



The Pakistan Credit Rating Agency Limited

Rating Report

Berger Paints Pakistan Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
14-Sep-2023	A-	A2	Stable	Maintain	-
16-Sep-2022	A-	A2	Stable	Maintain	-
16-Sep-2021	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect Berger’s established position and strong brand in the premium domestic paint market of the country. The ratings incorporate a strong governance framework and an experienced management team leading to effective controls. The Company’s revenue stream is well diversified with (i) retail business (B2C) which includes sales of decorative paints through distributors ii) non-retail business (B2B) which includes powder coating, protective coating, and automotive paint including undercoats and top coats iii) allied business which includes road safety coatings, construction chemicals, and adhesive. The paint industry continues to grapple with intense price competition and encounters significant challenges stemming from the prevalence of predominately unorganized players. However, Berger has substantial competitive advantages, including superior product quality, innovative formulations, an extensive nationwide distribution network, and a steadfast/loyal customer base. The paint industry is intricately connected to the construction and automobile industry. The construction industry is currently going through formidable challenges such as soaring costs of essential construction-related raw materials, substantial rupee depreciation, and elevated interest rates. On the other hand, the automobile industry is heavily dependent on CKD kits, and import restrictions due to the depleting foreign exchange reserves created an essential raw material shortage. This leads to frequent plant shutdowns and non-production periods, observed by all OEMs. Furthermore, massive rupee depreciation coupled with high inflation and rising interest rates contracted consumer demand. In the longer term, the demand side appears promising, driven by the imperative to enhance existing infrastructure, PSDP investments, ongoing urbanization trends, and population growth. During 9MFY23 the company was able to sustain its topline, but the volumes remain subdued. Margins showed a humble improvement at all levels due to better pricing and cost control. The operations of the company receive benefits from good governance, an experienced management team, and a robust internal control system. The financial risk profile of the Company is characterized by comfortable coverages and cashflows. Working capital remained stretched which depicts industry norms. The capital structure is leveraged and borrowings are comprised of short-term and long-term.

The ratings are dependent upon the management’s ability to sustain the market operation amidst fierce competition. Generating operating cashflows along with maintaining an efficient supply chain and prudent working capital management is important.

Disclosure

Name of Rated Entity	Berger Paints Pakistan Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jul-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Chemical(Jul-23)
Rating Analysts	Sohail Ahmed Qureshi sohail.ahmed@pacra.com +92-42-35869504

Profile

Legal Structure Berger Paints Pakistan Limited (Berger or 'the Company') is a publicly listed company. The registered office of the Company is situated in Lahore, Pakistan, and the production facility is located at Multan Road, Lahore.

Background Initially, Berger imported premium chemicals from the United Kingdom to sell in the local market. In 1955, the Company established a manufacturing facility in Karachi. In 1991, Slotrapid Limited, a company incorporated in the British Virgin Islands, acquired 52.05% of its shares from Jenson & Nicholson Limited. A second plant was set up in Lahore in 2006.

Operations 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

Ownership Structure Slotrapid Limited, a foreign company incorporated in the 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% are owned by Miller Value Partners, a foreign investment management company. The remaining shareholding is held by financial institutions and individuals.

Stability The Company's controlling shareholding structure rests with Slotrapid Limited, an offshore company, with the identified beneficiary.

Business Acumen The majority of owners have strong experience in the paint industry. They have also acquired Buxly Paints Limited, listed on PSX. This experience bodes well for Berger.

Financial Strength Slotrapid Limited is an investment company and also has other business interests in Pakistan. It has previously supported the Company in the form of a subscription to the right issue, along with other shareholders.

Governance

Board Structure The Company has nine members on its board including Chairman Mr. Maqbool H.H. Rahimtool, four independent directors, three non-executive directors, and Dr. Mahmood Ahmad (Managing Director). 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.

Members' Profile 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. All other members are professionally qualified with extensive professional experience and a diversified skill mix.

Board Effectiveness The Board met 4 times with the majority of members present in the meeting. The board has established three sub-committees, i) Audit Committee ii) Human Resource & Remuneration Committee iii) Business risk strategies. Both are chaired by Independent Directors. The quality of discussion as captured in meeting minutes reflects adequate involvement of board members.

Financial Transparency BDO Ebrahim Co., Chartered Accountants are the new external auditors of the Company. Previously, A.F Ferguson & Co. Chartered Accounts gave an unqualified opinion on the company's financial statements for the year ending June 30, 2022. The board has also outsourced its internal audit department to E&Y Ford Rhodes & Co., Chartered Accountants.

