



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
13-Sep-2024	A-	A2	Stable	Maintain	-
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

Berger Paints Pakistan Limited ('Berger' or 'the Company') ratings reflect a reputable brand name, strong business profile and sturdy presence in the paint industry of Pakistan. The Company operates state-of-the-art manufacturing plants and it is equipped with modern technology to produce high-quality paints and coatings efficiently, adhering to both local and international standards. Berger's diversified revenue streams span three main segments: (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 in Pakistan is poised for steady growth, with market size expected to rise from USD 400.82mln in 2024 to ~ USD 491.90mln by 2029, reflecting a CAGR of 4.18%. This growth is primarily driven by the architectural coatings segment, supported by increasing residential and commercial construction activities. 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. Aligned with these trends, during 9MFY24 company recorded a topline of ~PKR 6,370mln (FY23: ~PKR 7,341mln) reflecting a growth of ~15.7% mainly due to increase in prices while volumes showed dilution. However, margins sustained at all levels due to better pricing and cost control. The company operates under a well-structured board that provides oversight and strategic direction, ensuring effective governance, risk management, and alignment with long-term objectives. Its operations are managed by a qualified team of professionals, supported by a robust system of internal controls implemented across the organization to maintain efficiency and accountability. The financial profile of the Company is considered strong with comfortable coverages, cashflows, and working capital cycle. Capital structure is leveraged comprising a mix 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

<b>Name of Rated Entity</b>	Berger Paints Pakistan Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Rating Modifiers(Apr-24),Methodology   Corporate Rating(Jul-24),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-24)
<b>Related Research</b>	Sector Study   Chemicals(Jul-24)
<b>Rating Analysts</b>	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 42 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, 2023. 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 paint industry in Pakistan is set for steady growth, with the market projected to increase from USD 400.82 million in 2024 to approximately USD 491.90 million by 2029, reflecting a CAGR of 4.18%. This growth is largely driven by the architectural coatings segment, fueled by rising residential and commercial construction activities. However, the industry faces challenges such as intense price competition, economic and political instability, and pressure to adopt environmentally friendly, low-VOC products due to growing environmental concerns. To address these challenges, key players are investing in local production facilities to reduce import dependence and costs while expanding into high-demand segments like architectural coatings.

**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 9MFY24, the Company's revenues stood at ~PKR 6,370mln reflecting a growth of ~15.7% (FY23: ~PKR 7,341mln; FY22: ~PKR 7,073mln). 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 9MFY24, Berger's gross margin stood at ~19.8% (FY23: 20.2%, FY22: 17.3%). Meanwhile, the operating margin stood to ~8.2% (FY23: 9.4%, FY22: 5%) while the net profit margin remained consistent and stood at ~3.2% as of 9MFY24 (FY23: 3.3%, FY22: 2.8%).

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

## Financial Risk

**Working Capital** In 9MFY24, Berger's inventory days reached to 63days (FY23: 76 days, FY22:74 days). Meanwhile, during 9MFY24 the trade receivable days reached to 91 days (FY22: 73 days, FY21: 74 days). Gross working capital days reached 154 days during 9MFY24 (FY23: 164 days, FY22: 147 days). The trade payable days declined to 48 days during 9MFY24 (FY23: 53 days, FY22: 48 days). Resultantly, the net working capital days clocked in at 105 days (FY23: 111days, FY22: 100 days).

**Coverages** During 9MFY24, Berger's FCFO stood at ~PKR 743mln (FY23: 567mln). Meanwhile, the Company's finance cost clocked at PKR 220mln as of 9MFY24 (FY23: ~PKR 284mln, FY22: ~PKR 163mln). The interest coverage ratio clocked at 3.6x in 9MFY24 (FY23: 3.2x, FY22: 3.6x). Furthermore, the debt coverage ratio reached 1.5x during 9MFY24 (FY23: 1.5x, FY22: 2.6x).

**Capitalization** The capital structure of the Company is moderately leveraged. As of 9MFY24, the Company's leverage stood at ~29.7%, (FY23: 25.3%, FY22: 41.2%). Short-term borrowings in 9MFY24 constitute ~61.3% of the Company's total borrowings (FY23: 39.3%, FY22: 83.7%).



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Financial Summary

PKR mln

Berger Paints Pakistan Limited CHEMICAL	Mar-24 9M	Jun-23 12M	Jun-22 12M	Jun-21 12M
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#### A BALANCE SHEET

1 Non-Current Assets	2,256	2,366	1,705	1,735
2 Investments	84	78	71	53
3 Related Party Exposure	-	-	105	62
4 Current Assets	4,589	4,168	4,070	3,162
<i>a Inventories</i>	1,473	1,438	1,625	1,226
<i>b Trade Receivables</i>	2,328	1,908	1,628	1,220
5 Total Assets	6,929	6,613	5,951	5,012
6 Current Liabilities	1,891	2,025	1,760	1,578
<i>a Trade Payables</i>	1,083	1,174	943	898
7 Borrowings	1,430	1,081	1,642	1,108
8 Related Party Exposure	37	40	48	23
9 Non-Current Liabilities	182	271	155	77
10 Net Assets	3,388	3,196	2,346	2,225
11 Shareholders' Equity	3,388	3,196	2,346	2,225

