



The Pakistan Credit Rating Agency Limited

## Rating Report

### Berger Paints Pakistan Limited | PP Sukuk | Sep -21

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-Nov-2023	A	-	Stable	Maintain	-
26-May-2023	A	-	Stable	Maintain	-
24-Nov-2023	A	-	Stable	Maintain	-
27-May-2022	A	-	Stable	Initial	-
16-Sep-2021	A	-	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect Berger Paints Pakistan Limited's ("Berger" or the "Company") established position and strong brand in the premium domestic paint market of the country. The Company has a strong governance framework and an experienced management team leading to effective controls. The ratings also find comfort in Berger's well-diversified revenue stream with retail, non-retail and allied business segments. The paint industry remained competitive and pressurized due to the presence of a large unorganized sector and ongoing global inflation, supply chain disruption, and a hike in policy rates coupled with rupee depreciation. The Company's non-retail business, dominated by automotive paints, also faces pressure due to the recent decline in passenger car sales.

During 3MFY24, revenues depicted marginal growth stood at PKR 2.07bln (3MFY23: PKR 1.57bln). The company's profit after tax stood at PKR 49.74mln during 3MFY24 (3MFY23: PKR 0.386mln). The equity of the Company as of Sept'23 was PKR 3,244mln (FY23: PKR 3,195mln). The financial risk profile of the Company is characterized by moderate coverages and a stretched working capital cycle which is an industry-wide norm. Berger had issued the privately placed sukuk to facilitate the working capital management of the Company. The leveraging during 3MFY24 was 25.5% as compared to 3MFY23 43.2%. Generating operating cashflows along with maintaining an efficient supply chain and prudent working capital management is important. Compliance with the covenants of the term sheet especially maintenance of the DSRA and DPA account would remain crucial.

#### Disclosure

<b>Name of Rated Entity</b>	Berger Paints Pakistan Limited   PP Sukuk   Sep -21
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Debt Instrument Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jul-23),Methodology   Rating Modifiers(Apr-23),Methodology   Debt Instrument Rating(Aug-23)
<b>Related Research</b>	Sector Study   Chemical(Jul-23)
<b>Rating Analysts</b>	Madiha Sohail   madiha.sohail@pacra.com   +92-42-35869504

## Issuer Profile

**Profile** Berger Paints Pakistan Limited ("Berger" or the "Company") is a public listed company. The registered office of the Company is situated in Lahore, Pakistan, and the production facility is located at Multan Road, Lahore. The Company is engaged in the manufacturing and trading of paints, varnishes and other related products. The company has several product segments including decorative paints, automotive paints, general industrial finishes, powder coating, protective coatings, vehicle refinishes, road safety, government & marine, construction chemicals, and adhesives. They are divided into three business lines, namely, i) Retail Business, ii) Non-Retail Business and iii) Allied Business

**Ownership** Slotrapid Limited, a foreign company incorporated in British Virgin Islands and holding interests in several businesses, owns 52.05% shares in Berger. Around 17% of shares are held by the Dadex family, while 10.5% of shares are owned by Miller Value Partners, a foreign investment management company. The remaining shareholding is held by financial institutions and individuals.

**Governance** The Company has eight members on its board including four independent directors, three non-executive directors and the CEO - Dr. Mahmood Ahmad. The board is currently chaired by Mr. Maqbool H. H. Rahimtoola. Dr. Mahmood Ahmad represents Slotrapid Limited, while two non-executive directors are nominated by Dadex Family.

**Management** Mr. Maqbool H. H. Rahimtoola is the Chairman of the board and has over 40 years of experience on the boards of various multinational companies. Dr. Mahmood Ahmad, nominee of Slotrapid limited, has ~26 years of experience and is well-versed in the industry dynamics. All other members are professionally qualified with extensive professional experience and a diversified skill mix.

**Business Risk** The paint industry is highly competitive and price-sensitive. Inflationary pressure and rupee devaluation have increased the cost of production. The sector can be divided into two segments i) The Organized segment accounts for ~40% of the total market share and comprises around 20 players, whereas the unorganized segment accounts for ~60% of the market share and has over 100 players. The organized segment suffers not only due to loss of market share but also faces cost pressures as the unorganized segment avoids taxation and other costs associated with the organized segment. During 3MFY24, revenues depicted marginal growth stood at PKR 2.07bln (3MFY23: PKR 1.57bln). The company's profit after tax stood at PKR 49.74mln during 3MFY24 (3MFY23: PKR0.386mln). The equity of the Company as of Sept'23 was PKR 3,244mln (FY23: PKR 3,195mln).

