



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
21-Dec-2023	BBB	A2	Positive	Maintain	-
22-Dec-2022	BBB	A2	Stable	Maintain	-
22-Dec-2021	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

EXIDE Pakistan Limited (“EXIDE” or “the Company”) is a pioneer in the battery industry; it has had a presence in Pakistan since 1953. With a strong legacy of over 6 decades, EXIDE offers a wide range of batteries, catering to the demand for automotive, industrial, and household portable energy backup. The strength of the local lead acid battery industry is preliminarily derived from (i) the Replacement market related to automotive and power backup solutions (ii) the Electricity shortfall situation during the summer season (load-shedding) (iii) Automobile (OEMs) sales. Pakistan Automotive Manufacturers Association (PAMA) recent statistical data revealed ~54% decline in the sales of passenger cars, trucks & buses, and Jeeps & pickups whereas tractor sales dropped to ~47% during FY23 as compared to FY22. Deterioration in demand was mainly attributable to hyperinflation that led to reduced purchasing power of the consumers, PKR depreciation, and elevated policy rates which resulted in tapering off in vehicle financing. However, during FY23, the topline of the company recorded growth of ~63% compared to last year, mainly attributable to the price hike on the back of inflation, as the volumes showed a marginal dip of ~6.7% as the company’s sales predominantly emerge from the replacement segment. Margins also improved significantly, as the GP Margin increased to 20.3% as of Sep-23 (14.4%, Mar-23) while the NP Margin surged to 6.0% (3.2%, Mar-23) as the company was able to pass on the impact of elevated costs and the raw material (lead) prices decreased during FY23. The market share is expected to stand around ~ 20%. On the flip side challenges like stiff competition and low margins are expected to sustain in the future. The Company is well aware of the latest technological shift within the battery sector and has introduced maintenance-free batteries and tubular batteries to cater to the associated demand. Going forward, the company has appropriate plans intact for the adoption of the latest trends. As a part of product diversification, EXIDE is also offering end-to-end solar power backup solutions 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 an experienced management. The financial profile of the Company is demonstrated by an adequate working capital cycle, and comfortable cash flows & coverages. Capital structure is moderately leveraged, where short-term borrowings dominate the debt portfolio to fund the working capital requirements. The borrowings mix is expected to remain unchanged as there is no CAPEX planned for the near future.

Ratings are dependent on the sustainability of the growth trajectory in the topline and profitability matrix while retaining sufficient cash flows, coverages, and market share along with improvement in the sales volumes. However, adherence to maintaining its debt metrics at an adequate level is a prerequisite.

Disclosure

Name of Rated Entity	EXIDE 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 Batteries(Dec-22)
Rating Analysts	Sohail Ahmed Qureshi sohail.ahmed@pacra.com +92-42-35869504

Profile

Legal Structure EXIDE Pakistan Limited is a public limited company listed on the 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 the 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 The ownership structure of the company didn't change much in previous years and is expected to remain the same in coming periods as it is mainly dominated by sponsors of the Company. The presence of financial institutions also provides support to the ownership structure.

Business Acumen Mr. Altaf Hashwani's family has been leading the company since 1991 and has more than 30 years of battery industry-related experience. He also serves as a managing partner in Sana Safina Fashion Resources.

Financial Strength The financial strength of the sponsors is considered good. On a consolidated basis, the Company has a topline of PKR 23.402bln and an equity base of PKR 5.09bln as of March 2023.

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, Mr. Arif Hashwani, is from the sponsoring family and has been associated with the Board for over 30 years.

Members' Profile Board members' business acumen is considered strong because of their long association with the company and presence on the 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 the company's operational and financial matters. These committees include 1) Audit committee and 2) Human Resource Committee (HR). Yousuf Adil Chartered Accountants has issued an unqualified report on the FY23 accounts of the company.

Management

Organizational Structure EXIDE has a multi-tiered organizational structure, divided into four key functions, namely (i) Finance, (ii) Solar & Industrial (iii) Sales, (iv) Plant Production, (v) Purchase and (vi) 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 has been associated with the company for 30 years. The management is equipped with strong technical skills and enjoys a long association with the company.

Effectiveness Each department head is responsible for the 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-the-art technology for producing batteries while ensuring that the production processes comply with local and international standards.

Business Risk

Industry Dynamics Sales of batteries are directly correlated with the energy crisis quantum and the progression of the automobile segment in the Country. Currently, in an organized batteries segment of Pakistan, three players are operating which include EXIDE, Atlas Battery, and Pakistan Accumulators (Volta & Osaka). The overall Pakistan economy is in a recessionary phase, as is the case with the auto sector of Pakistan. The hike in KIBOR and PKR devaluation is the main factor behind the dip in auto sector growth. However, persistent energy shortage over the years has increased the demand for batteries in Pakistan particularly heavy and medium-sized batteries.

Relative Position EXIDE is one of the largest players in the industry. As per the Exide management representation the Company has a market share of ~20% with a considerable improvement in margins.

Revenues The company's top line has shown a growth of 62.9% YoY basis. The Company achieved a revenue of PKR 23.402m on Mar-23 (March 22: PKR 14.363bln) mainly on the back of a surge in electricity crises in the country and a slight growth in the solar panel segment. The topline growth is attributable to price hike as the volume shown a dip of 6.7% YoY.

Margins The company's profit margins have improved from the last year on the back of recovery from losses and achieving profitability. On March-23, the Gross profit margin of the Company is 14.4% (March-22: 11.5%) and the net profit margin was 3.2% (March-22: 0.2%). The Company has achieved economy of scale, the main contributing factor behind Company profitability. Exide has PAT of PKR 755m (March-22: PKR 29m). Improved margins are attributable to increased sales prices and decrease in lead prices during FY23.