#### B INCOME STATEMENT

1 Sales	6,370	7,341	7,073	5,602
<i>a Cost of Good Sold</i>	(5,112)	(5,858)	(5,852)	(4,486)
2 Gross Profit	1,258	1,483	1,221	1,117
<i>a Operating Expenses</i>	(737)	(792)	(869)	(711)
3 Operating Profit	521	692	352	406
<i>a Non Operating Income or (Expense)</i>	20	(77)	58	(21)
4 Profit or (Loss) before Interest and Tax	541	615	410	385
<i>a Total Finance Cost</i>	(220)	(284)	(163)	(118)
<i>b Taxation</i>	(120)	(91)	(45)	(72)
6 Net Income Or (Loss)	201	240	201	195

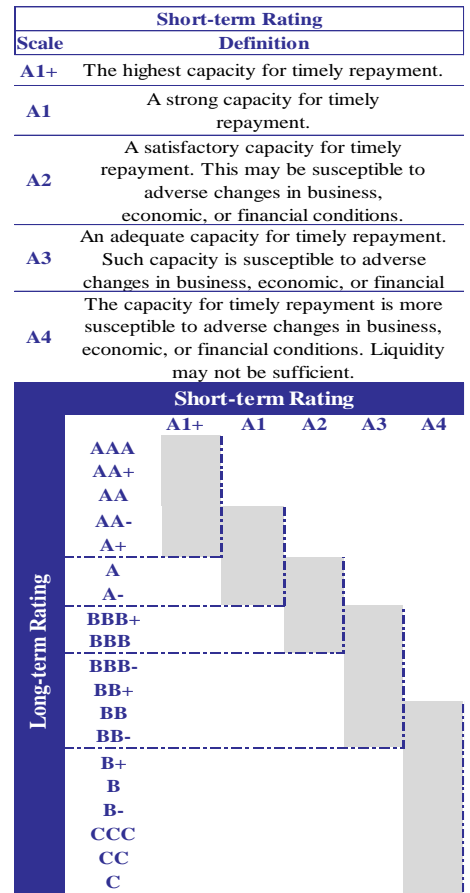
#### C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	591	743	567	440
<i>b Net Cash from Operating Activities before Working Capita</i>	392	447	427	315
<i>c Changes in Working Capital</i>	(765)	123	(474)	113
1 Net Cash provided by Operating Activities	(373)	570	(47)	428
2 Net Cash (Used in) or Available From Investing Activities	30	(98)	(112)	(113)
3 Net Cash (Used in) or Available From Financing Activitie	349	(648)	338	(311)
4 Net Cash generated or (Used) during the period	6	(177)	179	4

#### D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	15.7%	3.8%	26.3%	34.1%
<i>b Gross Profit Margin</i>	19.8%	20.2%	17.3%	19.9%
<i>c Net Profit Margin</i>	3.2%	3.3%	2.8%	3.5%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital)</i>	-2.7%	11.8%	1.3%	9.9%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (1 - Tax Rate) ]</i>	8.1%	8.7%	8.8%	9.1%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	154	164	147	149
<i>b Net Working Capital (Average Days)</i>	105	111	100	90
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.4	2.1	2.3	2.0
3 Coverages				
<i>a EBITDA / Finance Cost</i>	3.6	3.2	3.6	3.9
<i>b FCFO / Finance Cost + CMLTB + Excess STB</i>	1.5	1.5	2.6	2.0
<i>c Debt Payback (Total Borrowings + Excess STB) / (FCFO - Finance Cost)</i>	1.1	1.4	0.6	0.8
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings + Shareholders' Equity)</i>	29.7%	25.3%	41.2%	33.2%
<i>b Interest or Markup Payable (Days)</i>	66.2	41.6	108.9	75.4
<i>c Entity Average Borrowing Rate</i>	23.9%	18.4%	10.6%	9.0%

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	Definition
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
<b>AA+</b>	<b>Very high credit quality.</b> 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.
<b>AA</b>	
<b>AA-</b>	
<b>A+</b>	<b>High credit quality.</b> 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.
<b>A</b>	
<b>A-</b>	
<b>BBB+</b>	<b>Good credit quality.</b> 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.
<b>BBB</b>	
<b>BBB-</b>	
<b>BB+</b>	<b>Moderate risk.</b> 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>BB</b>	
<b>BB-</b>	
<b>B+</b>	<b>High credit risk.</b> 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>B</b>	
<b>B-</b>	
<b>CCC</b>	<b>Very high credit risk.</b> 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.
<b>CC</b>	
<b>C</b>	
<b>D</b>	Obligations are currently in default.



\*The correlation shown is indicative and, in certain cases, may not hold.

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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'.</p>	<p><b>Rating Watch</b> 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.</p>	<p><b>Suspension</b> 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.</p>	<p><b>Withdrawn</b> 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.</p>	<p><b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.</p>
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**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	e) Holding Company Rating
b) Corporate Rating	f) Independent Power Producer Rating
c) Debt Instrument Rating	g) Microfinance Institution Rating
d) Financial Institution Rating	h) Non-Banking Finance Companies Rating

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(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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