4 Technological.....	40
4.2 PEST Analysis of Hinopak Motors Limited	40
4.2.1 Political	40
4.2.2 Economic	40
4.2.3 Social.....	41
4.2.4 Technological.....	41
4.3 SWOT Analysis of Ghandhara Industries Limited	42
4.3.1 Strengths	42
4.3.2 Weaknesses	42
4.3.3 Opportunities	42
4.3.4 Threats.....	43
4.4 SWOT Analysis of Hinopak.....	43
4.4.1 Strengths	43
4.4.2 Weaknesses	44
4.4.3 Opportunities	44
4.4.4 Threats.....	45
4.5 Financial Ratios.....	45
4.5.1 Liquidity Ratio.....	45
4.5.1.1 Current Ratio	46
4.5.1.2 Quick Ratio	47
4.5.2 Asset Management Ratio	48
4.5.2.1 Inventory Turn-Over Ratio.....	48



4.5.2.2 Fixed Asset Turn Over.....	49
4.5.2.3 Total Asset Turn over.....	50
4.5.3 Profitability Ratios	52
4.5.3.1 Gross Profit Margin	52
4.5.3.2 Net Profit Margin.....	53
4.5.3.3 Operating Profit Margin	54
4.5.4 Basic Earning Power Ratio	55
4.5.4.1 Return on Assets.....	55
4.5.4.2 Return on Equity.....	56
4.5.4.3 Earning Power	57
4.5.5 Basic Earning Power Ratio	58
4.5.5.1 Debt Ratio.....	58
4.5.5.2 Debt to Equity Ratio	59
4.5.6 Market Value Ratio.....	60
4.5.6.1 Price Earnings Ratio	60
4.5.7 Interest Coverage Ratio.....	61
Chapter 5	67
Balance Sheet of Ghandhara Industries Limited	67
Profit and Loss Account of Ghandhara Industries Limited	71
Balance Sheet of Hinopak Motors.....	73
Profit and Loss Account of Hinopak Motors.....	75
Conclusion of Ghandhara Industries & Hinopak Motors	76
References.....	79



Chapter 1

1.1 Introduction of Automotive Industry

Pakistan's automotive industry is one of its fastest growing industries. This sector employs a total of 3.5 million people with 3200 manufacturing plants nationwide. The sector accounts for 4 percent of Pakistan's GDP. The industry runs on heavy investment worth billions of rupees. Pakistan's market is relatively smaller but is growing at the fastest pace in Asia. Every year, more than 200,000 vehicles are manufactured by the automotive sector of Pakistan. The number of vehicles manufactured by the automotive industry in the country has increased but the use of technology has not. An unfortunate thing being practiced in Pakistan is that safety guidelines are not being followed by automobile manufacturers and global precautionary measures are not being met. Many of the cars being manufactured in Pakistan, especially those by Suzuki Motors are now outdated and are not manufactured by other countries anymore. Pakistan's economy was on the boom in the early 2000's because of the influx of foreign aid after 9/11 and the war in Afghanistan. In addition to this, per capita income increased and banks started giving out loans to buy cars which is why the automobile industry also experienced a boom. The major car assemblers in the country include PakSuzuki motors, Honda Atlas and Indus Motors out of which PakSuzuki motors is the market leader. The truck manufacturing industry includes Hinopak Motors, Ghandhara Motors and Al Ghazi tractors out of which Hinopak Motors is the market leader. Other automotive companies are Baluchistan Wheels, Sazgar Engineering Works Limited and Dewan Farooque Motors Limited. The factors where tractors are assembled are situated in Lahore while car assembling is mostly done in Karachi.

This industry saves up a lot of money for imports because it enables the manufacture and assembling of vehicles in Pakistan. It annually saves \$3.3 billion for imports. Not only this, the sector contributes a lot to export revenues as well; of more than \$18 million. Automotive manufacturing does not only include cars and trucks but there are companies in Pakistan manufacturing specific parts of vehicles. These include metal and engine parts which consist of fuel tanks and cooling and exhaust systems of vehicles, brakes, clutches and ignition components of vehicles as well. The manufacturers of vehicle parts include Thal Engineering, Razi Sons Pvt. Ltd., Alsons Autoparts and Agri Auto Stamping Company Pvt. Ltd. This industry depends a lot



on imports when it comes to raw materials which is why the depreciation of Pakistani rupee against the dollar raises the cost of manufacturing vehicles and their parts. There is an import duty too, which the manufacturers then have to pay. With the construction of various highways across cities of Pakistan and the dense network of roads laid down as per the CPEC plan, Pakistan's auto industry is only set to bloom in the future.

1.1.1 Background

Shortly after Pakistan's independence, the first car assembly plant was set up in Karachi in 1949 by General Motors and Sales with the introduction of Vauxhall Bedford Trucks in the market. America's three major automobile companies namely Ford, American Motor Corporation and Chrysler entered the Pakistani market. Ford entered via Ali Automobiles in 1955, Chrysler entered via Haroon Industries in 1956 and American Motors Corporation entered Pakistan via Kandawalla Industries in 1962. A number of Ford cars were manufactured in the late 50's ranging from the Ford Pickup to Ford Combi. Haroon Industries was initially importing cars from a company in the Czech Republic after which they started manufacturing fiber glass bodies themselves. However, this venture did not last long because of Bhutto's nationalization policy and ended in 1971. In addition to this, Kandawalla Industries were majorly manufacturing jeeps for the Pakistan army in the early 60's but was shut down in 1972 because of the nationalization policy. General Motors was renamed to Ghandhara Industries in 1963 after being acquired and was the first company in Pakistan to manufacture vehicles after which trucks and buses also started being manufactured in the same plant. Due to a lack of technology and technical skills, the pace of manufacturing vehicles and trucks was slow. Pakistan Automobile Corporation (PACO) was formed in 1972 and many former auto manufacturing companies changed their names for example, Ghandhara Motors was renamed to National Motors.

1.1.2 Pakistan's Original Equipment Manufacture Capacity

TABLE 2.3: REPORTED CAPACITY OF OEMS AND RATES OF UTILISATION

	Capacity (Units)	Rate of Utilisation (%)
Assemblers		
Cars	279,040	43.6
Motorcycles/Rickshaws	2,165,000	69.1
Tractors	67,000	110.2
Trucks/Buses	10,800	40.3

Sources: **PAMA** (<http://www.pama.org.pk/home/members>)
APMA (<http://www.motorcycleexport.com/>)
 Presentation on Automobile Sector, **EDB**.

*Source: PAMA (<http://www.pama.org.pk/home/members>)

1.1.3 Current Status of Automotive Sector in Pakistan

Automobile sales in Pakistan decreased by a lot in 2008. The global financial crisis had an impact on Pakistan as well. Due to increase in interest rates and inflation this happened. Pakistan is facing the same economic situation since the inception of the new government in 2018. With interest rates as high as never before and rising inflation, people are reluctant to take loans from banks to buy cars on installments. This has greatly impacted the automobile industry in the country and has pushed it towards a downwards trajectory. Moreover, due to the rupee devaluation the price of imports has increased and since the raw materials for the automotive sector is imported, the cost of manufacturing vehicles has increased. The carmakers initially bore this cost but then added it to the price of their vehicles which has decreased their demand. This is also due to the fact that the sudden hike in prices of cars has rendered peoples' long time savings to buy these cars useless. The sector is going through a bad phase because of increasing taxes by the Imran Khan's government. It was reported by The News in July 2019 that the government is expected to receive Rupees 150 to 200 billion lesser tax by this sector. This is a huge blow for the government and has come as a great show to Pakistan's GDP.

This comes as a shock knowing that the greatest tax revenue was earned from this industry during the previous government's tenure. PakSuzuki motors have shown deficit in the previous year while Toyota Indus Motors and Honda Atlas have laid off numerous workers due to the prevalent situation. Due to the current Covid-19 situation prevalent all over the World and in Pakistan, a lot of manufacturing plants were shut down in the country because of which firms suffered production losses. However, it is thought that the recent reduced price of petrol globally and in Pakistan would have a positive impact on the automotive industry in the country. Major car assemblers of the country such as Honda Atlas and Indus Motors have decreased their production of cars by 40% in the last year catering to reduced demand which is why they have also laid off workers. This has also been done in an attempt to become more technology intensive than labor intensive. The production in these plants have decreased because the companies have failed to sell their cars as their inventories are piled up.

1.2 Ghandhara Industries Limited

1.2.1 Introduction

Ghandhara Industries was established by one of the leading and well-known automobile company, named General Motors. It was leading American Multinational Corporation. General motors Overseas Distribution was working in Pakistani region, under the name of Ghandhara Industries. This company came into being on the 23rd of February in the year 1963. This company was initially acquired by Mr. Habib-Ullah Khan Khattak. After this sale to Mr. Khattak, the company was rechristened as Ghandhara Industries Limited.

Further in 1972, when the Nationalization was being conducted by the Government of Pakistan, furthermore, the company was acquired by the government and was renamed to National Motors. After few years, Privatization under the Prime Minister Nawaz Sharif took place in 1992, where National motors was bought and acquired by Bibojee Services and was named as Ghandhara Industries Limited. It is now a leading company producing trucks, busses & jeeps. Further Ghandhara became an authorized assembler and manufacturer of ISUZU. They furthermore took agency of manufacturing trucks and busses under brand name of Nissan, as Ghandhara Nissan.



The company manufactures bus bodies, trucks and pickups and is also involved in assembly and marketing of these vehicles.

The vision of Ghandhara Industries is to become a market leader which it is currently not. It believes in making quality vehicles ensuring the least environmental impact. The company wants to limit its negative environmental footprint and wants to become more sustainable. The company is on a trajectory to build environment friendly vehicles. The center of the company's management are the customers and the company is trying to improve after sale services for its customers. The company's values include honesty, passion and responsiveness. Ghandhara Industries Limited was featured in Forbes' list of Asia's top two hundred under a \$ Billion in 2017. This was a great achievement for the company as it increased its recognition internationally and in the media and put a stamp on the company's excellent performance.

The most important resource that the company considers for its success is human resources. The company believes in integrity of its employees who play an important role in the governance of the organization. The top management does not consider its employees to only follow orders but instead the employees have a major role in the decision making of the company. The company believes in open communication and encourages its employees and partners to voice out their concerns with the company or its decisions. The company firmly believes in the wellbeing of its employees which is why they encourage their workforce to speak out because the company believes that people are the key to success of any organization. It is crucial for the company to create an environment which contributes to the growth, learning and development of people. It is imperative that people feel safe and respected in the organization. Any form of harassment or discrimination is not tolerated in the company and new ideas are appreciated and people are encouraged to innovate to come with up with new and better solutions. Risk taking is a very common practice in Ghandhara Industries and trying out new ideas is done very frequently.

The number of shareholders for the Ghandhara Industries Limited vary having single share, or 6,085,155 shares. There are a total of 21,304,442 shares floating in the market. These shares are not static but are bought and sold by many buyers and sellers daily. So, total number of shareholders present in the market for the Ghandhara Industries Limited are exactly 4,837. 4,768 are of general public only local citizens, forming 98.57 % shareholders. They carry 18.06 %, making 3,847,477 shares distributed amongst general public.

Rest of shareholders equal to 69 are only 1.43 %. They depict corporations, financial institutes, Directors/executives and associated companies. Associated companies include Bibojee Services, Nissan Ghandhara, Universal Insurance and General Tyres. They hold 2/3 outstanding shares totaling 69.54 %. Shareholding pattern shows most income generated is distributed in few.

There are only 4 shareholders that have shares more than 5 %. These firms are Bibojee Services, Universal Insurance, Ghandhara Nissan and Essar Asset Management Company. They hold for 39.163 %, 5.558 %, 24.249 % and 7.693 % of shares respectively. These four companies all together sum up to a total of 76.663 % of total shares for the Ghandhara Industries Limited.

1.2.1.1 History

The inception of Ghandhara Industries Limited was in 1953 when a manufacture plant was set up in Karachi by General Motors Overseas Distribution Corporation of USA. At this time, there was not a mechanism of auto makers in Pakistan and this was the first time that a plant was established in the country especially after its independence. General Motors had a manufacturing plant in England which used to manufacture Vauxhall Bedford trucks, the CKD kits of which used to be imported to Pakistan. In 1963, General Motors was bought by Lt. General (R) M. Habibullah Khan Khattak who was a retired army officer in his forties who renamed the company to Ghandhara Industries Limited in 1964.

After he acquired it, the company continued to assemble and sell Vauxhall trucks and Chevrolet cars in Pakistan. Other tools were also produced in this plant and soon started manufacturing engines as well under the name of Ghandhara Diesel Limited. At this time there were not many other competitors in the auto industry in Pakistan which is why Ghandhara's trucks sold a lot and the company was able to make a lot of profits which majorly resulted in its workers being paid highly. Moreover, being the pioneer of the auto industry in the country it became an institution to learn which is why a lot of the engineers working in Ghandhara Industries set up their own automobile companies like Sindh Engineering and Pak Suzuki Motors.

In 1972 the company was nationalized along with many other companies and its name was changed to National Motors Limited. By 1984, the company had broadened its base where

the types of vehicles they sold is concerned. They were selling vehicles ranging from ISUZU vehicles, Bedford trucks to Toyota Hiace Pickup and vehicles. The years 1987-88 were not good for the company because its sales had reduced. As a result, the Vauxhall plant in UK shut down and the import of Vauxhall trucks into Pakistan stopped. In 1992, General Habib Ullah Khan Khattak reacquired his company as one of his other companies named Bibojee group of Companies bought National Motors Limited. In 1994 the chairman Habib Ullah Khan Khattak passed away and was replaced by his son Ahmed Kuli Khan Khattak. Under Sharif's privatization policy, the company was again named to Ghandhara Industries. In 2005 the company ended up paying all of its accumulated loans and started paying dividends to its shareholders from the next year.



2.1.2 Ghandhara Industries Creation

1953

The inception of Ghandhara Industries Limited was in 1953 when a manufacture plant was set up in Karachi by General Motors Overseas Distribution Corporation of USA.



GHANDHARA
INDUSTRIES LIMITED

1963

General Motors was bought by Lt. General (R) M. Habibullah Khan Khattak.

1964

The company was renamed to Ghandhara Industries Limited.

1972

The company was nationalized along with many other companies and its name was changed to National Motors Limited.

1992

General Habib Ullah Khan Khattak reacquired his company as one of his other companies named Bibojee group of Companies bought National Motors Limited. The company was again named to Gandhara Industries.



1.2.1.3 Vision

To acquire market leadership and contribute to the society by providing high quality and environment friendly ISUZU Vehicles in Pakistan's Market.

1.2.1.4 Mission

The company wants to increase its market share while being environmentally sustainable simultaneously. The company's objectives include:

- Launching environmentally friendly vehicles
- To be a market leader in the industry
- To become a company by which customers are highly satisfied
- To provide good after sales services to customers
- To have efficient operations in every department of the organization
- Ensuring dignity, safety and wellbeing of employees
- To increase return to shareholders
- Growth of the company





1.2.2 Company Values

Dignity

The company believes in such a work environment where there is no discrimination based on race, religion, color, or gender. No kind of harassment is tolerated in the company and this is an official policy of the company to ensure that the employees are treated with respect and dignity.

Standards

The company has always met or exceeded the standards that were necessary to manufacture its products. Safety and environment friendly are two aspects which are priorities of the company when building their vehicles.

