



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 |
|--------------------|------------------|-------------------|----------|----------|--------------|
| 27-Dec-2018 | A- | A2 | Negative | Maintain | - |
| 11-Jul-2018 | A- | A2 | Stable | Initial | - |

Rating Rationale and Key Rating Drivers

EXIDE Pakistan Limited (EXIDE) is a pioneer in the battery industry; it has a presence in Pakistan since 1968. Demand for batteries is generated through two segments (i) OEMs and (ii) replacement market. With a considerable improvement in the power sector, demand of UPS batteries is diminishing. Decreased demand coupled with entry of new players has intensified the competition. The overall industry has an oversupply situation and margins are under stress. Demand may positively benefit 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 had been healthy in the past, got hit recently due to slowing industry sales and eroding business margins. EXIDE's leveraging is adequate and the company does not intend to raise long term debt. Debt servicing capacity is deteriorated on the backdrop of eroded margins.

The negative outlook captures the deteriorated business condition of the sector having negative impact on the players operating in this industry. The ratings are dependent on the revival of subdued business volumes and impacted profitability. Prolonged downturn 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 Ratings(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18) |
| Related Research | Sector Study Auto and Allied Batteries(Jul-18) |
| Rating Analysts | Nadeem Sheikh nadeem.sheikh@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 was incorporated in Pakistan in 1953 as a private limited company in association with Chloride Group PLC of United Kingdom. The company got listed on Pakistan Stock Exchange in 1982. Hashwani group acquired the company in 1991.

Operations The principal business operation of the company is manufacturing of batteries, chemicals and acid. The manufacturing facilities of batteries 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 Pakistan is majorly owned by the Hashwani Family (~75%) while the Financial Institutions and other companies own about ~20%, general public holds ~5% of the company shares.

Stability Ownership structure of the company has not changed in the previous years and is expected to remain stable in the coming periods, in the absence of any unforeseen changes.

Business Acumen Hashwani family is leading the company since 1991 and has a 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 ~27 years.

Members' Profile Board members' 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 sub-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). A. F. Ferguson & Co. Chartered Accountants has issued un-qualified review report for the half-yearly review 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 32 years. Mr. Shahzada is involved in all strategic and key business and financial decisions of the company. He is assisted by an able management team.

Effectiveness Each department head is responsible for smooth functioning of their departments 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, and at all manufacturing sites. Various modules have been implemented including Sales & Distribution, Materials Management, Production Planning, Financials, Controlling, and Human Resource Management.

Control Environment Listing status of the entity adheres to a sound control environment as reflected in an independent board of governance and discrete top management. Clear departmentalization and strong management profiles are also determinant of a good control environment, accompanied by a well-designed MIS.

Business Risk

Industry Dynamics EXIDE, Atlas and Pakistan Accumulators (Volta & Osaka) are the three big players of industry. The industry is facing over supply situation as the supply is more than demand and hence stiff competition amongst players coupled with rising input prices are impacting the margins of the company. With the same circumstances the industry is expected to remain oversupplied in coming years, as demand for UPS batteries is reducing due to improved power situation in the country.

Relative Position Exide is one of the big players of the industry. The company is intending to retain its market share despite the deteriorating margins.

Revenues The revenue of the company decreased by 5% in FY18 and stood at PKR ~12,301mln (FY17: PKR ~12,910mln). The revenue for 1HFY19 clocked at PKR 4,725mln with a 29% dip YOY basis. The revenue is decreased due to fall in demand from replacement market particularly due to improved power situation in the country.

Margins Gross profit margin of the company decreased to ~11% during FY18 (FY17: ~20%). Increase in prices of raw material led to decrease in margins. Further, the company's inability to pass on the impact of increased cost due to stiff competition intensified the impact. Decreased gross profit margin translated into decreased operating profit margins. Strong competition and increased prices of raw material continue to possess a major challenge to the bottom-line of the company.

Sustainability Going forward, the management is planning to sustain its market share. Considering the prices of lead and current demand situation, the bottom-line of the company is expected to remain under pressure going forward.

Financial Risk

Working Capital During 1HFY19 working capital management of the company slightly improved. Net working capital days slightly increased to ~160 days during the period (FY18: ~155 days). The company relied on short term borrowings for its working capital management. Short term trade leverage of the company improved during the period.

Coverages Due to the decreased profitability the coverages of the company decreased. The company's generation of free cash flows was negative in 1HFY19 and hence the core coverage are clocked in -1.6 times (FY18: ~0.8 times). Therefore, debt servicing capacity of the company is highly stressed.

Capitalization At the end of 1HFY19 total borrowing of the company stood at PKR 3,223mln. All of the borrowings are short term. Gearing ratio of the company stood at ~44% at the end of 1HFY19 (FY18: ~40%).



