



## The Pakistan Credit Rating Agency Limited

### Rating Report

#### EXIDE Pakistan Limited

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##### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Dec-2021	BBB	A2	Stable	Initial	-

##### Rating Rationale and Key Rating Drivers

EXIDE Pakistan Limited (EXIDE) is a pioneer in the battery industry; it has presence in Pakistan since 1953. EXIDE offers wide range of batteries, catering the demand of automotive, industrial, and household portable energy backup solutions. Demand of automotive battery picked up to match unprecedented growth in automobile sector due to favorable policy rates. Overall economy has witnessed recovery after ease of pandemic and created a positive impact on industries at large. To serve this surge in demand all battery manufacturers are operating on their higher capacity utilizations as against, over supply situation in previous years. In-line with the industry dynamics EXIDE revenues posted a healthy growth ~ 34% as of year-end March-21 and similar growth pattern has been observed during six months Sep-21 financial results. The Company was able to achieve breakeven on year-end March-21 and also reported slight profits in Sep-21, there is still room for improvement. The market share is expected to stand around ~ 20%. On the other side challenges like stiff competition, low margins are expected to sustain in future. The Company is well aware of any technological shift and associated demand within battery sector and have appropriate plans intact for its adoption. By understanding the need of market the Company has introduced a “Tubular Battery” which has a deep cycle technology, ideal for industrial/household long power back-up solution i.e. Solar & UPS. As a part of product diversification EXIDE is also offering end-to-end solar power backup solution for industrial/household customers and will build its market share gradually. The sponsors have a good understanding of the business and the Company is led by experienced management. Financial profile of the Company is demonstrated by stretched working capital and moderate cash flows & leveraging where borrowings are mainly comprising short term.

Ratings are dependent on upheld market share with improvements in profits and margin while retaining sufficient cash flows and coverages. However, adherence to maintain its debt metrics at an adequate level is a prerequisite.

##### Disclosure

<b>Name of Rated Entity</b>	EXIDE Pakistan Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-21), Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21)
<b>Related Research</b>	Sector Study   Batteries(Dec-21)
<b>Rating Analysts</b>	Nabeel Ashrif   nabeel.ashrif@pacra.com   +92-42-35869504

## Profile

**Legal Structure** EXIDE Pakistan Limited is a public limited company listed on Pakistan Stock Exchange.

**Background** EXIDE Pakistan Limited ("EXIDE") was incorporated in Pakistan in 1953 as a private limited company in association with Chloride Group PLC of United Kingdom. Chloride Group PLC at that time had its associates in 35 countries of the world and was supported by Chloride Technical for establishing its operations. EXIDE ultimately got listed on the Karachi Stock Exchange in 1982.

**Operations** The principal business operation of the company is manufacturing batteries, chemicals and acid. The manufacturing facilities of the company are located at SITE and Hub Baluchistan while the facilities for chemical and acid are located at SITE and Bin Qasim Karachi.

## Ownership

**Ownership Structure** EXIDE is majority owned by the Hashwani Family (~75%) while the Financial Institutions and other companies own about ~20% with the general public holding ~5% of the company shares.

**Stability** Ownership structure of the company didn't change much in previous years and is expected to remain the same in coming periods.

**Business Acumen** Hashwani family is leading the company since 1991 and have strong understanding of the industry.

**Financial Strength** Financial strength of the sponsors is considered good.

## Governance

**Board Structure** The overall control of the company vests in the eight-member board of directors (BoD) including the CEO and CFO. The Chairman of the Board is Mr. Altaf Hashwani from the sponsoring family and has been associated with the Board for over 26 years.

**Members' Profile** Board member's business acumen is considered strong because of their long association with the company and presence on board of other companies.

**Board Effectiveness** The board meetings are formally held with a detailed agenda shared with board members prior to the meeting. The attendance of the directors in board meetings is considered strong. Meeting minutes are also formally maintained.

**Financial Transparency** The board has two committees in place to oversee and assist the Board in company's operational and financial matters. These committees include: 1) Audit committee and 2) Human Resource & Remuneration Committee (HR&R). Yousuf Adil Chartered Accountants has issued un-qualified report on the FY21 accounts of the company.

## Management

**Organizational Structure** EXIDE has a multi-tiered organizational structure, divided into four key functions, namely (i) Finance, (ii) Sales, (iii) Plant Production, and (iv) Human Resource.