Confidentiality

The company believes in ensuring absolute confidentiality of pricing, business strategies and production and it is imperative for employees to follow this policy of maintaining secrecy within the organization. The company makes sure that this is done.

Ethics

The company is committed to carry out its functions lawfully and ethically and has done so in the past and continues to do so. Employees are also encouraged to work ethically and comply with the lawful code of conduct with the company. The same practice is followed by the shareholders of the company.

Honesty

The company believes in honesty and has a policy of not taking or giving improper payments to any party be it a government official or a supplier or customer. The company believes in dealing fairly with any party that it does business with or is associated with be it competitors or auditors. There is a strict policy against abuse of power, forging of documents or concealment of facts.

Loyalty

Employees are discouraged from buying company stock or competing with the company. Any conflict of interest arising for any employee or shareholder associated with the company must be reported immediately and should not be the cause of being disloyal with the organization.



1.2.3 Products Offered By Ghandhara Industries

The following vehicles are built by Ghandhara Industries Limited:

- Renault Trucks
- D-MAX Single Cabin
- D-MAX Double Cabin
- NHR Truck
- NKR Container
- NPR Prisoner Van
- FTR (4x2) Prime Mover
- FTR (4x2) Rigid Truck
- FVR (4x2) Rigid Truck
- CYZ 390 Truck
- FVZ Truck
- FVZ Prime Mover
- FTS (4x4) Truck
- FVZ Dumper
- CYZ Fuel Bowzer
- FVR 90
- FVZ Fuel Bowzer
- NPR Bus
- MT 133/134 Bus
- Dongfeng Trucks
 - Heavy duty trucks
 - Light duty trucks
- JAC Trucks

*Source: Ghandhara Industries Ltd. Annual Report 2019



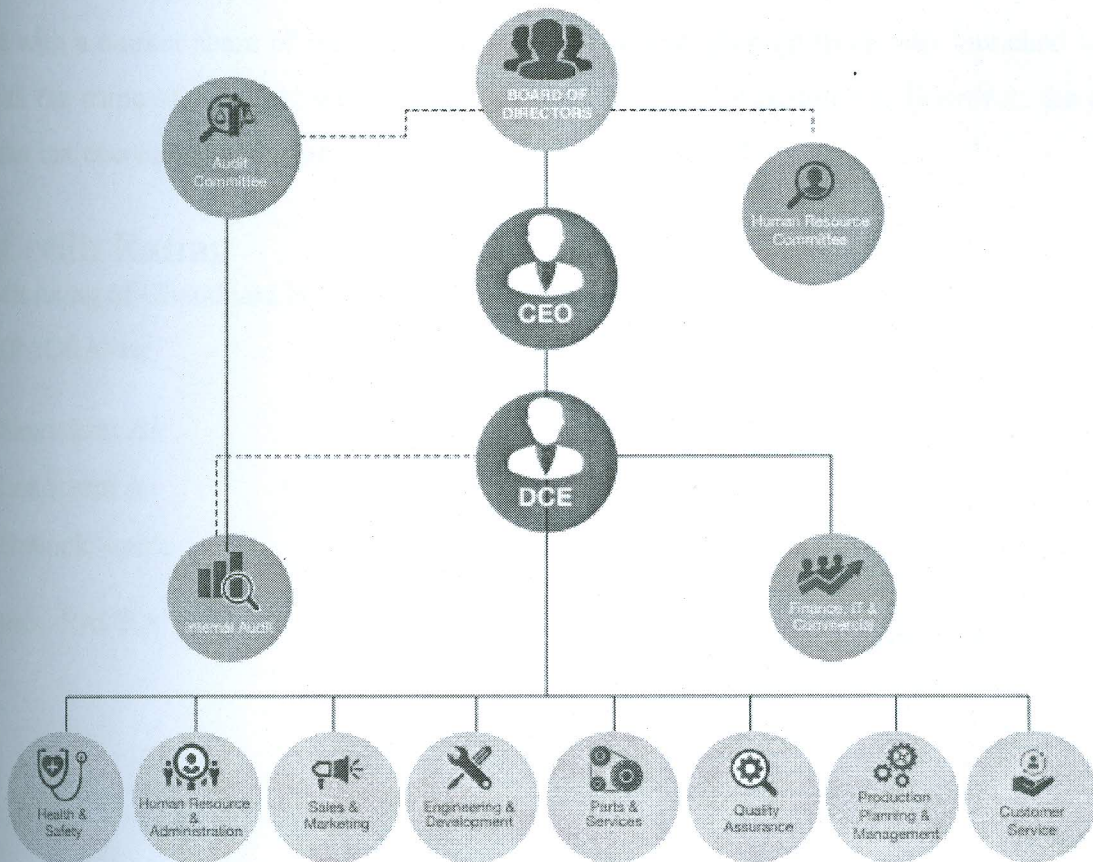
1.2.4 Departments of the Company

There are a lot of departments which are working together efficiently to ensure smooth running of the organization. These include:

- Production/ Manufacturing Department
- Sales Department
- Marketing Department
- Quality Assurance Department
- Engineering Department
- Supply Chain Department
- Research & Development Department
- Planning Department
- Administration Department
- Accounts Department
- Human Resources Department
- Service Department
- Regulation & Vehicle Safety Department

1.2.5 Organization Chart

Organization Structure



*Source: Ghandhara Industries Ltd. Annual Report 2019



1.2.6 Succession Planning

The sale of trucks and buses have decreased from 2018 to 2019 due to the current economic situation that is prevalent in the country. Due to high inflation and depreciation of Pakistani rupee in 2018 and subsequently in 2019, the economy was not doing well and is still on a downward trajectory. The automobile industry reported lesser sales by up to 30%. Despite this dire situation of the automotive industry in the country, Ghandhara Industries continued to sustain its market share in the truck and bus segment with a market share of more than 40 percent. A new pick-up truck was launched in February 2019 with the name of 'D-Max' which was very well received by customers. However, the company's profit after tax decreased to almost half its value from 2018 to 2019.

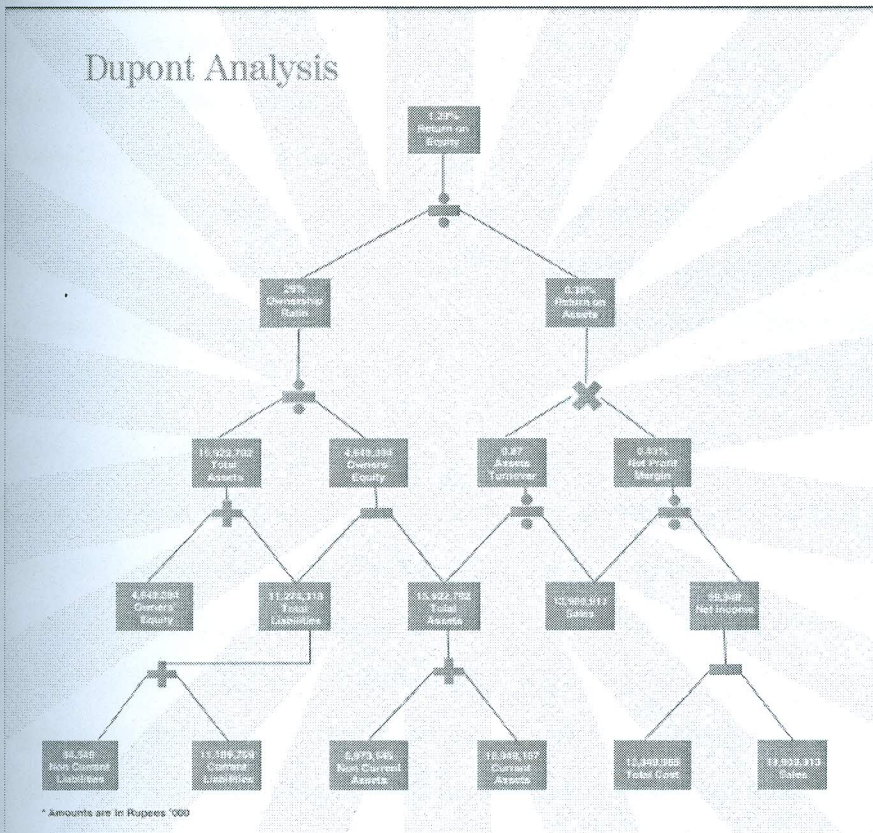
1.2.7 Credit Rating

The credit rating of Ghandhara Industries Limited as of June 2019 by Pakistan Credit Rating Agency limited (PACRA) is:

- Short term A1
- Long term A+
- Outlook Stable

*Source: PACRA

1.2.8 Dupont Analysis




*Source: Ghandhara Industries Limited Annual Report 2019

1.3 Hinopak Motors Limited

1.3.1 Introduction

In 1986, entities from three countries of the World came together to form Hinopak Motors. These entities were Hino Motors Japan, Toyota Tsusho Corporation and Pakistan Automobile Corporation Ltd. (PACO). Hinopak Motors is a public interest company and is listed on the stock exchange of Pakistan. Its manufacture plant is located at Karachi and is the biggest manufacturer of buses and trucks in the country. This is why Hinopak has remained the market leader in its industry with an earnings per share (EPS) of more than Rupees 90 since the past two years. Pakistan's economy is on a downward trajectory



since the inception of the new government since 2018 due to high interest rates, inflation and devaluation of the Pakistani rupee. Since a high duty has been levied on imports and the automotive industry of the country imports raw material, this industry is suffering because of the new government's policies. Reduced government spending in the China Pakistan Economic Corridor (CPEC) has resulted in the project slowing down. As a result of this, high interest rates and restriction on non-filers for buying vehicles the sales of the sector have went down by more than 20 percent. Despite of this worsening situation, the company has maintained its position of market leader. The company has a market share of more than 30 percent in the trucks sector and a share of more than 40 percent in the bus sector.

However, this economic situation has also had adverse effects for the company. The company has suffered exchange losses and losses on finance due to depreciation of rupee and high interest rates respectively. Moreover, the company had a loss in profit after taxation in 2019 as compared to an actual profit in 2018. However despite this situation, the company has still made a conscious effort to expand by investing in its capital equipment. Furthermore, the company has stopped paying dividends to its shareholders because of its current financial situation. Like any other leading company, Hinopak's goal is to make innovations in its products, reduce its costs with excellent customer services. The company announced its Global Operations and Global Purchasing Policy at the Vendors' Convention at Karachi in 2018. The company regularly pays its taxes which are of about 3 billion per year.

Hinopak Motors Limited has won many awards over the past years. In 2013, the company's customer service department received The Service and Parts department of the year by Hino Motors Japan. In 2014 the company received the Occupational Health & Safety Best Practices Award by the International Labor Organization because of the conscious effort by the company in regards to health and safety. The company received two awards in 2015; the Business Excellence Award 2013-14 under the United Nations Global Compact (UNGC) for complying with health and safety standards and the Corporate Social Responsibility Award 2015 and Certificate of Excellence. All these awards are a testament to the company's values of safety, honesty, excellent service and being a corporally responsible organization that is conscious of its footprint in the society.

The company has a total of 12,400,560 shares in the market. Most of the shares of the company are held by foreign investors which are followed by specific individuals and financial institutions. In 2010,

Hinopak Motors became the first company in Pakistan which was exporting buses from Pakistan and it is the first automobile company in Pakistan to receive the ISO-9001 certificate. Use of latest technology is very important to the company because it helps in reducing the cycle time and also in making better quality products. Environmental concerns is a very important factor for any manufacturing industry in the World today. Being a manufacturer of diesel vehicles, Hinopak has been very conscious of its environmental footprint which is why the company complies with Euro Emission Standards. Hinopak's motto for its customer service is 'One Team, One Pledge'. The company holds its customers in high esteem and pledges to treat them as partners by providing them with the best business solutions.

1.3.1.1 History

Hinopak Motors Limited operating in Pakistan is actually a sublet of its parent company: Hino Motors in Japan. Two Japanese companies namely Hino Motors and Toyota Tsusho Corporation came together in 1986 along with PACO and Al-Futtaim group based in the United Arab Emirates (UAE) to form Hinopak Motors in Pakistan. Toyota Tsusho Corporation and Hino Motors Japan were formed in 1948 and 1910 and both serve as trading and commercial front of the Toyota Group respectively. After 10 years in 1998, PACO and the UAE based company withdrew their money from Hinopak Motors and the ownership of the company was transferred to its Japanese founders. These two companies own almost 90 percent of Hinopak's shares with the majority of shares still being held by Hino Motors Japan.

1.3.1.2 Vision

The vision of the company is to strive to provide the society with their needs in commercial vehicles by making them safe and ensuring the minimum negative environmental footprint as possible and ensuring that international standards are met by the company in doing so.

1.3.1.3 Mission

Hinopak has shown a tremendous commitment to both its customers and employees over the past two decades. Its primary mission includes:

- To deliver quality and safe products to their customers all over the globe
- Respecting their employees and valuing them and their opinions so that everyone working in the company feels included in every decision made by the company which will also decrease employee turnover within the company



- To contribute to the economy of the country by localizing operations within the country and increasing international presence
- Providing effective means of transportation to the people
- To act in compliance with the laws at all times as an honorable subsidiary of the Toyota Group and measuring up to its reputation
- Maximizing shareholder's return and return to equity

1.3.2 Our Values

Quality

Hinopak is committed to deliver excellent quality products to customers while maintaining regular safety and environmental standards at the same time. The company has never compromised on its quality and standards and will not do so in the future as well. The company has garnered its reputation due to maintaining quality standards since its inception so much so that it is also exporting its vehicles now.

Communication

The company believes in effectively communicating with its shareholders and customers to get its point of view across. It also maintains effective relationships with government authorities and any party that is in a position of power.

Corporate Responsibility

The company firmly believes in protection of human rights and engaging in corporate social responsibilities to help the community. The company regularly engages itself in multiple philanthropic activities as a subsidiary of Toyota Motors.

Employees' Rights

The company believes in employees bargaining for their rights and engaging in a useful dialogue with the management to develop mutual trust and respect among the various hierarchical levels of the organization. The companies believes in having a safe work environment where employees can trust their higher ups and to get the appropriate reward for their hard work.



Honesty

The company deals honestly with all its business partners, shareholders and associates and is strictly against misrepresentation of financial statements and forging of legal documents that may serve as a conflict of interest for the company.

Integrity

The company only says what it can do and does not promise anything to any party affiliated with the company or associated with the government that is unethical and one which the company can play to its advantage. Hinopak does not make promises on what it cannot deliver to the party rendered the promise to.

Openness

The company is always open to criticism by its customers and employees because its aim is to reach maximum satisfaction by the market and its workers and it can only get better when the company receives feedback as to where it can improve itself and get better.

Purpose

The company has a sense of purpose in accordance with which the company is more goal oriented than anything else. The focus of the management is on the objectives of the company which are long term which is to sustain its position and majority share in the market in the upcoming years despite the changing economic situation in the country.

Progression

Regular training sessions are held for Hinopak's employees both in Pakistan and all around the World to equip them with the necessary and latest skills required for their jobs as a step towards making operations more efficient.