**Financial Risk** In 3MFY24, Berger's inventory days reached to ~73 days (3MFY24: ~74 days). Meanwhile, trade receivable days have reached ~85 days (3MFY24: ~75 days) in FY24. Gross working capital days reached ~158 days (FY23: ~147 days). The trade payable days during 3MFY24 reached ~54 days (FY22: ~48 days). Resultantly, the net working capital days clocked in at ~103 days (FY22: ~100 days). The capital structure of the Company is moderately leveraged. Short-term borrowings during 9MFY24 constitute ~40.% of the Company's total borrowings.

## Instrument Rating Considerations

**About The Instrument** Berger issued an Unlisted, Privately Placed & Secured Sukuk. Sukuk issue amount is PKR 500 million at an offer of 3MK +1.50% p.a with a tenor of up to 4 years inclusive of 1-year grace period commencing from the Facility Effective Date. The first profit / Rental payment fell due at the end of the first quarter. The issue will be redeemed in 12 equal consecutive quarterly buyout units commencing from the end of the 5th quarter from the date of first disbursement, and subsequently every three months thereafter. Principal payment will commence from the end of the first 15 months.

**Relative Seniority/Subordination Of Instrument** The claims of the sukuk holders will rank superior to the claims of ordinary shareholders

**Credit Enhancement** The Sukuk are secured by 1st Pari Passu charge by way of mortgage over company's Land & Building measuring 94.7 Kanal located at Multan road district Lahore with a 25% margin. Berger shall at all times maintain PKR 50 million in Debt Service Reserve Account (DSRA), throughout the tenure of the Sukuk which shall be maintained by the accounts banks. Further, lien on Company's operating Account, Debt Payment Account (DPA), and DSRA is maintained with Accounts Bank. DPA is maintained with Accounts Bank with 1/3 of quarterly payments in each month



Berger Paints Pakistan Ltd Chemical	Sep-23 3M	Jun-23 12M	Jun-22 12M	Jun-21 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	2,335	2,366	1,705	1,735
2 Investments	-	-	-	-
3 Related Party Exposure	77	78	176	115
4 Current Assets	4,503	4,168	4,070	3,162
<i>a Inventories</i>	1,758	1,553	1,625	1,226
<i>b Trade Receivables</i>	1,857	1,855	1,628	1,220
<b>5 Total Assets</b>	<b>6,915</b>	<b>6,613</b>	<b>5,951</b>	<b>5,012</b>
6 Current Liabilities	2,241	2,025	1,762	1,578
<i>a Trade Payables</i>	1,292	1,174	943	898
7 Borrowings	1,108	1,081	1,641	1,108
8 Related Party Exposure	44	40	48	23
9 Non-Current Liabilities	279	271	155	77
<b>10 Net Assets</b>	<b>3,243</b>	<b>3,196</b>	<b>2,346</b>	<b>2,225</b>
<b>11 Shareholders' Equity</b>	<b>3,244</b>	<b>3,196</b>	<b>2,346</b>	<b>2,225</b>
<b>B INCOME STATEMENT</b>				
1 Sales	2,070	7,341	7,073	5,602
<i>a Cost of Good Sold</i>	(1,674)	(5,858)	(5,852)	(4,486)
<b>2 Gross Profit</b>	<b>396</b>	<b>1,483</b>	<b>1,221</b>	<b>1,117</b>
<i>a Operating Expenses</i>	(243)	(792)	(869)	(711)
<b>3 Operating Profit</b>	<b>154</b>	<b>692</b>	<b>352</b>	<b>406</b>
<i>a Non Operating Income or (Expense)</i>	8	(77)	58	(21)
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>162</b>	<b>615</b>	<b>410</b>	<b>385</b>
<i>a Total Finance Cost</i>	(83)	(284)	(163)	(118)
<i>b Taxation</i>	(29)	(91)	(45)	(72)
<b>6 Net Income Or (Loss)</b>	<b>50</b>	<b>240</b>	<b>201</b>	<b>195</b>
<b>C CASH FLOW STATEMENT</b>				
<i>a Free Cash Flows from Operations (FCFO)</i>	213	743	567	440
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	146	447	427	315
<i>c Changes in Working Capital</i>	(105)	123	(474)	113
<b>1 Net Cash provided by Operating Activities</b>	<b>41</b>	<b>570</b>	<b>(47)</b>	<b>428</b>
<b>2 Net Cash (Used in) or Available From Investing Activities</b>	<b>(37)</b>	<b>(98)</b>	<b>(112)</b>	<b>(113)</b>
<b>3 Net Cash (Used in) or Available From Financing Activities</b>	<b>9</b>	<b>45</b>	<b>338</b>	<b>(311)</b>
<b>4 Net Cash generated or (Used) during the period</b>	<b>13</b>	<b>516</b>	<b>179</b>	<b>4</b>
<b>D RATIO ANALYSIS</b>				
<b>1 Performance</b>				
<i>a Sales Growth (for the period)</i>	12.8%	3.8%	26.3%	34.1%
<i>b Gross Profit Margin</i>	19.1%	20.2%	17.3%	19.9%
<i>c Net Profit Margin</i>	2.4%	3.3%	2.8%	3.5%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	5.2%	11.8%	1.3%	9.9%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	6.2%	8.7%	8.8%	9.1%
<b>2 Working Capital Management</b>				
<i>a Gross Working Capital (Average Days)</i>	155	166	147	149
<i>b Net Working Capital (Average Days)</i>	100	113	100	90
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.0	2.1	2.3	2.0
<b>3 Coverages</b>				

