



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
11-Jul-2018	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

EXIDE Pakistan Limited (EXIDE) is a pioneer in the battery industry; has a presence in Pakistan since 1968. The ratings take comfort from demand of batteries emanating from UPS market in addition to transport and personal vehicles and others. The competition has intensified due to improving power supply and entry of new players in the market. The overall industry has an oversupply and margins are under stress. Demand has seen a downward trend lately but may positively benefit if power demand overtakes the supply, especially when CPEC related projects pick up. The big three players hold about 75% of the market while the remaining is held by numerous smaller ones. Success is pivotal on maintaining market share. The sponsors have a good understanding of the business. The company's profitability which has been healthy in the past, got hit recently due to slowing industry sales and eroding business margins. EXIDE's leveraging is good and the company doesn't want to raise long term debt. Improving working capital management and strengthening debt servicing capacity through improving cash position is pivotal for the ratings.

The ratings are dependent on sustaining a steady revenue stream with profitable operations. Any prolonged downturn in subdued business volume amidst market oversupply can have a detrimental effect.

Disclosure

Name of Rated Entity	EXIDE Pakistan Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating Methodology(Jul-17),Methodology Correlation between long-term and short-term rating scale(Jun-17)
Related Research	Sector Study Auto and Allied Passenger Cars(Feb-18)
Rating Analysts	Muhammad Obaid muhammad.obaid@pacra.com +92-42-35869504

EXIDE PAKISTAN LIMITED PROFILE

Incorporated	1982
Major Business	Batteries
Legal Status	Listed
Head Office	Karachi

OWNERSHIP

- EXIDE Pakistan Limited was incorporated in Pakistan in 1953 as a private limited company in association with Chloride Group PLC of United Kingdom. EXIDE ultimately got listed on the Karachi Stock Exchange in 1982.
- EXIDE Pakistan is majority owned by the Hashwani Family (75%) while the Financial Institutions own about 20% with the general public holding approx. 4% of the company shares.

GOVERNANCE

- 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. Arif Hashwani from the sponsoring family and has been associated with the Board for over 26 years.
- Three board members (including CEO and CFO) hold executive positions while the other five are non-executives including one independent director.
- Board member's business acumen is considered strong because of their long association with the company and presence on board of other companies.

MANAGEMENT

- The CEO, Mr. Arshad Shahzada, has a Bachelor of Engineering and has been associated with the company for 31 years. Mr. Shahzada is involved in all strategic and key business and financial decisions of the company.
- Mr. S Haider Mehdi, FCMA, with 40 years of experience is the CFO and company secretary and has been associated with the company for 27 years.
- The management is equipped with strong technical skills and enjoys long association with the company.

SYSTEMS & CONTROLS

- 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.
- 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.

PERFORMANCE

- EXIDE Pakistan's sales have been declining since the end of last financial year ending March 31st 2017, largely due to stiff competition and improving electricity generation in the country.
- The turnover for FY18 saw declining trend, with 6MFY18 sales down by 9.5% YOY (6MFY18 6,637mln; 6MFY17: 7,337mln) and nine months FY18 sales down by 11.9% YOY (9MFY18 8,890mln; 9MFY17 10,096mln).
- Gross profit margin for FY17 was 19.9% but has shown a sharp dip to 10.4% for 6MFY18 and 10.9% for 9MFY18 primarily on account of increasing cost of lead. Resultantly the net profit margin declined from 5.7% in FY17 (PKR 739mln) to -0.2% by 9MFY18 (PKR -15mln).

FINANCIAL RISK

- During FY17, EXIDE's working capital requirements, represented by net cash cycle (net working capital days) – a function of inventory, receivables and payables – stood at 141 days (end-Mar16: 109 days).
- The company manages its working capital requirements through mix of internal generation and short term borrowings. At end-Dec17, the company reported STBs of PKR 3.0bln (end-Mar17: PKR 3.2bln; end Mar16: PKR2.6bln).
- During 9MFY18, EBITDA dropped to PKR 366mln (end-Mar17: 1279mln, end-Mar16: PKR 988mln). Furthermore, FCFO for 9MFY18: PKR 499mln (at end-Mar17: PKR 979mln) declined putting a dent in the coverage ratios.
- Hence, the core coverage ratio was reported at 0.7x and 13.1x at end-Dec17 and end-Mar17 respectively (end-Mar16: 3.8x). Going forward, coverages of the company are expected to remain weak on account of declining cashflows.
- The Company doesn't have long term debt and intends to maintain the current structure in the future as well.