**Management Team** The CEO, Mr. Arshad Shahzada, has a Bachelor of Engineering and has been associated with the company for over 3 decades. Mr. Shahzada is involved in all strategic and key business matters and financial decisions of the company. Mr. S Haider Mehdi, FCMA, with over 40 years of experience is the CFO and company secretary and has been associated with the company for 30 years. The management is equipped with strong technical skills and enjoys long association with the company.

**Effectiveness** Each department head is responsible for smooth functioning of their department and they meet Chief Executive Officer to discuss pertinent matters.

**MIS** EXIDE Pakistan's core operating software is "SAP Enterprise ECC 6.0 EHP 5" implemented at head office, all manufacturing sites. Various modules have been implemented including Sales & Distribution, Materials Management, Production Planning, Financials, Controlling, and Human Resource Management.

**Control Environment** The principal business operation of the company is manufacturing batteries, chemicals and acid. The company deploys state-of-art technology for producing batteries while ensuring that the production processes comply with local and international standards.

## Business Risk

**Industry Dynamics** EXIDE, Atlas Battery and Pakistan Accumulators (Volta & Osaka) are the three big players of the industry. The industry performance is very much linked with the performance of auto industry of the country. The entire auto sector gave a brisk performance during FY21 on account of low-interest rates and better farm income. Although Company sees demand generation for the automotive industry, it faces a challenge from the battery industry in the form of surplus capacity, tough competition and low product margin. It is anticipated that the indigenous organized battery industry will face stiff competition due to the capacity expansion of existing battery plants and the changing market dynamics. It is projected that the profitability in the next year will be affected due to an increase in prices of basic raw materials, utilities, wages, and devaluation of Pak Rupee if the corresponding increase in the selling prices is not absorbed by the market.

**Relative Position** EXIDE is one of the big players of the industry. The company is intending to retain its market share ~20% despite the deteriorating margins. Company is utilizing high capacity of casting and pasting while fitting is utilized for only one shift.

**Revenues** Net sales revenue of the Company under review increased by 34.32% from PKR 8.7bln to PKR 11.7bln on account of an increase in sales volume, better sales prices and improved market demand.

**Margins** Gross profit for the year under review increased from Rs.0.727 billion to Rs.1.168 billion on account of better sales revenue. GP margins have also increased to 10% in FY21 (FY20: 8.3%). As a result, the Company was able to achieve break even as compared to loss of PKR 559m in FY20.

**Sustainability** The COVID-19 outbreak has created various challenges, adding more pressure to the already struggling economy of the country. The management is vigilant and actively evaluate the future earnings prospects based upon budgets and financial projections.

## Financial Risk

**Working Capital** During 2QFY22 working capital lines of the Company were fully utilized. The Company relied on short term borrowings for its working capital management. As the economy started to improve gradually after the global pandemic, the Company's gross working capital days have decreased to 125 days in 2QFY22 (FY21: 158 days and FY20: 226 days). Net working capital days are also reduced to 100 days in 2QFY22 (FY21:137 days and FY20: 203) that has translated into better liquidity.

**Coverages** Due to improvement in overall revenue and operating activity, the Company has generated positive FCFO of PKR 205mln in 2QFY22 and PKR 471mln during FY21 as compared to FCFO deficit of PKR 317mln in FY20. As a result, coverages have also turned positive in 2QFY22 and FY21 which were all negative in FY20 and FY19. Going forward, sustenance of cash flows from operations is necessary to keep the coverages intact.

**Capitalization** At the end of 2QFY22 total borrowing of the Company stood at PKR 3,142mln out of which PKR 2,843mln of the borrowings are short term, which are at the peak of their authorized limit. Borrowings with long-term have reduced to only PKR 84mln at the end of 2QFY22.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