Sustainability Exide working on growth strategies for market penetration as well as product penetration. They are adding new customers and tapping new areas for sales growth. The Company also enhanced its portfolio by adding new types for changing market trends like tubular as well MF batteries. Furthermore, the management is vigilant and actively evaluates future earnings prospects based on budgets and financial projections.

Financial Risk

Working Capital During Mar-23 the Company relied on short-term borrowings for its working capital management. The Company's cash cycle has improved from the last corresponding period and is consistently improving. During Mar-23, the net working capital days of the Company stood at 72 days (March 22: 120 days) mainly on the back of improvement (reduction) in receivable days followed by inventory days (particularly product work in process). Exide has a short-term trade leverage of 42% reflects some room for further borrowings.

Coverages Due to improvement in overall revenue, operating activity and profitability, the Company has generated a positive FCFO of PKR 1,999m in March-23 and PKR 1,358m as of Sep-23 as compared to an FCFO of PKR 957m in previous year. The Company has a 3.8x FCFO to Finance cost ratio and a 4.7x EBITDA/Finance cost ratio. Going forward, the sustenance of cash flows from operations and EBITDA is necessary to keep the coverages intact.

Capitalization At the end of Sep-23 total borrowing of the Company stood at PKR 3,306m out of which PKR 3,115m of the borrowings consisted of short-term borrowings. The Company has availed credit lines mainly from Meezan bank Limited followed by Bank-Alfalal Limited and so on. Long-term borrowings of the Company have reduced to only PKR 165m at the end of Sep-23 (March-22: PKR 171m). The Company has a moderately leveraged capital structure as of Sep-23 (38% debt to capital ratio) and as per the Exide management presentation, they intend to hold this funding mix for the future.



Exide Pakistan Limited Batteries	Sep-23 6M	Mar-23 12M	Mar-22 12M	Mar-21 12M
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A BALANCE SHEET

1 Non-Current Assets	2,100	2,091	1,395	1,321
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	12,269	8,094	7,160	6,344
a Inventories	7,536	4,637	3,492	2,749
b Trade Receivables	2,784	482	2,370	2,334
5 Total Assets	14,369	10,186	8,555	7,665
6 Current Liabilities	5,045	2,619	1,212	1,297
a Trade Payables	1,940	1,015	787	687
7 Borrowings	3,306	2,217	3,339	2,449
8 Related Party Exposure	240	250	169	104
9 Non-Current Liabilities	-	-	-	6
10 Net Assets	5,778	5,100	3,835	3,810
11 Shareholders' Equity	5,778	5,100	3,835	3,809

B INCOME STATEMENT

1 Sales	12,700	23,402	14,363	11,716
a Cost of Good Sold	(10,119)	(20,039)	(12,717)	(10,548)
2 Gross Profit	2,580	3,363	1,646	1,168
a Operating Expenses	(862)	(1,480)	(1,132)	(831)
3 Operating Profit	1,719	1,882	514	337
a Non Operating Income or (Expense)	(114)	(313)	(38)	25
4 Profit or (Loss) before Interest and Tax	1,605	1,570	476	362
a Total Finance Cost	(366)	(417)	(266)	(186)
b Taxation	(483)	(398)	(181)	(176)
6 Net Income Or (Loss)	756	755	29	(0)

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	1,358	1,999	957	471
b Net Cash from Operating Activities before Working Capital Changes	1,096	1,572	730	245
c Changes in Working Capital	(2,782)	1,289	(1,415)	(106)
1 Net Cash provided by Operating Activities	(1,686)	2,862	(685)	139
2 Net Cash (Used in) or Available From Investing Activities	(105)	(332)	(216)	(71)
3 Net Cash (Used in) or Available From Financing Activities	1,001	(1,043)	941	(114)
4 Net Cash generated or (Used) during the period	(789)	1,488	39	(46)

D RATIO ANALYSIS

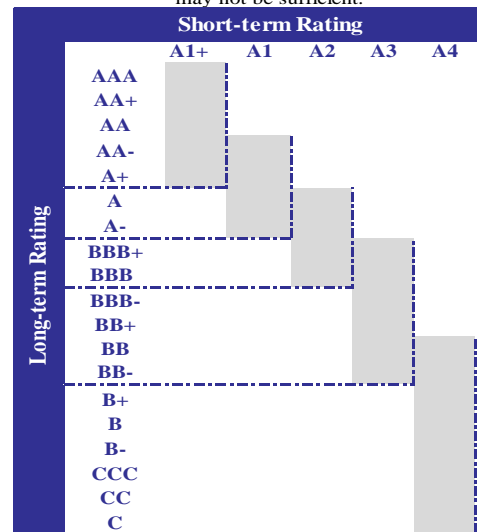
1 Performance				
a Sales Growth (for the period)	8.5%	62.9%	22.6%	34.3%
b Gross Profit Margin	20.3%	14.4%	11.5%	10.0%
c Net Profit Margin	6.0%	3.2%	0.2%	0.0%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-11.2%	14.1%	-3.2%	3.1%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh	27.8%	16.9%	0.8%	0.0%
2 Working Capital Management				
a Gross Working Capital (Average Days)	111	86	139	158
b Net Working Capital (Average Days)	90	72	120	137
c Current Ratio (Current Assets / Current Liabilities)	2.4	3.1	5.9	4.9
3 Coverages				
a EBITDA / Finance Cost	4.7	6.5	4.4	2.8
b FCFO / Finance Cost+CMLTB+Excess STB	3.6	4.6	2.7	1.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.2	0.3	0.5	1.4
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	38.0%	32.6%	47.8%	40.1%
b Interest or Markup Payable (Days)	88.5	61.9	104.7	84.6
c Entity Average Borrowing Rate	23.7%	15.5%	8.3%	8.5%

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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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