The Pakistan Credit Rating Agency Limited

EXIDE (PAK)

BALANCE SHEET	30-Dec-17	31-Mar-17	31-Mar-16
	9M	FY	FY
Non-Current Assets	1,536	1,478	1,393
Investments (incl. Associates)	0	0	0
Equity	0	0	0
Current Assets	6,732	7,897	6,389
Inventory	3,249	3,867	2,770
Trade Receivables	2,355	2,332	2,510
Others	1,129	1,698	1,108
Total Assets	8,268	9,376	7,782
Debt	2,997	3,150	2,601
Short-term	2,997	3,150	2,601
Long-term (incl. Current Maturity of Long-Term debt)	-	-	-
Other Short-term Liabilities	1,149	1,992	1,597
Other Long-term Liabilities	-	3	7
Shareholder's Equity	4,122	4,231	3,577
Total Liabilities & Equity	8,268	9,376	7,782

INCOME STATEMENT

Turnover	8,890	12,910	11,696
Gross Profit	971	2,568	2,083
Other Income	(4)	(100)	(103)
Financial Charges	(111)	(75)	(186)
Net Income	(15)	739	425

Cashflow Statement

Free Cashflow from Operations (FCFO)	83	979	703
Net Cash changes in Working Capital	(309)	(538)	(1,148)
Net Cash from Operating Activities	(323)	377	(654)
Net Cash from Investing Activities	(251)	(232)	(60)
Net Cash from Financing Activities	281	(75)	(61)
Net Cash generated during the period	(292)	70	(774)

Ratio Analysis

Performance

Turnover Growth	-11.9%	10.4%	-11.0%
Gross Margin	10.9%	19.9%	17.8%
Net Margin	-0.2%	5.7%	3.6%
ROE	-0.5%	17.5%	11.9%

Coverages

Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered ST Interest Coverage (x) (FCFO/Gross Interest)	0.7	13.1	3.8
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO-Gross Interest)	0.7	13.1	3.8
	0.0	0.0	0.0

Liquidity

Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	134	141	109
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Capital Structure (Total Debt/Total Debt+Equity)	42.1%	42.7%	42.1%
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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

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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.
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- (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)

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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)
- (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)
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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 | 18-(a)
- (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)

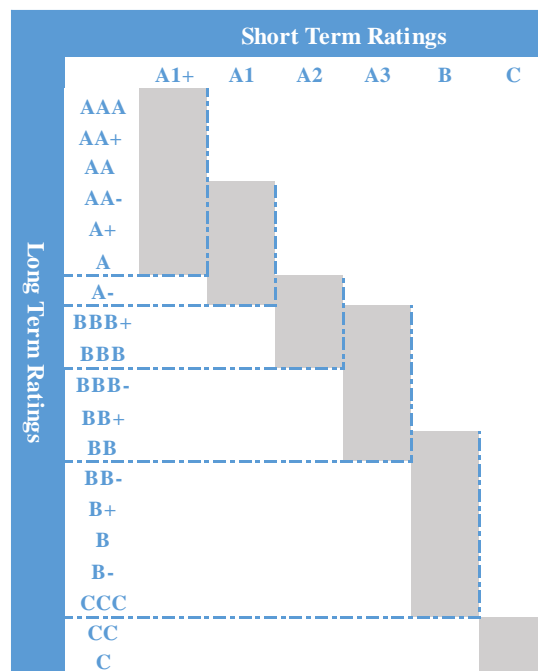
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Credit Rating Scale & Definitions

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

Long Term Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+ AA AA-	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	A1	A strong capacity for timely repayment.
A+ A A-	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ BBB BBB-	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB BB-	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ B B-	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.		
D	Obligations are currently in default.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) 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.

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