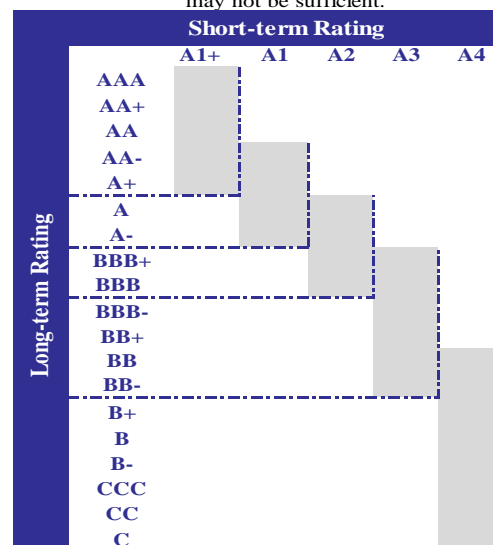
Exide Pakistan Limited Batteries	Sep-21 6M	Mar-21 12M	Mar-20 12M	Mar-19 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	1,308	1,321	1,383	1,555
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	0	0
4 Current Assets	7,207	6,344	6,988	7,001
a Inventories	3,728	2,749	1,881	2,176
b Trade Receivables	1,996	2,334	3,155	3,566
5 Total Assets	8,515	7,665	8,371	8,556
6 Current Liabilities	1,528	1,297	1,890	1,270
a Trade Payables	1,463	687	656	408
7 Borrowings	3,039	2,449	2,567	3,200
8 Related Party Exposure	104	104	111	306
9 Non-Current Liabilities	1	6	-	-
10 Net Assets	3,843	3,810	3,804	3,781
11 Shareholders' Equity	3,843	3,809	3,804	3,781
<b>B INCOME STATEMENT</b>				
1 Sales	7,894	11,716	8,722	9,507
a Cost of Good Sold	(7,054)	(10,548)	(7,995)	(8,534)
2 Gross Profit	840	1,168	727	972
a Operating Expenses	(588)	(831)	(892)	(1,080)
3 Operating Profit	253	337	(165)	(108)
a Non Operating Income or (Expense)	(9)	25	142	(36)
4 Profit or (Loss) before Interest and Tax	244	362	(23)	(144)
a Total Finance Cost	(110)	(186)	(412)	(267)
b Taxation	(99)	(176)	(123)	(94)
6 Net Income Or (Loss)	35	(0)	(559)	(505)
<b>C CASH FLOW STATEMENT</b>				
a Free Cash Flows from Operations (FCFO)	205	471	(317)	(262)
b Net Cash from Operating Activities before Working Capital Changes	103	245	(703)	(480)
c Changes in Working Capital	(543)	(106)	1,527	(558)
1 Net Cash provided by Operating Activities	(441)	139	824	(1,038)
2 Net Cash (Used in) or Available From Investing Activities	(51)	(71)	217	(43)
3 Net Cash (Used in) or Available From Financing Activities	584	(114)	(1,049)	349
4 Net Cash generated or (Used) during the period	93	(46)	(9)	(731)
<b>D RATIO ANALYSIS</b>				
1 Performance				
a Sales Growth (for the period)	34.8%	34.3%	-8.3%	--
b Gross Profit Margin	10.6%	10.0%	8.3%	10.2%
c Net Profit Margin	0.4%	0.0%	-6.4%	-5.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-4.3%	3.1%	13.9%	-8.6%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh	1.8%	0.0%	-14.7%	-13.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	125	158	226	194
b Net Working Capital (Average Days)	100	137	203	178
c Current Ratio (Current Assets / Current Liabilities)	4.7	4.9	3.7	5.5
3 Coverages				
a EBITDA / Finance Cost	2.9	2.8	0.0	0.1
b FCFO / Finance Cost+CMLTB+Excess STB	1.3	1.6	-0.8	-1.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.5	1.4	-0.5	-0.6
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	45.0%	40.1%	41.3%	48.1%
b Interest or Markup Payable (Days)	85.9	84.6	89.6	115.1
c Entity Average Borrowing Rate	8.6%	8.5%	11.9%	7.4%

### Credit Rating

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

Long-term Rating	
Scale	Definition
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
<b>AA+</b>	
<b>AA</b>	<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.
<b>AA-</b>	
<b>A+</b>	
<b>A</b>	<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.
<b>A-</b>	
<b>BBB+</b>	
<b>BBB</b>	<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.
<b>BBB-</b>	
<b>BB+</b>	
<b>BB</b>	<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.
<b>BB-</b>	
<b>B+</b>	
<b>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>B-</b>	
<b>CCC</b>	
<b>CC</b>	<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.
<b>C</b>	
<b>D</b>	Obligations are currently in default.

Short-term Rating	
Scale	Definition
<b>A1+</b>	The highest capacity for timely repayment.
<b>A1</b>	A strong capacity for timely repayment.
<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>A4</b>	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):

#### Entities

- Broker Entity Rating
- Corporate Rating
- Financial Institution Rating
- Holding Company Rating
- Independent Power Producer Rating
- Microfinance Institution Rating
- Non-Banking Finance Companies (NBFCs) Rating

#### Instruments

- Basel III Compliant Debt Instrument Rating
- Debt Instrument Rating
- Sukuk Rating

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(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

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- (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)

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- (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.
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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (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)
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- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

### **Probability of Default**

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

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