Management

Organizational Structure The Company has established a well-defined management structure divided into functional departments with clear lines of responsibilities.

Management Team The managing director, Dr. Mahmood Ahmad, is a seasoned business professional and has been associated with the Company for several years. He has over 25 years of experience and is well-versed in industry dynamics. The senior management possesses ample knowledge and expertise in related business.

Effectiveness The Company has established several management committees to coordinate its operations. The executive committee is the apex management committee, which comprises senior management. The executive committee meeting is held monthly to appraise the Company's performance and is headed by the Managing Director. The other committees are the purchase committee, finance committee, and credit committee.

MIS The Company has implemented Oracle ERP to generate reports and manage the flow of information. It is capable of generating customized MIS reports for the board and top management. The management maintains strong controls through the ERP.

Control Environment The management has a strong control environment within the Company supplemented by a robust quality control system for its production processes. Additionally, Berger has technical collaboration agreements with international firms to ensure that quality standards are adhered to.

Business Risk

Industry Dynamics The economy continued to face pressures on account of rising inflation, an elevated fiscal deficit, and uncertainty over external financing. This was mainly driven by rupee devaluation. Due to the high demand for US dollars, the Pak rupee has lost more than one-third of its total value during the last one year. State Bank of Pakistan increased the interest rate by 4.13%. Large Scale Manufacturing (LSM) declined by 10.26 % during FY23 as compared to FY22 due to elevated inflationary pressures and supply chain disruptions because of import restrictions. The major reasons for the decline in Pakistan's paints & coatings included a shortage of raw materials, disruption in the supply chain, and lower demand from professional architecture, automotive, and aerospace industries due to lockdown, travel restrictions, and halt in production. Over the short term, the growing demand for paints and coatings from the architectural coatings segment and the furniture market will likely drive the market growth over the forecast period. However, the fluctuating automotive industry and rising environmental concerns are going to hinder the market. Nevertheless, growing infrastructural activities in Pakistan may offer various opportunities for the market over the forecast period.

Relative Position Berger is one of the major players in the premium domestic paint market and enjoys a ~10% share in the organized market. The main competitors of the Company are AkzoNobel, Nippon, Kansai, Master Paint, Diamond Paint, and Brighto Paint.

Revenues During 9MFY23, the Company's revenues stood at ~PKR 5,322mIn (FY22: ~PKR 7,073mIn, FY21: ~PKR 5,602mIn). The Company's top line is well diversified as it is engaged in both B2B and B2C businesses. The largest product segment is decorative paints, which contribute over 50% of the topline.

Margins In 9MFY23, Berger's gross margin stood at ~19.8% (FY22: 17.3%, FY21: ~19.9%). Meanwhile, the operating margin increased to ~7.9% (FY22: 5%, FY21: 7.2%) due to more marketing expenses while during 9MFY23 the net profit margin stood at ~2.7% (FY22:2.8%, FY21: 3.5%).

Sustainability The Company will continue its planned capital expenditure in order to improve manufacturing efficiency.

Financial Risk

Working Capital In 9MFY23, Berger's inventory days reached to 78days (FY22:74 days, FY21: 75 days). Meanwhile, trade receivable days reached 9MFY23 82 days (FY22: 73 daysFY21: 74 days). Gross working capital days reached 161 days (FY22: 147 days, FY21: 149 days). The trade payable days during 9MFY23 remained stable at 47 days (FY22: 48days ,FY21: 59 days). Resultantly, the net working capital days clocked in at 114 days (FY22: 100 days, FY21: 90 days).

Coverages Berger's cash flows from operations reached PKR ~228mIn as of 9MFY23 (FY22: ~PKR-47mIn, FY21: ~PKR 428mIn). Meanwhile, the Company's finance cost clocked at PKR -209mIn as of 9MFY23, and during (FY22: ~PKR -163mIn, FY20: PKR -118mIn). The interest coverage ratio clocked at 3.1x in 9MFY23 (FY22: 3.6x, FY21: 2.3x). Furthermore, the debt coverage ratio reached 1.5x (FY22: 2.6x, FY21: 1.4x).

Capitalization The capital structure of the Company is moderately leveraged. As of 9MFY23, the Company's leverage stood at ~35.5%, and during FY22, the Company's leverage stood at ~41.2% (FY21: ~33.2%). Short-term borrowings in 9MFY23 constitute ~49.4% of the Company's total borrowings (FY22: 83.7%, FY21:76.5%).