1.3.3 Products offered by Hinopak Motors Limited

- Buses
 - Kazay
 - Starliner
 - Superliner
 - Skyliner
 - Bus chassis
- Trucks
 - Hino 500 series
 - Prime movers
 - Hino Dutro- Light Duty Truck
- Specialized Vehicles
 - Bottle Carrier
 - Half Side Wall
 - Refrigerator Van
 - Freight Van
 - Dump Truck
 - Water Bowzer
 - Mobile Dispensary
 - Garbage Compactor
 - Mobile Workshop
 - Crane Mounted Truck
 - Prisoner Van
 - General Service Truck
 - Recovery Van
 - Concrete Mixer

*Source: Hinopak Motors Limited Website



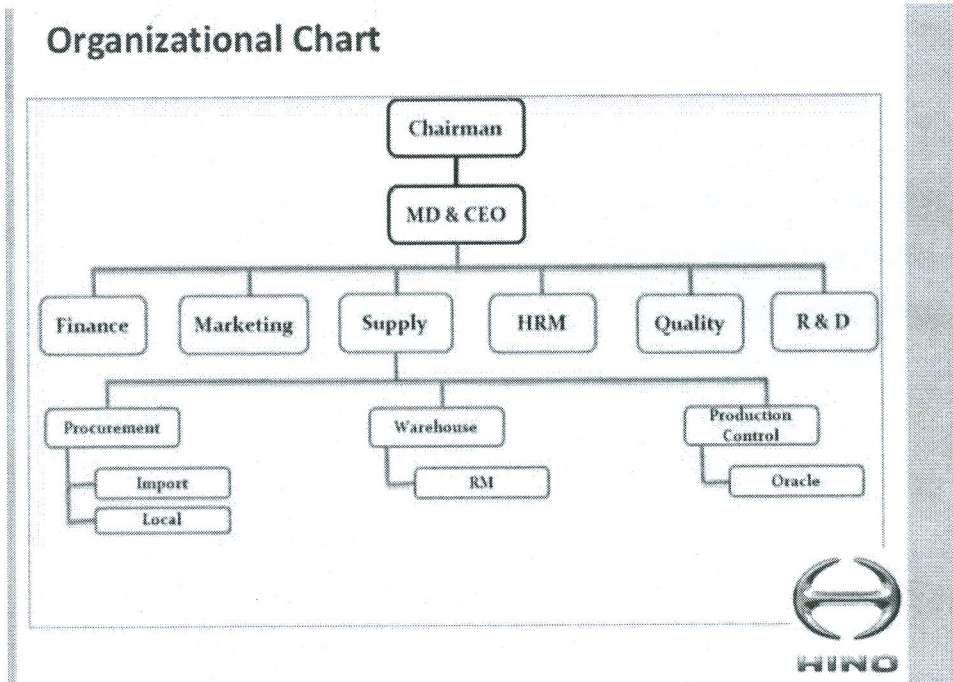
1.3.4 Departments of the Company

The following departments are functional within the organization:

- Finance Department
- IT (Information Technology) Department
- HSE (Health, Safety & Environment) Department
- HR (Human Resources) Department
- Admin Department
- Production Department
- Operations Department
- Quality Assurance Department
- Material Management Department
- National Sales Department
- Total Support Department
- Engineering & Development Department

*Source: Hinopak Motors Limited Annual Report 2019

1.3.5 Organization Chart



*Source: Management Report on Hinopak Motors Limited on SlideShare

1.3.6 Future Outlook

The future of the company greatly depends on Pakistan’s economic situation precisely the value of the rupee and where it stands in the global market, the development under the CPEC (China Pakistan Economic Corridor) and the opportunities it will bring for transporters because the purpose of the project is to aid trade, of which transport is a major part. Because of these factors, a hike in automobile prices were inevitable which did not settle well with the customers because of the decrease in their purchasing power. Only when this price increase is realized by the customers can the company move in a positive direction.



1.3.7 Company Policies

Quality Policy

Hinopak Motors has an objective of firstly identifying the needs of the customers and what they want to have in the vehicles produced by Hinopak be it trucks or buses. The customers here might not be the people sitting in those buses but those entities and organizations which buy those buses, may it be universities or big organizations who buy these buses for their students and employees respectively. And the trucks bought by wholesalers and retailers for the transportation of their products. The next step is building vehicles that are durable and reliable and the final step is providing suitable customer services.

Environmental Policy

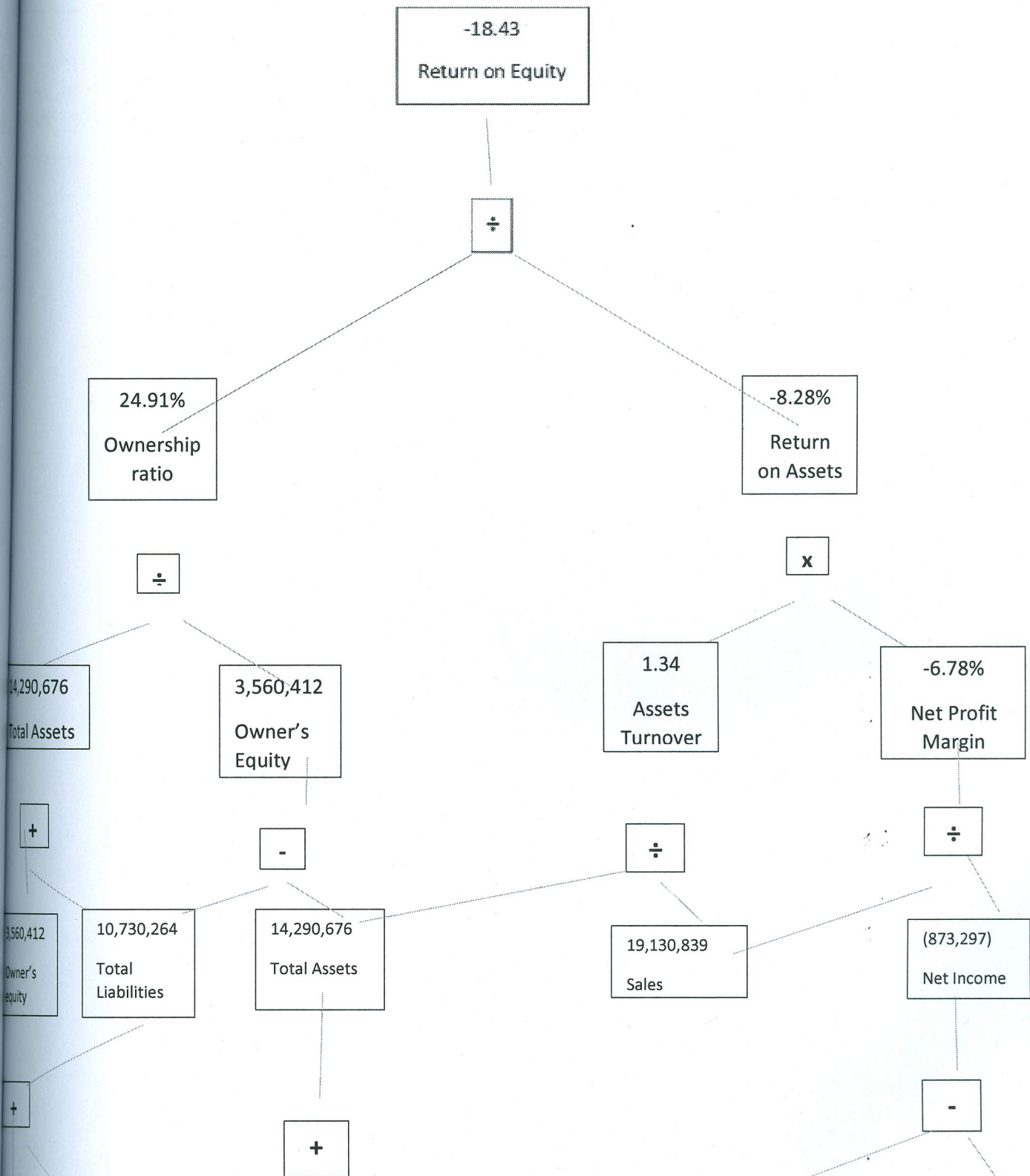
The company strives to make environmentally friendly products while ensuring their safety. Moreover, the company makes its employees aware about the environmental hazards so that they have proper knowledge of how to minimize a negative environmental impact. The companies believes in engaging with parties that are committed to protect the environment and assist them in this regard. The company believes in conservation and recycling wherever possible for example reusing water.

Health & Safety Policy

Hinopak Motors wants to create a safe working environment for its employees where they are physically and mentally safe and to make their operations free from any sort of accident which could be harmful to the workforce. Moreover, employees are made aware of how they can ensure their safety in the manufacturing plants and what steps they can take lest an accident takes place. The company's aim is to establish an investigative process after any incident takes place which can hold a person(s) responsible for the incident accountable and to prevent such incidents from taking place again.



1.3.8 Dupont Analysis





298,314
Non-
current
Liabilities

298,314
Current
Liabilities

3,185,487
Non-
current
Assets

11,105,189
Current
Assets

20,298,044
Total Cost

19,130,839
Sales



Chapter 2

2.1 Problem Statement

The automotive industry of the country annually contributes billions in taxes but this sector is facing losses since two years when the country's government was changed. There are a lot of reasons for this since the new government changed many policies including import tariffs and interest rates which has greatly impacted every company in the automotive sector.

This report will analyze two big automotive companies in Pakistan: Ghandhara Industries Limited and Hinopak Motors Limited whose performance has been affected by the recent change in government in a bad way in terms of financial ratios. This portion of the report will focus on the analysis and the financial indicators of the two companies along with the company profiles and management.

Chapter 3

3.1 Methodology

In this project report, Ghandhara Industries Limited and Hinopak Motors Limited were analyzed using the annual reports of the two companies. The financial data that was used were the balance sheets and income statements of the two companies from the years 2018 and 2019 and subsequently ratios were calculated on the basis of which the performances of the companies were concluded. In addition to this, PEST (Political, Economic, Social and Technological) and SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis of the companies was done to get a better insight about them. Moreover, relevant websites were used in order to obtain more information about the companies that could help in the analysis.

3.1.1 Source of Data

The source of data collection for this project was secondary. The annual reports available on the companies' websites for the years 2018 and 2019 were used for the purpose of this report. And PACRA's website was used to find out the credit ratings of the companies.

3.1.2. Variables Used

- Non-financial
 - PEST Analysis
 - SWOT Analysis
- Financial
 - Liquidity Ratios
 - Current Ratio: $(\text{Current Assets} / \text{Current Liabilities})$
 - Quick Ratio: $(\text{CA} - \text{Inventories}) / \text{CL}$
 - Inventory TO: $(\text{CGS} / \text{Avg Inventory})$
 - Days Sales in Inventory: $\text{Inventories} / (\text{CGS} / 360)$
 - Receivables TO: $(\text{Net Sales} / \text{Average Account Receivables})$
 - Days Sales in Receivables: $\text{Accounts Rec.} / (\text{Sales} / 360)$
 - Receivables collection period: $360 / (\text{Average receivable turnover})$
 - Days to sell inventory: $360 / \text{Inventory turnover}$



- Profitability Ratios

- Return on Sales: $NI / Sales$
- Gross Profit Margin: $GP / Sales$
- Return on Assets (ROA): $(NI + Interest Expense (1 - Tax Rate)) / Avg TA$
- Return on Equity (ROE): $NI / Avg Equity$

- Solvency Ratios

- Liabilities to Equity ratio: $TL / Equity$
- Total Leverage: $Total Debt / EBITDA$
- Times Interest Earned: $EBIT / Interest Expense$

- Asset Utilization & Efficiency Ratios

- Sales to Asset ratio (turnover): $Sales / TA$
- Sales to fixed Assets turnover: $Sales / Fixed Assets$

- Market Value Ratios

- Earnings per share: $NI / no. of shares$
- Price Earnings Ratio: $Stock Price / EPS$
- Dividend Yield: $Dividend Per share / Stock Price$

Chapter 4

4.1 PEST Analysis of Ghandhara Industries Limited

4.1.1 Political

Despite the auto industry contributed billions of rupees in the form of taxes to the government, it seems almost as if the new government did not consider the plight of this sector while devising the new economic policy for the country how they plan to bail out the country from its meek economic situation that it was left in by the previous government. The government's policy of higher taxes has in fact backfired because it now gets at least 200 billion rupees less from the auto sector. Moreover, the appreciation of the dollar and high duty on imports have made the imported raw materials more expensive for the automobile manufacturers in the country which is why numerous employees have been laid off by them. The two tariffs are Advance Customs Duty (ACD) on imports and Federal Excise Duty (FED) on assembled cars because of which the prices have went up as a result of which sales have drastically decreased and big assembling companies like Honda Atlas and Toyota Indus Motors even shut down their production for weeks.

In 2016, the then government came up with an Auto Policy for the next five years under which the government announced incentives for incumbents and the new entrants into the industry. Because of this, the future of the sector seemed very bright and the manufacturers had planned their production and their capacity to manufacture as far as 2022. This policy was introduced because the government thought that the existing supply side of cars is not fulfilling the demand. This is because a study concluded that 18 people per every 1000 people have cars in Pakistan which is much lower than other countries like Indonesia and Vietnam.

4.1.2 Economical

The current situation of the automobile industry in the country has adversely affected the other companies that are associated with it and the people working in them. For example, companies manufacturing tyres, car batteries and spare parts of vehicles have also experienced drastic reduction in

sales. It is estimated that if the government does not take steps to improve the situation of this sector, then approximately 2 million people would become unemployed with losses of 225 billion rupees annually. It is recommended that the government keep the exchange rate stable so that further devaluation of the rupee does not take place because it will only harm the industry and its investors more. The automotive industry of a country has a direct relationship with its GDP. The industry was the highest contributor to taxes in the previous government's tenure.

4.1.3 Social

The living standards of people in Pakistan have improved since 2001 due to influx of foreign investment and aid by the United States of America because of the Afghan war and higher government spending in infrastructure. Furthermore, banks started giving out loans with low interest rates which encouraged people to buy cars on installments which increased revenues for the automobile companies in the country.

4.1.4 Technological

The industry is not equipped with latest technology and most companies use outdated technology. The degree of localization is very low in the industry especially in regards to cars but there is high localization of up to 100 percent when it comes to tractors or motorcycles. The government needs to increase technology diffusion in the industry to increase competition and quality of the vehicles being made.

4.2 PEST Analysis of Hinopak Motors Limited

4.2.1 Political

Pakistan is a country with a constantly changing political environment. The country has had martial law imposed three times by sacking the political government. This has disrupted the country's political system many times and has led to a change of policies. This uncertain political environment which prevails in the country has discouraged investors from investing in the various businesses in the country.

In 2019, the company suffered a loss of about 800 million rupees despite having the largest market share in trucks and buses. This happened because of the change in government policies that the company went



from a profit to loss in one year. Hinopak Motors Limited acts on a policy of honesty and integrity. It believes in maintaining a good connection with the authorities in charge but not taking or giving any favors to any government official. An export ceremony was recently held at Karachi which highlighted the company's exports of trucks and buses to other countries especially the middle-eastern countries and UAE. A representative of the Sindh government appreciated the company's efforts to export their products and get more recognition for Pakistan produced vehicles globally.

4.2.2 Economic

The automotive industry for any country is considered to be the backbone of its economy and makes a major contribution to the country's GDP every year. The industry in Pakistan contributes billions of dollars in taxes every year. However, the sector is not doing so well since the past two years because of excessive devaluation of the country's currency, high import duties and federal excise tax (FED) along with high interest rates which has made it inevitable for the vehicle manufacturers and assemblers to raise their prices and impossible for the people to purchase cars. Furthermore, the Covid-19 situation has only worsened this crisis. No sales were recorded in the month of April 2020 by the automobile companies in the country. The manufacturers have requested the government to take an action on this lest the sector should collapse and give the sector a tax relief in this time. However, it is expected that the reduction in the prices of petrol and diesel would improve the situation of the industry.

