

**Date**

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Applicable Criteria

- Methodology | Debt Instrument Rating | Jun-21
- Criteria | Correlation Between Long-term & Short-term Rating Scales | Jun-21
- Criteria | Rating Modifiers | Jun-21

Related Research

- Sector Study | Chemical | Jul-21

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PACRA Assigns Rating to Berger Paints Pakistan Limited | PP SUKUK | Upto PKR 500mln

Rating Type	Debt Instrument	
	Current (27-May-22)	Previous (16-Sep-21)
Action	Initial	Initial
Long Term	A	A
Short Term	-	-
Outlook	Stable	Stable
Rating Watch	-	-

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 and ongoing economic challenges such as global inflation, supply chain disruption, hike in policy rates coupled with rupee depreciation. Similarly Company's non-retail business which is dominant by automotive paints will also face pressure due to latest monetary and fiscal measures. During 9MFY22 financial performance of the Company was slightly distressed, however revenues depicted ~ 23% growth (FY21 ~ 34%) and margins showed some dilution. The financial risk profile of the Company is characterized by moderate coverages and stretched working capital cycle which is an industry wide norm. Capital structure is leveraged and borrowings are mainly comprising of short-term for working capital requirement. Apart from the conventional security structure strength, there is a comfort of Debt Payment Account mechanism, which will be funded 1/3 on a monthly basis. Also PKR 50 million will be maintained in Debt Service Reserve Account, throughout the tenure of the Sukuk.

The ratings are dependent upon the management's ability to sustain upheld profits and margins while improving its financial performance. Generating operating cashflows along with maintaining efficient supply chain and prudent working capital management is important.

About the Entity

Berger Paints Pakistan Limited was initially incorporated in 1950 as a Private Limited Company under the repealed Companies Act 1913 (now Companies Act, 2017). It was subsequently converted into a public listed company in 1974. It is currently listed on Pakistan Stock Exchange (PSX). In 1991, Slotrapid Limited, a company incorporated in British Virgin Islands, acquired control of Berger Paints Pakistan by purchasing 52.02% shares from its former parent, Jenson & Nicholson Limited. The principal business activity of the Company is manufacturing and trading of paints, varnishes and other related items. The registered office and manufacturing facility of the Company is in Lahore. The control of the Company vests with board of directors, which comprises eight members including Dr. Mahmood Ahmad (Managing Director). There are four independent directors and three non-executive directors. Dr. Mahmood Ahmad, nominee of Slotrapid limited, has ~25 years of experience and is well versed with the industry dynamics. He is ably supported by a professional management team.

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 +1.50% 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 from the end of first quarter. It will be redeemed in 12 equal quarterly consecutive buyout units.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA 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.