### Credit Rating

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

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

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



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

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

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

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

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

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

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

**Note.** This scale is applicable to the following methodology(s):  
 a) Broker Entity Rating  
 b) Corporate Rating  
 c) Debt Instrument Rating  
 d) Financial Institution Rating  
 e) Holding Company Rating  
 f) Independent Power Producer Rating  
 g) Microfinance Institution Rating  
 h) Non-Banking Finance Companies Rating

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### **Rating Team Statements**

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

### **2) Conflict of Interest**

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

### **Restrictions**

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

### **Conduct of Business**

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

### **Independence & Conflict of interest**

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

### **Monitoring and review**

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 17-(d)

### **Probability of Default**

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Investment Agent	Nature of Assets	Book Value of Assets (PKR mln)
Unlisted, Privately Placed & Secured Long Term Islamic Certificates (Sukuk)	PKR 500mln	4 years from the date of issue	1. 1st Pari Passu charge by way of mortgage over Company's Land & Building measuring 94.7 Kanal with a 25% margin; 2. DSRA is maintained with PKR 50mln at all times; 3. DPA Account with 1/3 of total payments	Pak Oman Investment Company	N/A	N/A

<b>Name of Issuer</b>	Berger Paints Pakistan Ltd
<b>Issue Date</b>	26-Sep-22
<b>Maturity</b>	26-Sep-26
<b>Profit Rate</b>	3MK+1.5%

Berger Paints Pakistan Limited | PP Sukuk | Sep -21

Sr.	Due Date Principal	Opening Principal	3M Kibor	Markup/Profit Rate (3MK+1.50%)	Markup/Profit Payment	Principal Payment	Total	Principal Outstanding
		PKR						
Issue Date	26-Sep-22	500,000,000				-	-	500,000,000
1	26-Dec-22	500,000,000	16.08%	17.58%	21,914,795		21,914,795	500,000,000
2	26-Mar-23	500,000,000	17.06%	18.56%	22,882,192		22,882,192	500,000,000
3	26-Jun-23	500,000,000	21.19%	22.69%	28,595,616		28,595,616	500,000,000
4	26-Sep-23	500,000,000	22.09%	23.59%	29,729,863		29,729,863	500,000,000
5	26-Dec-23	500,000,000	16.08%	17.58%	21,914,795	41,666,667	63,581,461	458,333,333
6	26-Mar-24	458,333,333	16.08%	17.58%	20,088,562	41,666,667	61,755,228	416,666,667
7	26-Jun-24	416,666,667	16.08%	17.58%	18,463,014	41,666,667	60,129,680	375,000,000
8	26-Sep-24	375,000,000	16.08%	17.58%	16,616,712	41,666,667	58,283,379	333,333,333
9	26-Dec-24	333,333,333	16.08%	17.58%	14,609,863	41,666,667	56,276,530	291,666,667
10	26-Mar-25	291,666,667	16.08%	17.58%	12,643,151	41,666,667	54,309,817	250,000,000
11	26-Jun-25	250,000,000	16.08%	17.58%	11,077,808	41,666,667	52,744,475	208,333,333
12	26-Sep-25	208,333,333	16.08%	17.58%	9,231,507	41,666,667	50,898,174	166,666,667
13	26-Dec-25	166,666,667	16.08%	17.58%	7,304,932	41,666,667	48,971,598	125,000,000
14	26-Mar-26	125,000,000	16.08%	17.58%	5,418,493	41,666,667	47,085,160	83,333,333
15	26-Jun-26	83,333,333	16.08%	17.58%	3,692,603	41,666,667	45,359,269	41,666,667
16	26-Sep-26	41,666,667	16.08%	17.58%	1,846,301	41,666,667	43,512,968	-
					<b>246,030,205</b>	<b>500,000,000</b>	<b>746,030,205</b>	