The Pakistan Credit Rating Agency Limited

EXIDE Pakistan Limited

PKR Million

| BALANCE SHEET | 30-Sep-18 | 31-Mar-18 | 31-Mar-17 | 31-Mar-16 |
|--|--------------|--------------|--------------|--------------|
| | 6M | FY | FY | FY |
| Non-Current Assets | 1,606 | 1,671 | 1,478 | 1,393 |
| Investments (incl. Associates) | 0 | 0 | 0 | 0 |
| Equity | 0 | 0 | 0 | 0 |
| Current Assets | 6,811 | 7,201 | 7,897 | 6,389 |
| Inventory | 3,449 | 2,266 | 3,867 | 2,770 |
| Trade Receivables | 2,171 | 3,147 | 2,332 | 2,510 |
| Others | 1,191 | 1,788 | 1,698 | 1,108 |
| Total Assets | 8,418 | 8,872 | 9,376 | 7,782 |
| Debt | 3,223 | 2,850 | 3,150 | 2,601 |
| Short-term | 3,223 | 2,850 | 3,150 | 2,601 |
| Long-term (incl. Current Maturity of Long-Term debt) | - | - | - | - |
| Other Short-term Liabilities | 1,107 | 1,725 | 1,992 | 1,597 |
| Other Long-term Liabilities | - | 10 | 3 | 7 |
| Shareholder's Equity | 4,088 | 4,287 | 4,231 | 3,577 |
| Total Liabilities & Equity | 8,418 | 8,872 | 9,376 | 7,782 |

INCOME STATEMENT

| | | | | |
|-------------------|--------------|---------------|---------------|---------------|
| Turnover | 4,724 | 12,301 | 12,910 | 11,696 |
| Gross Profit | 469 | 1,357 | 2,568 | 2,083 |
| Other Income | (47) | (33) | (100) | (103) |
| Financial Charges | (97) | (152) | (75) | (186) |
| Net Income | (199) | 22 | 739 | 425 |

Cashflow Statement

| | | | | |
|--------------------------------------|---------|-------|-------|---------|
| Free Cashflow from Operations (FCFO) | (157) | 117 | 979 | 703 |
| Net Cash changes in Working Capital | (875) | 152 | (538) | (1,148) |
| Net Cash from Operating Activities | (1,111) | 136 | 377 | (654) |
| Net Cash from Investing Activities | (9) | (213) | (232) | (60) |
| Net Cash from Financing Activities | - | 206 | (75) | (61) |
| Net Cash generated during the period | (1,120) | 130 | 70 | (774) |

Ratio Analysis

| | | | | |
|---|------|-----|------|------|
| Performance | | | | |
| Turnover Growth | -29% | -5% | 10% | -11% |
| Gross Margin | 10% | 11% | 20% | 18% |
| Net Margin | -4% | 0% | 6% | 4% |
| ROE | -9% | 1% | 17% | 12% |
| Coverages | | | | |
| Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB) | 0.0 | 0.8 | 13.1 | 3.8 |
| Interest Coverage (x) (FCFO/Gross Interest) | 0.0 | 0.8 | 13.1 | 3.8 |
| Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO-Gross Interest) | 0.0 | 0.0 | 0.0 | 0.0 |
| Liquidity | | | | |
| Net Cash Cycle (Inventory Days + Receivable Days - Payable Days) | 160 | 155 | 141 | 105 |
| Capital Structure (Total Debt/Total Debt+Equity) | 44% | 40% | 43% | 42% |

EXIDE Pakistan Limited

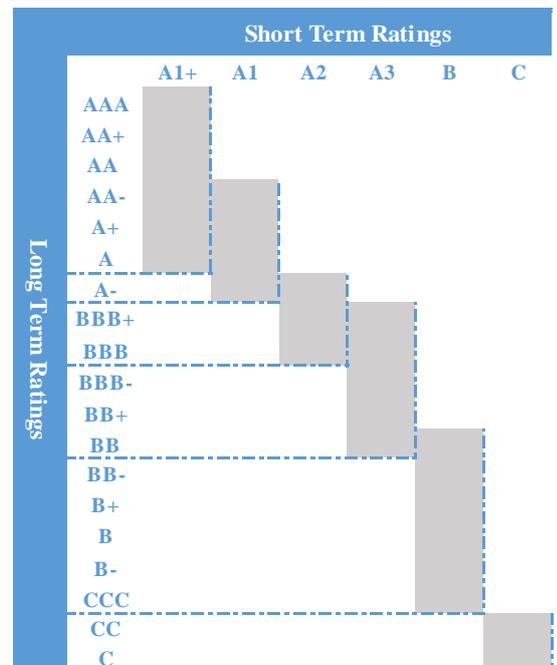
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Credit Rating Scale & Definitions

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.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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.
- (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 | 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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