4.2.3 Social

There is a growing concern for big organizations with massive scale operations and who are exporters to be environmentally and socially responsible. Hinopak Motors has given immense importance to the customers because they decide the future of the company at the end of the day. The company believes in good governance by engaging with its shareholders, employees and the community at large as partners and taking them into confidence by being honest with them. Hinopak Motors has received numerous awards over the years not only for excellent quality but also for complying with environmental laws and regulations as a company of global standards.

The company is one of the 52 organizations in Pakistan that comply with the Global Compact which is an initiative to protect human rights, environmental laws stand against corruption. A few of the principles that Hinopak Motors follows is protection of human rights and making sure that they do not deny any party associated with the organization their rights, complying with labor standards

internationally and giving employees the right to bargain, standing up against child labor and forceful labor, no discrimination of any sort and adopting environmentally friendly technology.

4.2.4 Technological

Being predominantly a Japanese company since its founding partners are Japanese, Hinopak Motors has ensured the transfer of Japanese technology over the decades. The company has imported latest technology from Hino Motors Japan in the past years. The company has done so while following the environmental regulations as a subsidiary of the Toyota Group. Hinopak Motors has managed to make vehicles that combust less harmful fuels. Moreover, the company designed the first CNG bus with 100% localization in Pakistan and has also limited its use of diesel powered generators and engines. Hino Micro Mixing System was devised to curtail smoke combustion along with better engine quality in vehicles.

4.3 SWOT Analysis of Ghandhara Industries Limited

4.3.1 Strengths

- Only assembler of ISUZU trucks in the country.
- Has a wide range of product offerings ranging from pickups to heavy load trucks.
- Twice selected as one of Forbes Asia's "Best Under A Billion" companies in 2017 and 2018.
- The company sustained its leading market share of ISUZU despite worsening economic situation of the country.
- The employees have a major role in the decision making of the company.
- A good credit rating of A1 for short term and A+ for long term with a stable outlook.

4.3.2 Weaknesses

- Decrease in profit after tax of about 90 percent from 2018 to 2019.
- The descent of the company from one generation to the other over the years has made innovation difficult and the process of management has become repetitive.
- The earnings per share (EPS) of the company has decreased drastically from 2018 to 2019.
- The company has not managed to control its cost of sales and administrative and distribution expenses.

- The company has not increased localization in the assembly of its ISUZU trucks which is why it continues to import raw materials and has been paying heavy duties on them since two years because of the new government policies.

4.3.3 Opportunities

- Ghandhara Industries Limited could hire a chairperson, CEO or director that is not a family member. This would bring about the much needed change in the company's management and would help renovate the company's practices.
- With the company's current stature, it can easily increase localization because it has the means to do so especially when they have to pay more in import duties.
- Better marketing strategies could be adopted by hiring renowned personalities and influencers of the country in the company's marketing campaigns.
- With the launch of new products by the company in the previous years, their marketing should be done in a proper and efficient way.
- The company should set aside a bigger budget for marketing and should increase their presence on social media platforms like Facebook and Instagram so that more people know about its presence and so that the youth are motivated to work in such a company that complies with environmental and legal laws.
- The company can come towards manufacturing cars for the Pakistani market now as there are only three companies already doing so in the country which are running a type of monopoly.

4.3.4 Threats

- With the continued increasing duty on imports and federal excise tax, the company may suffer with its gross profit since cost of goods sold may go up.
- The current economic situation of the country does not paint a good picture for the automotive manufacturers in the country. And this situation has only worsened with Covid-19.
- The company might experience a loss in the next year since its profit after tax already went down by approximately 90 percent from the 2018 to 2019.
- The government has not taken any action to protect the auto industry from losses or the worsening economic situation of the country so the amounts of taxes might just increase in the future causing losses worth millions of rupees to the company.

- The company might have a difficulty in managing its inventory because no prediction regarding sales of its vehicles can be made in Pakistan because of the unstable political and economic environment.

4 SWOT Analysis of Hinopak Motors Limited

4.1 Strengths

- The company is a market leader in the trucks sector with a market share of more than 40 percent.
- The company is an exporter of its vehicles to other countries.
- Being a subsidiary of the Toyota Group, a lot of latest technology has been transferred into the company.
- Receiver of numerous national and international awards over the years for performance, quality, complying with environmental standards and corporate social responsibility.
- Despite the on-going tense situation for auto-manufacturers in the country, the company has invested in capital goods to expand its operations and improve its quality.
- The company has a strong management system that empowers its employees to share their ideas which eventually leads to innovation in the company.
- The company complies with the Global Compact according to which it does not engage in immoral activities such as bribery or corruption and protects its integrity at all costs.

4.2 Weaknesses

- The company went from a profit after tax in 2018 to losses worth more than 800 million rupees in 2019 because the company's sales went down and its finance cost went up as well.
- The company's earnings per share (EPS) went from 90 rupees per share in 2018 to less than 50 rupees per share in 2019.
- The company did not control its administrative expenses because of which they increased.
- The market share of the company reduced by 14% in the face of the worsening situation of the automotive sector in the country.
- As a result of the company's losses in the previous year, it stopped paying out dividends to its shareholders. This is a very bad news for investors who might not want to invest in the company in the future.

- The share price of the company decreased by more than 60 percent. This is majorly because the company suffered a loss in 2019.

4.4.3 Opportunities

- The company can expand its operations by moving to assembling cars for the Pakistani consumers. Since the company is already doing so well in the truck and bus segments, it can move into the car segment now.
- The company should market itself better in the medium where their target audience has a greater number and one which they would have more access to.
- The company can form new partnerships with bus services like Airlift and Swvl which have recently been launched in Pakistan to increase its recognition. Partnerships can also be formed with various universities in the country and offer them a better package. The same can be done with educational institutes in countries where the company is already exporting its products.
- Apart from launching cars, the company could start manufacturing coasters which is a need of the hour since new coasters aren't available in the country and the existing ones cause a lot of pollution. The company has a reputation of having environmentally friendly engines and complying with environmental laws which is why they should start exploring the coaster segment.

4.4.4 Threats

- The automotive sector of the country isn't doing well, it is on a downward trajectory and the situation has only worsened with Covid-19 in the recent months. The company might have a loss after tax again in 2020 like the previous year.
- The company's share price could decrease further in the future which would be bad for the company's reputation.
- For the first time, ISUZU owned by Ghandhara Industries had a greater market share than Hinopak which makes it Hinopak's greatest competitor. Ghandhara Industries could become an even strong competitor and it is one company that Hinopak Motors needs to watch out for.
- Moreover, the government not being cooperative to reduce taxes on imports or bailing out the automobile companies is also a huge threat. This is because the company imports its raw



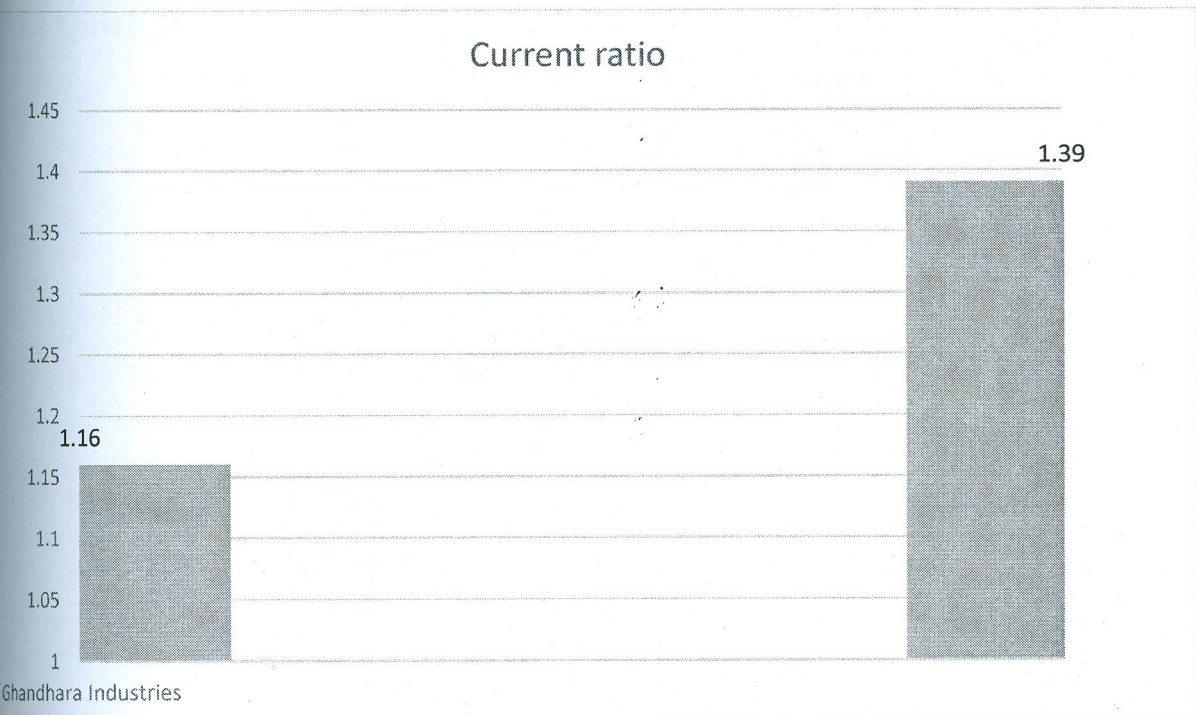
materials and have to pay huge taxes on importing them which has increase its cost of goods sold thereby decreasing gross profit.

4.5 Financial Ratios

4.5.1 Liquidity Ratio

Ratios	Ghandhara Industries	Hinopak Motors
Current ratio	1.16	1.39
Quick ratio	0.23	0.71

4.5.1.1 Current Ratio



The current ratio indicates how well a company can pay off its short term obligations. The greater the value of this ratio, the better it is because it shows the excess of current assets over current liabilities. The current ratio of both the companies is above 1 which is great. Ghandhara Industries' current ratio is 1.16 while that of Hinopak Motors is 1.39 so Ghandhara Industries is in a better position to pay off its short term liabilities. Hinopak Motors has a higher current ratio because although it has lesser current assets than Ghandhara Industries, its current liabilities are way lesser. This is because Hinopak has lesser trade and other payables than Ghandhara Industries which also has a significant amount of short term borrowings.

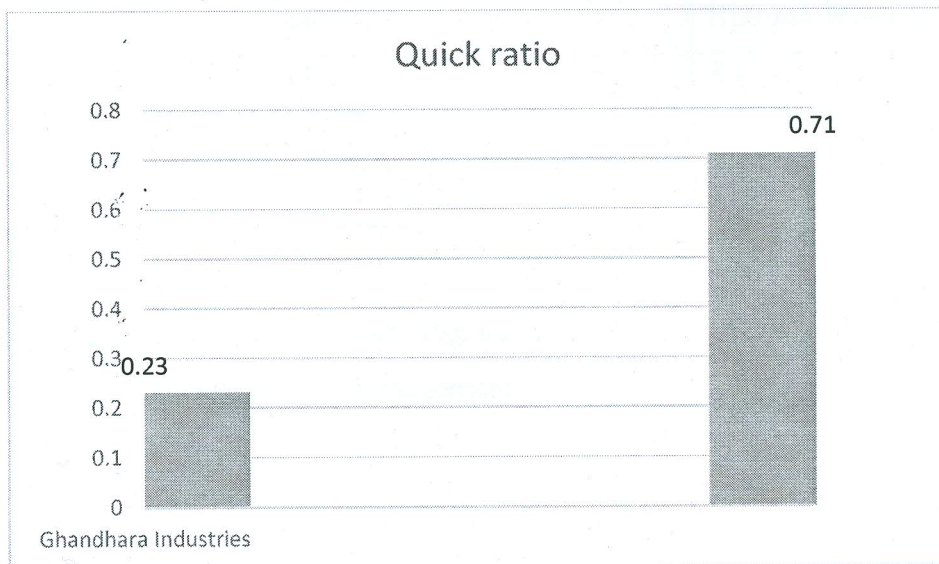
Working:

Current Ratio = Current Assets / Current Liabilities

Ghandhara Industries = $12,949,157 / 11,189,769 = 1.16$ times

Hinopak Motors = $11,105,189 / 10,431,950 = 1.39$ times

15.1.2 Quick Ratio





This ratio indicates a company's ability to pay off its short term liabilities without having to sell its inventory. Both the companies have a value of this ratio less than 1 which means that both of them are not in a good position to pay off their liabilities. However, Hinopak Motor's ratio is slightly better than Ghandhara's which shows that it is in a better position to pay off its liabilities than Ghandhara Industries. Hinopak Motors' quick ratio is higher because it has less current liabilities and also because Ghandhara Industries has more inventories. This is because lesser vehicles were sold by Ghandhara Industries while Hinopak Motors was able to clear out its inventory faster.

Working:

Quick Ratio = $\text{Current Assets} - \text{Inventories} / \text{Current Liabilities}$

Ghandhara Industries = $12,949,157 - 10,367,753 / 11,189,769 = \mathbf{0.23 \text{ times}}$

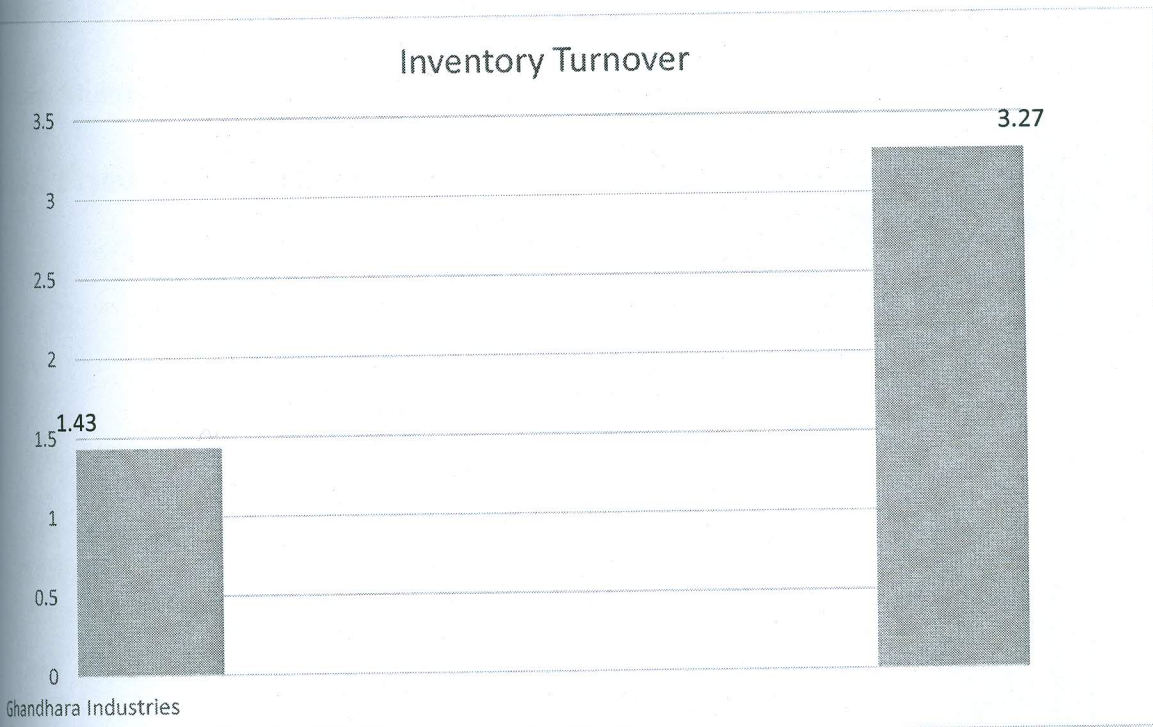
Hinopak Motors = $11,105,189 - 8,038,091 / 10,431,950 = \mathbf{0.71 \text{ times}}$

4.5.2 Asset Management Ratio

Ratios	Ghandhara Industries	Hinopak Motors
Inventory Turnover	1.43	3.27
Fixed Asset Turnover	5.02	6.11
Total Asset Turnover	0.87	1.33

Asset management shows how well a company can use its assets to generate sales which is basically a measure of the efficiency of a company's management.