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

BERGER PAINTS PAKISTAN LIMITED CHEMICAL	Mar-23	Jun-22	Jun-21	Jun-20
	9M	12M	12M	12M

A BALANCE SHEET

1 Non-Current Assets	1,633	1,705	1,735	1,745
2 Investments	88	71	53	84
3 Related Party Exposure	83	105	62	88
4 Current Assets	3,810	4,070	3,162	2,637
<i>a Inventories</i>	1,414	1,625	1,226	1,086
<i>b Trade Receivables</i>	1,580	1,628	1,220	1,040
5 Total Assets	5,615	5,951	5,012	4,555
6 Current Liabilities	1,668	1,762	1,578	949
<i>a Trade Payables</i>	890	943	898	903
7 Borrowings	1,322	1,641	1,108	1,399
8 Related Party Exposure	45	48	23	-
9 Non-Current Liabilities	174	155	77	152
10 Net Assets	2,405	2,346	2,225	2,055
11 Shareholders' Equity	2,405	2,346	2,225	2,055

B INCOME STATEMENT

1 Sales	5,322	7,073	5,602	4,178
<i>a Cost of Good Sold</i>	(4,270)	(5,852)	(4,486)	(3,302)
2 Gross Profit	1,053	1,221	1,117	876
<i>a Operating Expenses</i>	(630)	(869)	(711)	(647)
3 Operating Profit	422	352	406	229
<i>a Non Operating Income or (Expense)</i>	7	58	(21)	76
4 Profit or (Loss) before Interest and Tax	430	410	385	305
<i>a Total Finance Cost</i>	(209)	(163)	(118)	(191)
<i>b Taxation</i>	(77)	(45)	(72)	(40)
6 Net Income Or (Loss)	144	201	195	74

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	460	567	440	423
<i>b Net Cash from Operating Activities before Working Capital</i>	243	427	315	229
<i>c Changes in Working Capital</i>	45	(474)	113	(210)
1 Net Cash provided by Operating Activities	288	(47)	428	19
2 Net Cash (Used in) or Available From Investing Activities	(99)	(112)	(113)	(62)
3 Net Cash (Used in) or Available From Financing Activities	(367)	338	(311)	7
4 Net Cash generated or (Used) during the period	(178)	179	4	(36)

D RATIO ANALYSIS

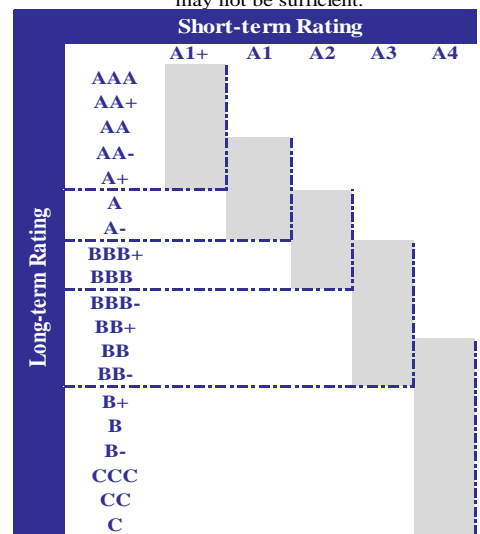
1 Performance				
<i>a Sales Growth (for the period)</i>	0.3%	26.3%	34.1%	-18.4%
<i>b Gross Profit Margin</i>	19.8%	17.3%	19.9%	21.0%
<i>c Net Profit Margin</i>	2.7%	2.8%	3.5%	1.8%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital / Net Profit Margin)</i>	9.5%	1.3%	9.9%	5.1%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets / Total Equity)]</i>	8.1%	8.8%	9.1%	4.1%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	161	147	149	197
<i>b Net Working Capital (Average Days)</i>	114	100	90	118
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.3	2.3	2.0	2.8
3 Coverages				
<i>a EBITDA / Finance Cost</i>	3.1	3.6	3.9	2.5
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.5	2.6	2.0	1.1
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fin Cost)</i>	1.9	0.6	0.8	1.4
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	35.5%	41.2%	33.2%	40.5%
<i>b Interest or Markup Payable (Days)</i>	53.5	108.9	75.4	73.7
<i>c Entity Average Borrowing Rate</i>	16.1%	11.0%	8.7%	12.6%

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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
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 | 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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