



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
16-Sep-2021	A	-	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 retail, non-retail and allied business segments. The paint industry remains competitive and faces pressure due to presence of large unorganized sector. Paint industry is closely linked with construction industry and recently Government announced various construction packages which created a positive impact on industry and raised demand for paints. Company's non-retail business which is dominant by automotive paints also performing well as car OEMs showed a significant growth in production and sales volumes. Thus financial performance of the Company showed improvements during 9MFY21, revenues depicted ~ 30% growth and overall decline in raw materials prices (i.e. petrochemicals and commodity chemicals) and reduction in finance cost due to fall in policy rates further strengthen margins and profitability which has a positive effect on ratings. The financial risk profile of the Company is characterized by strong coverages and adequate working capital management. The capital structure remains moderately leveraged mainly comprising short-term borrowing.

The ratings are dependent upon the management's ability to sustain operations in prevailing uncertain environment as pandemic situation is still underway and third wave is around. Generating operating cashflows along with maintaining efficient supply chain and prudent working capital management is important.

Disclosure

Name of Rated Entity	Berger Paints Pakistan Limited PP Sukuk Sep -21
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Debt Instrument Rating(Jun-21),Methodology Corporate Rating(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Chemical(Jul-21)
Rating Analysts	Kanwal Ejaz kanwal.ejaz@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 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% shares are held by Dadex family, while 10.5% 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 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.

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. All other members are professionally qualified with extensive professional experience and diversified skill mix.

Business Risk The paint industry is highly competitive and price sensitive. Inflationary pressure and rupee devaluation has increased the cost of production. The sector can be divided into two segments i) Organized segment accounts for ~40% of total market share and comprises around 20 players, whereas 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 unorganized segment avoids taxation and other costs associated with organized segment. The estimated market size of organized segment is estimated PKR ~ 50bln in FY20. The main drivers of growth for the industry are construction related activities and infrastructure spending which are replenishing in FY21 due to the construction packages announced by Govt.

Financial Risk In 9MFY21, Berger's inventory days reached to 56 days (FY20: 32 days) as the Company maintained higher inventory level to cater to the upcoming peak season. Meanwhile, trade receivable days has reached to 77 days (FY20: 109 days) in 9MFY21. Gross working capital days reached to 175 days (FY20: 197 days). The trade payable days during 9MFY21 remained stable at 82 days (FY20: 79 days). Resultantly, the net working capital days clocked in at 93 days (FY20: 118 days). The capital structure of the Company is moderately leveraged. During 9MFY21, the Company's leveraging remained at ~35.3% (FY20: ~40.5%). Going forward, the leveraging is expected to remain at similar level as there are no plans for capital expenditure in the near future. Short term borrowings in 9MFY21 constitute ~76% of the Company's total borrowings.

Instrument Rating Considerations

About The Instrument Berger Paints Pakistan Limited (the "Berger" or the "Company") intends to issue an Unlisted, Privately Placed & Secured Sukuk. Sukuk issue amount is PKR 500 million at an offer of 3M KIBOR +1.00% p.a with a tenor up to 4 years inclusive of 1 year Grace Period commencing from the Facility Effective Date. The first profit / Rental payment shall fall due at the end of six (6) months period falling immediately after first Drawdown. It will be redeemed in 12 equal quarterly consecutive buyout units commencing from the end of 4th quarter from the date of first disbursement, and subsequently every three months thereafter.

Relative Seniority/Subordination Of Instrument Berger shall at all times maintain PKR 50 million in Debt Service Reserve Account, through out the tenure of the Sukuk. Furthermore, Berger also undertakes not to utilize these funds for the purpose of repayment of the instrument except in the last quarter.

Credit Enhancement The Sukuk is likely to be secured by (a) 1st Pari Passu charge over the present and future Current and Fixed Assets of Berger with a 25% margin (initially at ranking charge which will be upgraded to 1st Pari Passu charge within 60 days of Financial Close) (b) Corporate Guarantee of Berger (c) Any other security which the Shariah Advisors may ask



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Berger Paints Pakistan Limited Paints	Mar-21 9M	Jun-20 12M	Jun-19 12M	Jun-18 12M
A BALANCE SHEET				
1 Non-Current Assets	1,736	1,705	1,314	1,344
2 Investments	37	32	32	42
3 Related Party Exposure	96	180	95	116
4 Current Assets	3,114	2,637	2,907	2,768
<i>a Inventories</i>	1,209	1,086	917	1,016
<i>b Trade Receivables</i>	1,249	1,040	1,461	1,165
5 Total Assets	4,983	4,555	4,347	4,271
6 Current Liabilities	1,566	949	1,238	1,323
<i>a Trade Payables</i>	1,533	903	897	979
7 Borrowings	1,182	1,399	1,375	1,276
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	66	152	154	152
10 Net Assets	2,169	2,055	1,580	1,520
11 Shareholders' Equity	2,169	2,055	1,580	1,520
B INCOME STATEMENT				
1 Sales	4,086	4,178	5,120	5,453
<i>a Cost of Good Sold</i>	(3,210)	(3,302)	(4,004)	(4,149)
2 Gross Profit	876	876	1,116	1,304
<i>a Operating Expenses</i>	(638)	(647)	(850)	(1,090)
3 Operating Profit	238	229	266	214
<i>a Non Operating Income or (Expense)</i>	42	76	12	31
4 Profit or (Loss) before Interest and Tax	280	305	278	244
<i>a Total Finance Cost</i>	(88)	(191)	(165)	(98)
<i>b Taxation</i>	(61)	(40)	(12)	(45)
6 Net Income Or (Loss)	130	74	101	102
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	291	423	345	299
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	191	229	203	214
<i>c Changes in Working Capital</i>	149	(210)	(232)	(189)
1 Net Cash provided by Operating Activities	340	19	(29)	25
2 Net Cash (Used in) or Available From Investing Activities	(106)	(62)	7	(145)
3 Net Cash (Used in) or Available From Financing Activities	(219)	202	77	96
4 Net Cash generated or (Used) during the period	14	159	55	(24)
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	30.4%	-18.4%	-6.1%	6.5%
<i>b Gross Profit Margin</i>	21.4%	21.0%	21.8%	23.9%
<i>c Net Profit Margin</i>	3.2%	1.8%	2.0%	1.9%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	10.8%	5.1%	2.2%	2.0%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]</i>	8.4%	3.7%	6.4%	6.7%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	175	197	162	173
<i>b Net Working Capital (Average Days)</i>	93	118	96	104
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.0	2.8	2.3	2.1
3 Coverages				
<i>a EBITDA / Finance Cost</i>	5.4	2.5	2.7	3.7
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.7	1.1	1.5	1.8
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	1.1	1.4	0.9	0.7
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	35.3%	40.5%	46.5%	45.6%
<i>b Interest or Markup Payable (Days)</i>	67.3	73.7	96.8	56.2
<i>c Entity Average Borrowing Rate</i>	9.0%	12.5%	10.2%	8.0%

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	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.
CC	
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
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.
- (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)

Proprietary Information

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<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	1.1	1.4	0.9	0.7
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<i>b Interest or Markup Payable (Days)</i>	67.3	73.7	96.8	56.2
<i>c Entity Average Borrowing Rate</i>	9.0%	12.5%	10.2%	8.0%