5.2.1 Inventory Turn-Over Ratio



Inventory turnover ratio is a measure of how fast inventory can be converted into sales and hence profits. So, it is an indicator of how well a company can use its inventory products to turn profits. Hinopak Motors has a greater inventory turnover ratio showing that it can convert its inventory into cash faster than Ghandhara Industries. Hinopak has a greater inventory ratio of 3.27 times compared to 1.43 of Ghandhara Industries because its sales are higher compared to Ghandhara Industries which is why its inventory levels are also lower because they are selling more of their vehicles as compared to Ghandhara Industries. Ghandhara Industries has higher inventory levels because it sold 6,763 units in 2019 as compared to Hinopak Motors which sold 10,377 units including bus bodies and chassis. Ghandhara Industries reported to have sold 33% less units in 2019 as compared to 2018.



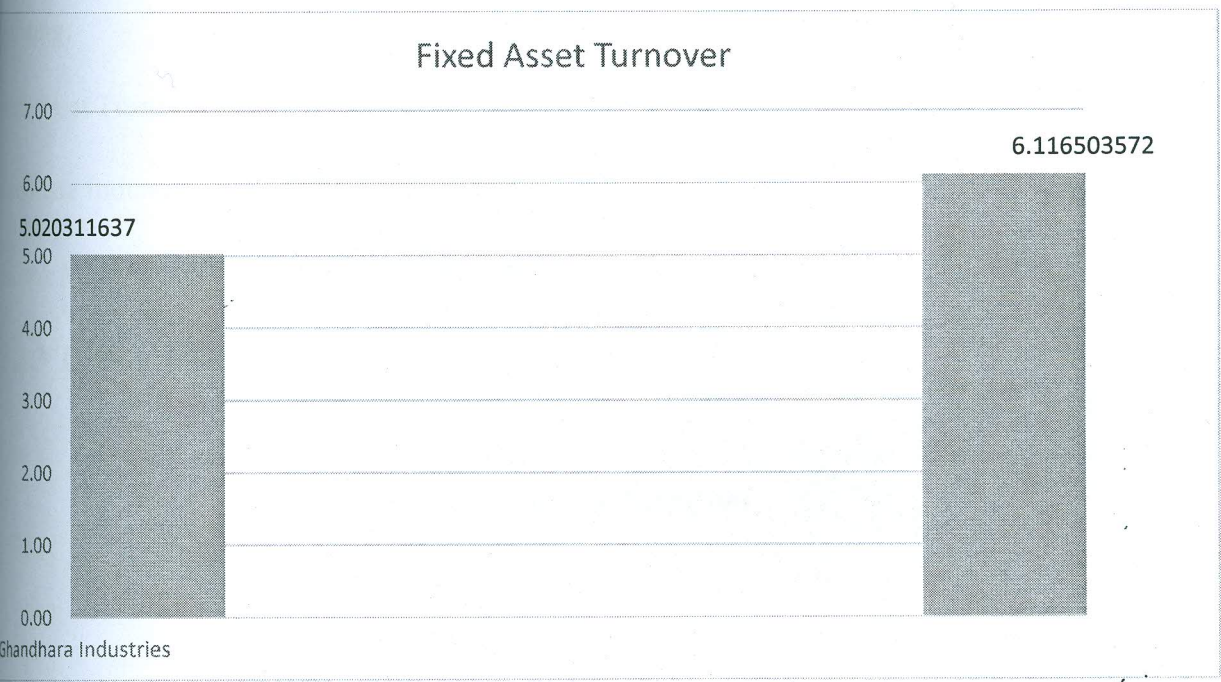
Working:

Inventory Turnover = Sales / Inventory

Gandhara Industries = $13,909,913 / 10,367,753 = 1.43$ times

Timopak Motors = $19,130,839 / 8,038,091 = 3.27$ times

5.2.2 Fixed Asset Turn Over





This ratio shows how much has a company's fixed assets that is, property, plant and equipment contributed to sales and if a company has even benefited from investment in capital goods or not. This ratio for both of the companies is more than 1 which is a good thing. However, the ratio for Hinopak Motors is greater than that of Ghandhara Industries. Hinopak Motors has a greater fixed asset turnover of 6.12 times as compared to 5.02 times of Ghandhara Industries because although Hinopak Motors has greater fixed assets because of the recent investment in capital goods (property, plant and equipment) in 2019 but its sales are far greater than those of Ghandhara Industries. This means that Hinopak's investment in capital goods has proved to be beneficial for the company, in that it has increased their sales.

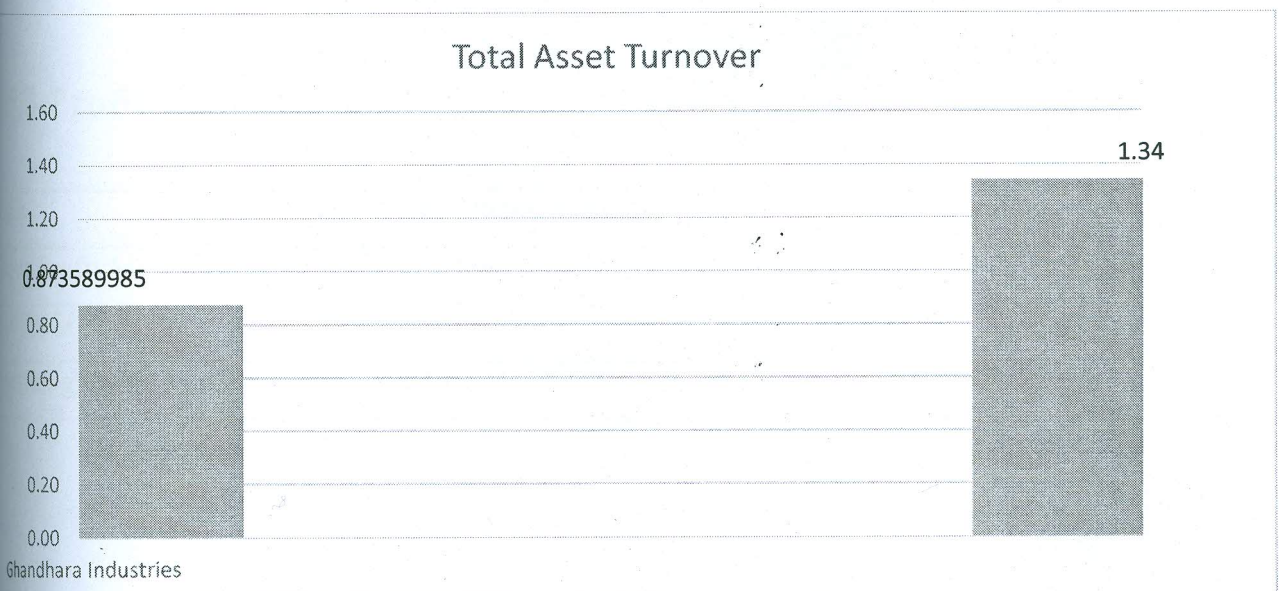
Working:

$$\text{Fixed Asset Turnover} = \text{Sales} / \text{Fixed Assets}$$

$$\text{Ghandhara Industries} = 13,909,913 / 2,770,727 = \mathbf{5.02 \text{ times}}$$

$$\text{Hinopak Motors} = 19,130,839 / 3,127,741 = \mathbf{6.12 \text{ times}}$$

5.2.3 Total Asset Turn over





This ratio shows how much a company's total assets that is, property, plant equipment, intangible assets, inventories and loans and advances have contributed to its sales. Ghandhara Industries has a value less than 1 for this ratio which is not a good thing while Hinopak Motors has a value greater than 1 which means that its assets contribute more to its sales and thus profitability. Hinopak Motors has a total asset turnover of 1.34 times while that of Ghandhara Industries is 0.87 times. This is because Hinopak Motors' sales (10,377 units) are much greater than Ghandhara's (6,763 units). Moreover, Hinopak Motors has lesser total assets because of the lesser amount of inventories since their vehicles were sold more in 2019 than those of Ghandhara Industries.

Working:

Total Asset Turnover = Sales / Total Assets

Ghandhara Industries = $13,909,913 / 15,922,702 = 0.87$ times

Hinopak Motors = $19,130,839 / 14,290,676 = 1.34$ times

5.3 Profitability Ratios

Ratio	Ghandhara Industries	Hinopak Motors
Gross Profit Margin	11.51%	5.82%
Net Profit Margin	0.40%	-6.78%
Operating Profit Margin	6.40%	2.62%

5.3.1 Gross Profit Margin



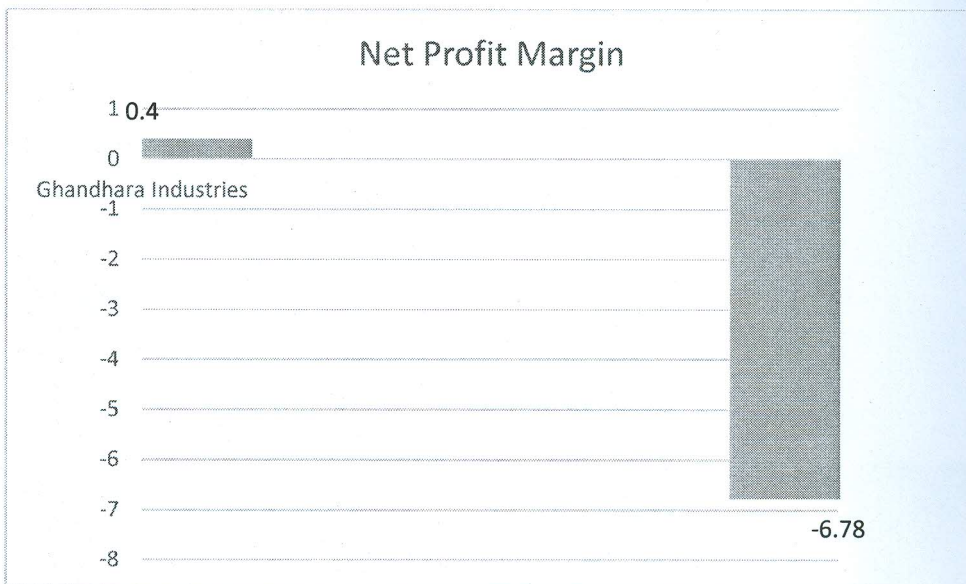
The gross profit margin shows how much the sales of a company contribute to its gross profit. This shows how much cost of sales is deducted from sales to come to gross profit. Ghandhara Industries' gross profit ratio is 11.51% which is much higher than that of Hinopak motors which is 5.82%. Ghandhara Industries has a higher gross profit margin because it has a higher gross profit. This is because the cost of goods sold for Ghandhara Industries is much lower than that of Hinopak Motors which has resulted in a subsequently higher gross profit. A difference of Rs. 6 million is seen in the cost of goods sold for both the companies in the year 2019. The biggest chunk of cost of goods sold for Hinopak Motors comprises of the purchase of raw materials. The company imports raw materials for manufacture and since the government has levied new taxes on imports, the price of raw materials has increased for the company.

**Working:**

Gross Profit Margin = Gross Profit / Sales

Gandhara Industries = $1,601,592 / 13,909,913 = 11.51\%$

Hinopak Motors = $1,113,314 / 19,130,839 = 5.82\%$

4.5.3.2 Net Profit Margin

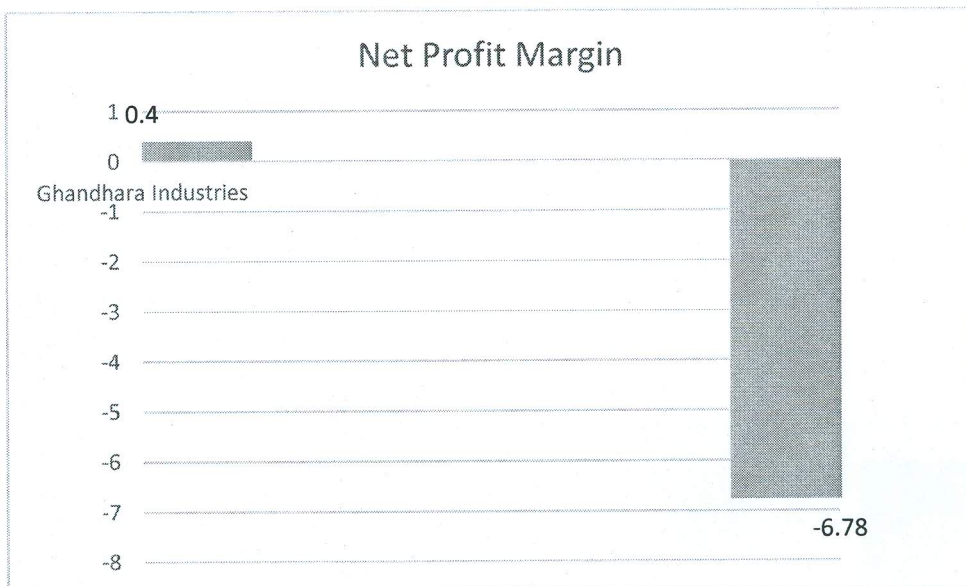
This ratio shows how much the sales of a company contributed to its profit after taxation that is, after deducting all of the costs like cost of goods sold, finance cost and taxation. The net profit or net income of both the companies isn't great because of the high cost of imported raw materials due to the added tax on imports in the past year, lowered purchasing power parity of people to buy vehicles and high interest rates because of which their finance costs have soared. Gandhara Industries was still able to turn a profit in 2019 which is why its net profit ratio is 0.40% while Hinopak motors suffered a loss after taxation because of which its net profit margin is a negative 6.78%.

**Working:**

Gross Profit Margin = Gross Profit / Sales

Ghandhara Industries = $1,601,592 / 13,909,913 = 11.51\%$

Hinopak Motors = $1,113,314 / 19,130,839 = 5.82\%$

5.3.2 Net Profit Margin

This ratio shows how much the sales of a company contributed to its profit after taxation that is, after deducting all of the costs like cost of goods sold, finance cost and taxation. The net profit or net income of both the companies isn't great because of the high cost of imported raw materials due to the added tax on imports in the past year, lowered purchasing power parity of people to buy vehicles and higher interest rates because of which their finance costs have soared. Ghandhara Industries was still able to turn a profit in 2019 which is why its net profit ratio is 0.40% while Hinopak motors suffered a loss after taxation because of which its net profit margin is a negative 6.78%.



Working:

Net Profit Margin = Net Profit / Sales

Gandhara Industries = 59,948 / 13,909,913 = **0.40%**

Minopak Motors = (873,297) / 19,130,839 = **-6.78%**

5.3.3 Operating Profit Margin





The operating profit margin shows how much a company's sales are contributing to its operating profit. Operating profit is actually a company's income before interest and taxes. Ghandhara Industries has an operating profit margin of 6.40% while Hinopak's operating margin is 2.62%. Ghandhara Industries has higher profit from operations because its distribution costs, administration and other expenses are a lot lesser than those of Hinopak Motors. Hinopak Motors did not have a control over its expenses in the previous year which have lowered its profits. Ghandhara Industries lowered their costs specifically in delivery and freight as far as distribution expenses are concerned. Moreover, they were able to decrease their salaries by laying off some workers. Furthermore, repair and maintenance costs were also reduced significantly.

Working:

Operating Profit Margin = Earnings before Interest and Taxes / Sales

Ghandhara Industries = $889,989 / 13,909,913 = 6.40\%$

Hinopak Motors = $501,623 / 19,130,839 = 2.62\%$

5.4 Basic Earning Power Ratio

Ratio	Ghandhara Industries	Hinopak Motors
Return on Assets	0.38%	-8.28%
Return on Equity	1.29%	-18.43%
Earning Power	5.59%	3.51%

4.5.4.1 Return on Assets



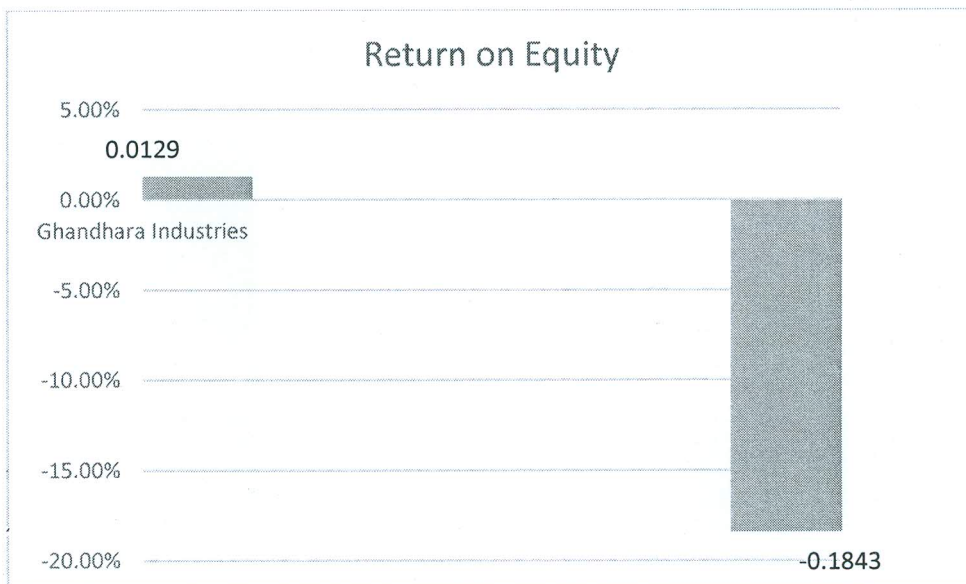
This ratio shows how much a company's total assets contribute to its net income or profit after tax. So this ratio basically shows how beneficial the investment in assets was. Ghandhara Industries' return on assets is very low that is, 0.38% while Hinopak Motors' return on assets is negative. This is because Ghandhara Industries has a very less profit because of the downturn in economic condition in the country while Hinopak Motors suffered a loss in 2019 which is why their return on assets is negative. This magnitude of this negative value is higher than the magnitude of the positive value of Ghandhara Industries because of the investment in capital goods which Hinopak Motors made in 2019 which have increased the total assets of the company thus increasing the negative magnitude of the return on assets.

**Working:**

Return on Assets = Net Income / Total assets

Gandhara Industries = $59,948 / 15,922,702 = 0.38\%$

Hinopak Motors = $(873,297) / 14,290,676 = -8.28\%$

4.5.4.2 Return on Equity

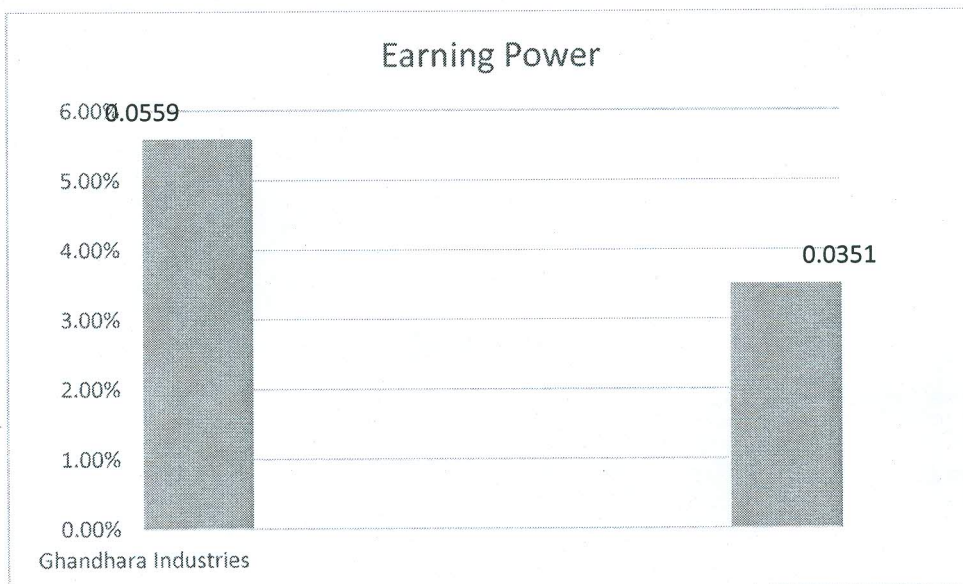
This ratio shows how much a company's equity like share capital and capital reserve contributes to its net income. Ghandhara Industries' return on equity is very low that is 1.29% while Hinopak Motors' return on equity is a negative 18.43%. This is because Hinopak Motors suffered a loss after taxation instead of a profit in 2019. However, Hinopak Motors had a loss worth a lot more than Ghandhara Industries' profit which is why its return on equity has a much larger magnitude than that of Ghandhara Industries.

Working:

Return on equity = Net Income / Total Equity

Ghandhara Industries = $59,948 / 4,648,384 = 1.29\%$

Hinopak Motors = $(873,297) / 3,560,412 = -18.43\%$

15.4.3 Earning Power

This ratio shows how much total assets contribute to the earnings before interest and taxes and how beneficial the assets have proven to be for the company. Ghandhara Industries has a higher earning power that is, 5.59% while Hinopak Motors has a lower earning power of 3.51%. Ghandhara Industries has a higher earning power because its profit from operations is greater than that of Hinopak Motors. This is due to the reason that Ghandhara Industries was able to decrease its expenses by cutting down on staff salaries and freight expenses significantly while Hinopak Motors was not able to do the same.

**Working:**

Earning Power = Earnings before Interest and Taxes / Total Assets

Ghandhara Industries = $889,989 / 15,922,702 = 5.59\%$

Hinopak Motors = $501,623 / 14,290,676 = 3.51\%$

5.5 Basic Earning Power Ratio

Ratios	Ghandhara Industries	Hinopak Motors
Debt Ratio	70.81%	75%
Debt to Equity Ratio	2.42 times	3.01 times

5.5.1 Debt Ratio



This ratio is used to represent a company's financial leverage and the amount of excess of liabilities over assets. So the lesser the value of this ratio the better. Both the companies have a value greater than 70 percent for this ratio. However, Ghandhara Industries is doing slightly better since it has a value of 70.81% which is slightly lesser than that of Hinopak Motors which is 75%. This ratio is nevertheless very high for both the companies because both have a very high liability ratio. This is because both the companies have a lot of short term borrowing owing to more than Rs. 6 million each. Most of these short term borrowings comprise of short term loans taken from banks and running finance on imported machinery for which both the companies have to pay a quarterly interest payment.

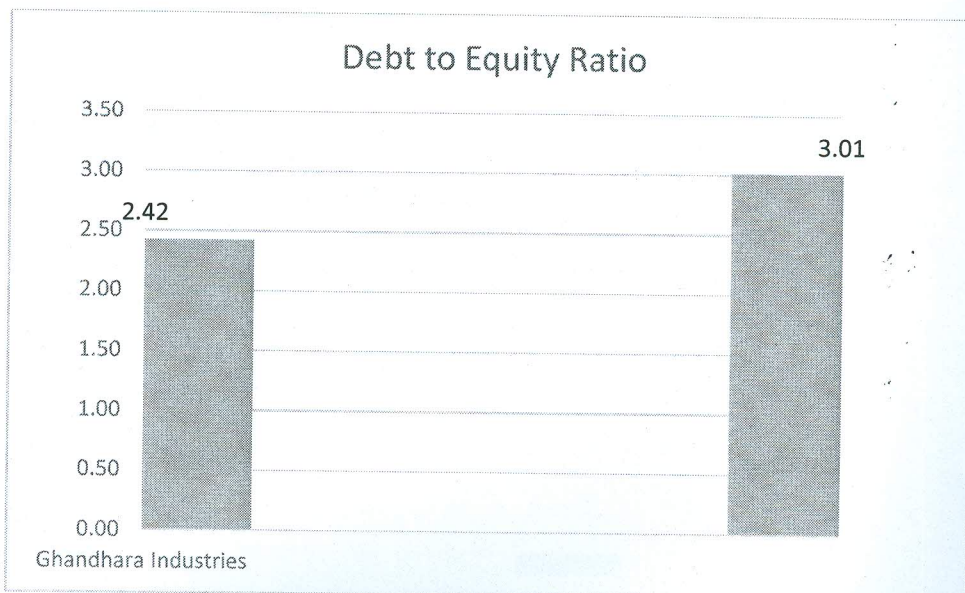
Working:

$$\text{Debt Ratio} = \text{Total Liability} / \text{Total Asset}$$

$$\text{Ghandhara Industries} = 11,274,318 / 15,922,702 = \mathbf{70.81\%}$$

$$\text{Hinopak Motors} = 10,730,264 / 14,290,676 = \mathbf{75\%}$$

1.5.5.2 Debt to Equity Ratio





This ratio shows how much leverage the creditors of a company have over their shareholders. It represents the ratio between the liabilities and equity of a company. The value of Ghandhara Industries is 2.42 while the value of Hinopak Motors is 3.01. Ghandhara Industries has more debt and equity than Hinopak Motors. Ghandhara Industries has kept a profit even if it was very less in the face of the economic downturn that hit the automotive industry in the country because of which they had to take more loans from banks to sustain their position in the market in 2019 which they did. However, Hinopak Motors was not able to do so which is why they suffered a loss after taxation in 2019.

Working:

Debt to Equity Ratio = Total Liability / Total Equity

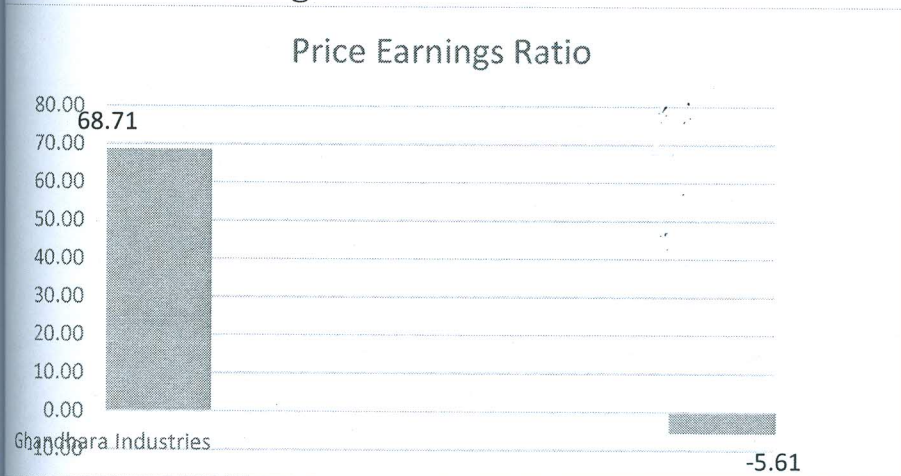
Ghandhara Industries = 11,274,318 / 4,648,384 = **2.42 times**

Hinopak Motors = 10,730,264 / 3,560,412 = **3.01 times**

4.5.6 Market Value Ratio

Ratios	Ghandhara Industries	Hinopak Motors
Price Earnings Ratio	68.71	(5.61)

4.5.6.1 Price Earnings Ratio





The price to earnings ratio shows the link between the share price and earnings of a company. The greater the share price of a company, the greater the price to earnings ratio will be for that company. It eventually determines the value of a company in the eyes of investors. Ghandhara Industries has a very good ratio of 68.71 while Hinopak Motors ratio is negative 5.61 because of the loss after taxation in the year 2019. Ghandhara Industries has a very high share price as compared to Hinopak Motors and Hinopak Motors' earnings per share is negative because its net income was negative in the year 2019 and the company suffered a loss after taxation in 2019. This is why Hinopak Motors' price earnings ratio is very low and negative.

Working:

Price Earnings Ratio = Share Price / Earnings per Share

Ghandhara Industries = $224 / 3.26 = 68.71$ times

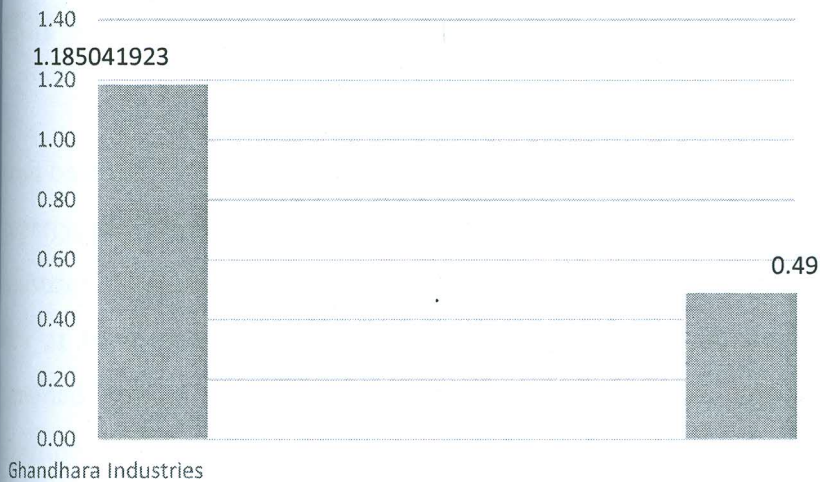
Hinopak Motors = $50 / -9 = -5.61$ times

5.7 Interest Coverage Ratio

Ratios	Ghandhara Industries	Hinopak Motors
Interest Coverage Ratio	1.19	0.49



Interest Coverage Ratio



The interest coverage ratio of a company shows if a company can meet its interest payments with its income before interest expense and tax. This is an indicator of a company's solvency. Ghandhara Industries has a value of 1.19 for this ratio while Hinopak Motors has a value of 0.49. As we know now that Ghandhara Industries had a higher profit from operations because of its well-controlled expenses. This is why its interest coverage ratio is higher than that of Hinopak Motors. Hinopak Motors' interest expense is a lot greater than Ghandhara Industries' because it has not been able to control its expenses and also because it has a lot of short term borrowings which comprise of loans and also due to the interest rates getting higher in the past two years.

Working:

Interest Coverage Ratio = Earnings before Interest and Tax / Interest Expense

Ghandhara Industries = $889,989 / 751,019 = 1.19$ times

Hinopak Motors = $501,623 / 1,021,797 = 0.49$ times

4.5.8 Vertical and Horizontal Analysis of Balance Sheet

It can be seen from the vertical analysis of the balance sheet of Ghandhara Industries that the account of property, plant and equipment comprises the largest chunk of total assets in its balance sheet. Ghandhara Industries' property, plant and equipment account increased from comprising of 20% of total assets to 40% of total assets from 2018 to 2019. However, Hinopak Motors' property, plant and equipment remained almost the same as its value in 2018. After this account, stock in trade and long term investments comprise a major part of the balance sheet of Ghandhara Industries. However, the account of stock-in-trade carries the most weightage in the balance sheet of Hinopak Motors followed by trade and other payables and then property, plant and equipment.

4.5.9 Vertical and Horizontal Analysis of Profit and Loss Account

It can be seen from the vertical analysis of the income statements of both the companies that the largest chunk of the income statement is occupied by cost of goods sold which is followed by gross profit. There was a decrease of about 35% in the sales of Ghandhara Industries which also resulted in a decrease in gross profit for the company. In addition to this, the profit after taxation for the company also decreased by about 90%. For Hinopak Motors, the sales, cost of goods sold and distribution and administrative costs have decreased but only the finance cost has increased. Moreover, the profit after taxation of the company has decreased by more than a hundred percent which is also why the company suffered a loss in 2019.



4.6 Comparison with Industry Average

4.6.1 Liquidity Ratios

	Ghandhara Industries	Hinopak Motors	Sazgar Engineering	Baluchistan Wheels	Al-Ghazi Tractors	Dewan Farooque Motors	Average
Current Ratio	1.16	1.39	1.70	7.04	0.97	0.26	2.08
Quick Ratio	0.23	0.71	0.53	3.05	0.34	0.20	0.84

The industry average for both current and quick ratio is above those of Ghandhara Industries and Hinopak Motors which shows that the other companies in the auto-industry are in a better position to meet their short term obligations. This may be due to the reason that they have lesser debt or liabilities as compared to Ghandhara Industries and Hinopak Motors. Baluchistan Wheels is clearly a market leader as far as liquidity is concerned since it has the highest current and quick ratios out of all the companies in the industry.

4.6.2 Asset Management

	Ghandhara Industries	Hinopak Motors	Sazgar Engineering	Baluchistan Wheels	Al-Ghazi Tractors	Dewan Farooque Motors	Average
Inventory turnover	1.43	3.27	4.98	2.31	3.64	0.03	2.61
Fixed asset turnover	5.02	6.12	3.13	3.53	13.10	0.008	5.15
Total asset turnover	0.87	1.34	1.63	1.23	2.56	0.005	1.27

Dewan Farooque Motors has unusually low levels of asset turnover and has pulled the industry averages down. This is because the assets of the company are not contributing to sales and the company has very low levels of sales. The asset management of Ghandhara Industries and Hinopak Motors is not up to the mark of the industry average and their turnovers are much lesser than the industry averages. Moreover, Al-Ghazi tractors is clearly the market leader in the area of asset management because its turnovers for all three ratios are the highest in the industry.

4.6.3 Profitability Ratios

	Ghandhara Industries	Hinopak Motors	Sazgar Engineering	Baluchistan Wheels	Al-Ghazi Tractors	Dewan Farooque Motors	Average
Gross Profit Margin	11.51%	5.82%	10.28%	15.48%	18.19%	-13232.50%	-2195.20%
Net Profit Margin	0.4%	-6.78%	3.48%	5.92%	6.99%	-15978.02%	-2661.34%
Return on Assets	0.38%	-8.28%	9.36%	4.85%	17.86%	0.05%	4.04%
Return on Equity	1.29%	-18.43%	7.85%	5.55%	108.18%	-0.08%	17.39%

Dewan Farooque Motors has large negative values of profitability ratios. This is because of the decrease in demand for their vehicles and due to increase in cost of production. Moreover, the depreciation of the rupee and increase in interest rates have further worsened the situation. The company's unusually large negative ratios have impacted the industry averages to become negative too. The market leader in terms of profitability ratios is Al-Ghazi Tractors because it has the largest value of profit margins and also return on assets and equity. It has the best asset management in the industry as well which means that they are using their assets efficiently and to generate the maximum profit as possible.

6.4 Solvency Ratios

	Ghandhara Industries	Hinopak Motors	Sazgar Engineering	Baluchistan Wheels	Al-Ghazi Tractors	Dewan Farooque Motors	Average
Debt Ratio	70.81%	75%	28.19%	9.79%	83.49%	168.20%	72.58%
Debt to Equity Ratio	2.42	3.01	0.53	0.11	5.05	-2.44	1.44
Interest Coverage Ratio	1.19	0.49	5.6	14.04	4.38	-1602.88	-262.86

Dewan Farooque Motors has the highest debt ratio which is more than a hundred percent. This is because the company is drowning in debt. Moreover, Baluchistan Wheels has the lowest debt ratio of less than 10% which is very good for the company because it indicates lesser liabilities for the company. Ghandhara Industries has a debt ratio slightly lower than the industry average. However, Hinopak Motors has a debt ratio which is greater than the industry average. Moreover, both the companies have a debt to equity ratio greater than the industry average which is a bad sign for both companies which means that more equity financing needs to be practiced in both the companies. The industry average for the interest coverage ratio has been made negative because of Dewan Farooque motors whose interest before interest expense was negative. This is because the company's cost of goods sold was more than its sales resulting in a negative gross profit. Baluchistan Wheels is the market leader as far as solvency is concerned since it has minimum debt as compared to the other companies in the industry.

6.5 Market Ratios

	Ghandhara Industries	Hinopak Motors	Sazgar Engineering	Baluchistan Wheels	Al-Ghazi Tractors	Dewan Farooque Motors	Average
Price Earnings Ratio	68.71	-5.61	62.75	11.41	21.79	-3.93	25.85



The industry average for the price earnings ratio is 25.85. Dewan Farooque Motors has the lowest price earnings ratio which is followed by Hinopak Motors because both companies suffered a loss in 2019 instead of a profit. This ratio basically indicates the confidence of an investor in the company. Ghandhara Industries has the highest price earnings ratio in the industry which means that investors would be interested in investing in the company. However, the industry average is quite low. This is because 2019 was a year of crisis for the automotive sector in Pakistan because of added tax on imports which increased the sector's cost of manufacture and high interest rates which reduced people's purchasing power and lead to decrease in sales.

Chapter 5

Balance Sheet of Ghandhara Industries Limited

Balance Sheet (Rupees in thousand)	2019	2018
Assets		
Non-Current Assets		
Property, Plant and Equipment	3,927,906	2,463,605
Intangible Assets	2,654	384
Long-term Investments	915,674	1,400
Long-term loans & Advances	14,941	4,305
Long-Term deposits	26,680	11,537
Deferred income tax asset	0	845
Investment Property	392,878	88,657
Total Non-Current Assets	4,887,855	2,570,733
Current Assets		
Stores, spare parts and loose tools	124,506	10,281
Stock-in-Trade	2,127,741	6,888,220
Trade Debts	987,340	95,230
Loans and Advances	33,171	168,661
Short term deposits and prepayments	26,408	721,213
other Receivables	307,916	146,617
Tax refunds due from the government	417,107	1,081,869
Cash and Bank Balances	202,173	497,261
Total Current Assets	4,619,240	9,609,352
Total Assets	9,507,095	12,180,085
Liabilities and Equity		
Share Capital & Reserves		
Issued, subscribed and paid up share capital	570,025	213,044
Reserves	1,102,721	2,651,071



		2,864,115
Surplus/Deficit on revaluation of operating fixed assets	2,574,149	1,860,014
Total Equity	7,453,730	4,724,129
Non-Current Liabilities		
Long-Term Financing		
Liabilities against assets subject to finance lease	71,017	34,526
Directors' subordinated loan		10,844
Deferred Taxation	347,784	-
Deferred Liabilities		80,181
Total Non-Current Liabilities	427,412	125,551
Current Liabilities		
Trade and other Payables	647,970	3,427,060
Unpaid Dividends	0	44,271
Unclaimed Dividends	10,611	24,814
Accrued mark-up	41,486	48,309
Short-Term Borrowings	875,673	3,631,851
Current portion of non-current liabilities	50,213	8,224
Total Current Liabilities	1,625,953	7,184,529
Total Liabilities	2,053,365	7,310,080
Contingencies & Commitment		
Total Equity and Liabilities	9,507,095	12,034,209

Vertical Analysis of Balance Sheet of Ghandhara Industries

Balance Sheet	2019	2018
Assets		
Non-Current Assets		
Property, Plant and Equipment	17.40%	20.7%
Intangible Assets	0.00%	0.00%
Long-term Investments	0.56%	0.74%
Long-term loans & Advances	0.01%	0.01%
Long-Term deposits	0.02%	0.04%
Deferred income tax asset	0.14%	0.1%
Investment Property	0.55%	0.01%
Total Non-Current Assets	19%	21%
Current Assets		
Stores, spare parts and loose tools	0.05%	0.09%
Stock-in-Trade	65.06%	57.24%
Trade Debts	0.56%	0.79%
Loans and Advances	0.84%	1.40%
Short term deposits and prepayments	3.41%	5.99%
other Receivables	0.04%	0.01%
Tax refunds due from the government	8.22%	8.99%
Cash and Bank Balances	3.14%	4.13%
Total Current Assets	81%	79%
Total Assets	100.00%	100.00%
Liabilities and Equity		
Share Capital & Reserves		
Issued, subscribed and paid up share capital	2.68%	1.75%
Unappropriated profit/ (accumulated loss)	13.65%	21.77%
Surplus/Deficit on revaluation of operating fixed assets	12.87%	15.27%
Total Equity	29%	38.79%

Non-Current Liabilities		
Long-Term Financing		
Liabilities against assets subject to finance lease	0.32%	0.28%
Directors' subordinated loan	0.08%	0.09%
Deferred Taxation		
Deferred Liabilities	0.12%	0.66%
Total Non-Current Liabilities	1%	1.03%
Current Liabilities		
Trade and other Payables	28.78%	28.14%
Unpaid Dividends	0.50%	0.36%
Unclaimed Dividends	0.14%	0.20%
Accrued mark-up	1.23%	0.40%
Short-Term Borrowings	39.54%	29.82%
Current portion of non-current liabilities	1.23%	0.07%
Total Current Liabilities	70%	58.99%
Total Liabilities	71%	60.02%
Contingencies & Commitment		
Total Equity and Liabilities	100.00%	100.00%

Horizontal Analysis of Balance Sheet of Ghandhara Industries

Balance Sheet	2019	2018
Assets		
Non-Current Assets		
Property, Plant and Equipment	12.47%	21.87%
Intangible Assets	-32.29%	-16.88%
Long-term Investments	-	-
Long-term loans & Advances	-15.47%	57.35%
Long-Term deposits	90.24%	-9.07%
Deferred income tax asset	10214.56%	-96.00%
Investment Property	-0.28%	-0.27%
Total Non-Current Assets	15.67%	19.64%
Current Assets		

Stores, spare parts and loose tools	-19.00%	301.60%
Stock-in-Trade	50.39%	82.26%
Trade Debts	-7.17%	-80.38%
Loans and Advances	-20.69%	17.66%
Short term deposits and prepayments	-24.73%	1.98%
other Receivables	842.11%	-72.38%
Tax refunds due from the government	20.99%	107.93%
Cash and Bank Balances	0.64%	-38.24%
Total Current Assets	32.31%	46.81%
Total Assets	-21.95%	40.02%
Liabilities and Equity		
Share Capital & Reserves		
Issued, subscribed and paid up share capital	100%	
Reserves	-18.04%	64.46%
Surplus/Deficit on revaluation of operating fixed assets	10.19%	-0.27%
Total Equity	-1.60%	28.02%
Non-Current Liabilities		
Long-Term Financing		
Liabilities against assets subject to finance lease	49.87%	76.49%
Directors' subordinated loan	20.30%	78.56%
Deferred Taxation		
Deferred Liabilities	75.36%	75.78%
Total Non-Current Liabilities	240.43%	76.21%
Current Liabilities		
Trade and other Payables	33.71%	-13.46%
Unpaid Dividends	78.35%	79.93%
Unclaimed Dividends	-10.73%	76.09%
Accrued mark-up	3.6.66%	98.93%
Short-Term Borrowings	73.37%	358.34%
Current portion of non-current liabilities	63.36%	-54.10%
Total Current Liabilities	55.75%	48.64%
Total Liabilities	32.31%	49.04%

Contingencies & Commitment		
Total Equity and Liabilities	-21.00%	40.02%

Profit and Loss Account of Ghandhara Industries Limited

Income Statement (Rupees in thousand)	2019	2018
Net Sales	13,909,913	16,772,383
Cost of Sales	12,308,321	13,661,379
Gross Profit	1,601,592	3,111,004
Distribution Cost	534,954	584,046
Administrative Expenses	267,664	346,542
Other Expenses	26,368	148,748
Other Operating Income	117,383	154,796
Profit/Loss from Operation (EBIT)	889,989	2,186,464
Finance Cost (Interest Expense)	751,019	222,394
Profit/Loss Before Taxation (EBT)	138,970	1,964,070
Taxation	79,022	601,650
Profit/Loss After Taxation (NI after Tax)	59,948	1,362,420

Vertical Analysis of Profit and Loss Account Ghandhara Industries

Income Statement	2019	2018
Net Sales	100.00%	100.00%
Cost of Sales	86.9%	84.09%
Gross Profit	13.06%	15.91%
Distribution Cost	1.68%	1.36%
Administrative Expenses	4.82%	4.85%

Other Expenses	0.74%	0.42%
Other Operating Income	1.74%	17.60%
Profit/Loss from Operation (EBIT)	7.56%	26.87%
Finance Cost (Interest Expense)	5.36%	0.64%
Profit/Loss Before Taxation (EBT)	3.79%	33.32%
Taxation	1.39%	5.78%
Profit/Loss After Taxation (NI after Tax)	2.41%	27.54%

Horizontal Analysis of Profit and Loss Account of Ghandhara Industries

Income Statement	2019	2018
Net Sales	21.44%	56.16%
Cost of Sales	-87.45%	60.01%
Gross Profit	-0.28%	41.22%
Distribution Cost	49.25%	62.61%
Administrative Expenses	20.65%	130.12%
Other Expenses	115.18%	-39.06%
Other Operating Income	-88.00%	599.58%
Profit/Loss from Operation (EBIT)	-65.82%	48.61%
Finance Cost (Interest Expense)	922.95%	-1.00%
Profit/Loss Before Taxation (EBT)	-86.18%	57.55%
Taxation	-70.89%	33.52%
Profit/Loss After Taxation (NI after Tax)	-89.39%	71.16%

Balance Sheet of Hinopak Motors

Balance Sheet (Rupees in thousand)	2019	2018
Assets		
Non-Current Assets		
Property, Plant and Equipment	3,127,741	3,096,033
Intangible Assets	7,769	13,335

Long-term Investments	-	72
Long-term loans & Advances	24,675	21,452
Long-Term deposits	8,112	7770
Total Non-Current Assets	3,185,487	3,138,662
Current Assets		
Stores, spare parts and loose tools	-	20,718
Stock-in-Trade	8,038,091	4,914,595
Trade Debts	959,682	714,935
Loans and Advances	22,545	23,274
Short term deposits and prepayments	89,789	97,616
other Receivables		438
Tax refunds due from the government	1,112,542	295,743
Cash and Bank Balances	49,683	4,838,879
Total Current Assets	11,105,189	11,330,872
Total Assets	14,290,676	14,469,534
Liabilities and Equity		
Share Capital & Reserves		
Issued, subscribed and paid up share capital	124,006	124,006
General Reserve	291,000	3,319,366
Revaluation surplus on land and building	1,810,044	1,848,747
Unappropriated Profit	1,335,362	3,028,366
Total Equity	3,560,412	5,292,119
Non-Current Liabilities		
Long-Term Financing		
Liabilities against assets subject to finance lease	181,388	168,377
Deferred Liabilities	116,926	123,436
Total Non-Current Liabilities	298,314	291,813
Current Liabilities		
Trade and other Payables	3,343,029	8,393,894
Total Current Liabilities	10,431,950	8,393,894
Total Liabilities	10,730,264	9,177,435
Contingencies & Commitment		
Total Equity and Liabilities	14,290,676	14,469,534

Vertical Analysis of Balance Sheet of Hinopak Motors

Balance Sheet	2019	2018
Assets		
Non-Current Assets		
Property, Plant and Equipment	21.89%	21.40%
Intangible Assets	0.05%	0.09%
Long-term Investments		0.00%
Long-term loans & Advances	0.17%	0.15%
Long-Term deposits	0.06%	0.05%
Total Non-Current Assets	22.29%	21.69%
Current Assets		
Stores, spare parts and loose tools		0.14%
Stock-in-Trade	56.25%	33.97%
Trade Debts	6.72%	4.94%
Loans and Advances	0.16%	0.16%
Short term deposits and prepayments	0.63%	0.67%
other Receivables		0.00%
Tax refunds due from the government	7.79%	2.04%
Cash and Bank Balances	0.35%	33.44%
Total Current Assets	77.71%	78.31%
Total Assets	100.00%	100.00%
Liabilities and Equity		
Share Capital & Reserves		
Issued, subscribed and paid up share capital	0.87%	0.86%
General Reserve	2.04%	22.94%
Revaluation surplus on land and building	12.67%	12.78%
Unappropriated Profit	9.34%	20.92%
Total Equity	24.91%	36.57%
Non-Current Liabilities		
Long-Term Financing		
Liabilities against assets subject to finance lease	1.27%	1.16%

Deferred Liabilities	0.82%	0.85%
Total Non-Current Liabilities	2.09%	2.02%
Current Liabilities		
Trade and other Payables	23.39%	58.01%
Total Current Liabilities	73.00%	58.01%
Total Liabilities	75.09%	63.43%
Contingencies & Commitment		
Total Equity and Liabilities	100.00%	100.00%

Horizontal Analysis of Balance Sheet of Hinopak Motors

Balance Sheet	2019	2018
Assets		
Non-Current Assets		
Property, Plant and Equipment	1.02%	9.63%
Intangible Assets	-41.74%	-24.80%
Long-term Investments	-	-
Long-term loans & Advances	15.02%	-9.33%
Long-Term deposits	4.40%	12.27%
Total Non-Current Assets	1.49%	9.20%
Current Assets		
Stores, spare parts and loose tools		-11.21%
Stock-in-Trade	63.56%	50.77%
Trade Debts	34.23%	186.51%
Loans and Advances	-3.13%	-73.79%
Short term deposits and prepayments	-8.02%	42.41%
other Receivables	-100.00%	-
Tax refunds due from the government	276.19%	-65.59%
Cash and Bank Balances	-98.97%	-
Total Current Assets	-1.99%	16.79%
Total Assets	-1.24%	68.48%
Liabilities and Equity		
Share Capital & Reserves		

Issued, subscribed and paid up share capital	0.00%	0.00%
General Reserve	-91.23%	11.22%
Revaluation surplus on land and building	-2.09%	11.43%
Unappropriated Profit	-55.9%	32.46%
Total Equity	-32.72%	11.00%
Non-Current Liabilities		
Long-Term Financing		
Liabilities against assets subject to finance lease	7.73%	8.69%
Deferred Liabilities	-5.27%	-2.24%
Total Non-Current Liabilities	2.23%	3.78%
Current Liabilities		
Trade and other Payables	-60.17%	67.41%
Total Current Liabilities	24.28%	67.41%
Total Liabilities	16.92%	73.32%
Contingencies & Commitment		
Total Equity and Liabilities	-1.24%	43.79%

Profit and Loss Account of Hinopak Motors

Income Statement (Rupees in thousand)	2019	2018
Net Sales	19,130,839	26,615,071
Cost of Sales	18,017,525	23,580,631
Gross Profit	1,113,314	3,034,440
Distribution Cost	379,128	440,146
Administrative Expenses	378,831	420,586
Other Expenses	147,640	125,947
Other Operating Income	1,372	300,789
Profit/Loss from Operation (EBIT)	501,623	2,348,550
Finance Cost (Interest Expense)	1,021,797	679,002
Taxation	353,123	520,173
Profit/Loss After Taxation (NI after Tax)	(873,297)	1,149,375

Vertical Analysis of Profit and Loss Account of Hinopak Motors

Income Statement	2019	2018
Net Sales	100.00%	100.00%
Cost of Sales	94.18%	88.60%
Gross Profit	5.82%	11.40%
Distribution Cost	1.98%	1.65%
Administrative Expenses	1.98%	1.58%
Other Expenses	0.77%	0.47%
Other Operating Income	0.01%	1.13%
Profit/Loss from Operation (EBIT)	2.62%	8.82%
Finance Cost (Interest Expense)	5.34%	2.55%
Taxation	1.85%	1.95%
Profit/Loss After Taxation (NI after Tax)	-4.56%	4.32%

Horizontal Analysis of Profit and Loss Account of Hinopak Motors

Income Statement	2019	2018
Net Sales	-28.12%	18.41
Cost of Sales	-23.59%	17.84
Gross Profit	-63.31%	23.05
Distribution Cost	-13.86%	3.01
Administrative Expenses	-9.93%	9.06
Other Expenses	17.22%	-3.65
Other Operating Income	-99.54%	18.19
Profit/Loss from Operation (EBIT)	-78.64%	32.17
Finance Cost (Interest Expense)	50.49%	746.38
Taxation	-32.11%	-9.82
Profit/Loss After Taxation (NI after Tax)	-175.98%	2.63

Financial Analysis of Ghandhara YOY Basis (18-19)

As per the audited financial statements for the year ended June 30, 2019: Top line of the company decreased by 17% to Rs. 13,909.91(M) in FY-19 [FY-18 Rs 16,772.38(M)], nearly all contributed by local sales for the year. Sales decreased due to stringent market conditions and decreasing trend in overall truck and bus market, however, company has increased its market share to 45% as compared to 40% in last year.

- Cost of sales decreased by 10% to Rs 12,308.32 (M) in FY-19 [FY-18 Rs 13,661.38 (M)] due to decrease in sales of the company. Gross profit decreased by 49% to Rs 1,601.59 (M) in FY-19 [FY-18 Rs 3,111.00(M)] due to sharp increase in material prices along with currency depreciation in reflection of this, gross margin also decreased to 12% in FY-19 from 19% in FY-18.
- Operating expenses for the year decreased by 14% to Rs 802.62 (M) in FY-19 [FY-18 Rs 930.59 (M)] due to decline in sales. Moreover operating declined by 63% to Rs 798.980 (M). Pre finance cost increased by 238% to Rs. 751.02 (M) in FY-19 from Rs. 222.39 (M) in FY-18 mainly due to increase in borrowings coupled with hike in State Bank's base rate. Net profit margin decreased by 95% to 0.43% in FY-19 [FY-18: 8.12%]. Bottom line of the company declined by 96% to Rs 59.95 (M) in FY-19 [FY18 Rs 1,362.42(M)].
- Equity of the company decreased by 9% to Rs 2,598.82(M) in FY-19 [FY-18 Rs 2,864.12(M)] attributed to lower retention of net profit after payment of dividend.
- Total liabilities for the company increased by 56% to Rs 11,189.77(M) in FY-19 [FY-18 Rs 7,184.53(M)], which totally reflects current liabilities. Major contributors to the increase in liabilities were trade and other payables that were Rs 4,582.157 (M) [FY-18: Rs 3,427.060 (M)] and short term borrowings that were Rs 6,296.614(M) in FY-19 [FY-18: Rs. 3,631.851 (M)]. The short term facilities availed are in shape of FIM, Istisna, Murabaha and Running Finance/Musharaka.
- Total assets of the company increased by 32% to Rs 15,922.70(M) in FY-19 [FY-18 Rs 12,034.21(M)], whereby current assets increased by 37% to Rs 12,949.16 (M) [FY-18 Rs 9,463.48(M)] mainly on account of higher inventory of Rs 10,359.45 (M) [FY18 : Rs 6,888.22

(M)] as lower business activity was observed. Non current assets increased by 16% to Rs 2,973.55 (M) [FY-18 Rs 2,570.73(M)]. Main contributors to the increases were additions to property plant and equipm ent. Habib Metropolitan Bank Ltd, H.O Annual Renewal 2019-20 • For FY-19, current ratio was 1.16 tim es [FY-18 1.32 times], Gearing was 2.50 tim es [FY-18 1.29 tim es] and leverage was 4.31 times [FY-18 2.51 times]. Operating cash cycle increased to 294 days in FY-19 as compared to 173 days in FY-18, mainly because of incline in closing stock which as a result increased inventory turnover inclined to 307 days in FY-19 along w ith increase in payable turnover.

Financial Analysis of Hinopak YOY Basis (18-19)

Sales of the company decreased by 28% to Rs. 19,131 (M) [FY-18: Rs. 26,615 (M)] as a generally stressed economic situation caused commercial vehicles industry of Pakistan into a downward trend. Accordingly, the company's total market size decreased by 14% approximately. The slow pace of China-Pakistan Economic Corridor (CPEC) due to curtailment of government spending in the project also had an adverse impact. Lower Sales resulted in decrease in company's gross profit by 63% to Rs. 1,113 (M) [FY-18: Rs. 3,034 (M)]. However, Company's distribution and administration expenses also decreased to Rs. 758 (M) [FY-18: Rs. 861 (M)] in line with sales which resulted in an Operating profit of Rs. 502 [M] [FY-18: Rs. 2,349 (M)]. Finance costs increased drastically by 50% to Rs. 1,022 (M) [FY-18: Rs. 679 (M)] mainly due to Exchange loss of Rs. 816 (M) [FY-18: Rs. 637 (M)] and higher Markup on short term borrowings of Rs. 188 (M) [FY-18: NIL]. Hence, Company closed the year with a net loss of Rs. 873 (M) [FY-18: Net profit Rs. 1,149 CM)]. Resultantly, due to losses of Rs. 879 (M) & payment of dividend of Rs. 862 (M) Equity of the company decreased by 49% to Rs. 1,750 (M) [FY-18: Rs. 3,443 [M]] and share capital remained same at Rs. 124 (M). Total liabilities of the company reported an increase of 17% to Rs. 10,730 [M] in FY-2019 [FY-2018 Rs. 9,177 (M)] as current liabilities also recorded an increase of 17% to Rs. 10,432 (M) in FY-2019 [FY-2018 Rs. 8,886 [M]] mainly due to addition of short term borrowings of Rs. 6,766 (M) in FY-19 [FY-18: NIL (as company had enough cash inflows from their operating activities to meet their working capital requirements)] whereas trade and other payables decreased toffs. 3,343 (M) [FY-18: Rs. 8,394 (M)] due to the payment of Bills to Toyota Tshusho Corporation during the year. Total

assets of the company decreased to Rs. 14,291 (M) [FY-18: Rs. 14,470 (M)] mainly due to decrease in Cash & Bank balances to Rs. 50 [M][FY-18: Rs. 4,839 (M)] whereas inventories increased to Rs. 8,038 (M) [FY-18 Rs. 4,935 fM)] due to decline in sales. Trade receivables (all considered good) increased to Rs. 960 (M) [FY-18 Rs. 715 (M)]-mainly from government institutions. Current ratio of the company reduced to 1.06:1 times in FY-19 [FY-18: 1.28 times: 1] while Leverage and Gearing deteriorated to 6.13 times and 3.87 times respectively. Overall financial position of the company was significantly impacted for FY-19 due to the stressed market activity in the Automobile segment of Pakistan.

Conclusion

One of the competitive advantage of Ghandhara Industries Limited is that they one of the main suppliers of Pakistan Army, and their credit terms with Pakistan Army are so good that they don't have any prediction of bad debts as its state owned institution with an outstanding repayment history. Ghandhara's Isuzu trucks and double cabin vehicles are manufactured as per the specifications of the security forces.

Ghandhara Industries and Hinopak Motors both are huge automotive companies of the country and provide direct employment to hundreds of people. Hinopak Motors has been a market leader in the trucks and bus segment over the years but only last year did ISUZU become a market leader which is owned by Ghandhara Industries. Other automotive companies include Balochistan Wheels, Sazgar Engineering, Honda Atlas, Pak Suzuki Motors, Toyota Indus Motors and many more. Both these companies have shown extraordinary performance over the year and have won many awards for excellent quality and also for complying with environmental laws and regulations. It is very important to compare financial ratios when comparing the performances of two companies. After assessing the financial ratios of the two companies, no one conclusion can be made regarding which is the better company. This is because one company outperforms the other in some ratios and vice versa in other ratios. For example, Hinopak Motors has a better asset management and liquidity position while Hinopak Motors has a better profitability and return on assets (ROA) and equity (ROE) and earning power.



Pakistan's Auto industry's woeful run continued after the sales of overall passenger cars dropped by a massive 44% from the period of July-October 2019. According to figures of Pakistan Automotive Manufacturers Association (PAMA), only 40,586 units of passenger cars were sold in July-October 2019 as compared to 72,563 units in the same period last year. Currently, the Automobile industry is going through a severe crisis with lower sales volumes due to the economic slowdown, rising costs of raw material and parts due to increase in duties and taxes in the Auto Sector and steep Rupee devaluation. These factors have resulted in value addition below 10% for Auto Sector, which is expected to persist in the foreseeable future. The auto sector of the country is in pressure presently, with sales and production sliding down by 41.4% as per PAMA numbers for 2MFY20 due to increase in prices, Rupee depreciation, reduction in car financing, increase in Federal excise duties (FED) and higher input cost. September sales numbers are not reflecting signs of improvement, which could add up negative pressure for auto industry. Owing to falling demand and higher cost of doing business, the production plants of some auto manufacturers have faced shutdowns of more than 30 days.

Since the sales of automotive industry of Pakistan was showing a decline trend from the last two years and at that moment Hinopak Motors halted their sales along with manufacturing in the third quarter of their FY-19, but at the same time Ghandhara Industries Limited outperformed in the industry and captured the customers of Hinopak to become the market leader in Pakistan, However Ghandhara also launched their double & single cabin vehicle i.e. Isuzu Dmax to compete another player of the market which is Indus Motors Corporation (Toyota) over the decade Hilux (brand of Toyota) was alone in the market in this category of vehicles, but in the last year Ghandhara tried to break their monopoly by launching their new trucks.

Ghandhara Industries Limited are continuously working on innovation and their strategy is to enter in the new market through continuous research and developments in their existing products along with introducing the new models. In this regard Hinopak Motors should also plan to move out of their current product lines to remain in the market and also to stable their financial position. Ghandhara Industries also showed a decline in their sales but still somehow they managed to maintain their profits even at low percentage. This strategy should also be adopted by Hinopak Motors as it was beneficial for their major competitor of the industry.

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