RATING REPORT

Waves Home Appliances Limited
(Formerly Samin Textiles Limited)

REPORT DATE:
December 14, 2022

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Initial Ratings**	
	Long-term	**Short-term**
Entity	A	A-2
Rating Outlook	Stable	
Rating Date	*Dec 14, 2022*	
CP (Preliminary)	A-2	

COMPANY INFORMATION	
Incorporated in 1989 *(formerly Samin Textiles Limited)*	**External Auditors:** RSM Avais Hyder Liaquat Nauman & Co. Chartered Accountants
Public Listed Company	**Board Chairman:** Mr. Muhammad Adnan Afaq
Key Shareholding (more than 5%)	**Chief Executive Officer:** Mr. Haroon Ahmad Khan
WAVES Corporation Ltd. ~74.6%	
Sponsors ~11.9%	
General Public ~6.9%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Industrial Corporates (August 2021) *https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf*

Waves Home Appliances Limited *(formerly Samin Textiles Limited)*

OVERVIEW OF THE INSTITUTION

Waves Home Appliances Limited (formerly Samin Textiles Limited) was incorporated in Pakistan on November 1989, as a public limited company under the Companies Act, 2017.

Profile of the Chairman:

The Board is chaired by Mr. Muhammad Adnan Afaq who has served as the Chief Executive Officer and Managing Director of PACRA. Previously, he also served as CEO of Askari Investment Management Limited .

Profile of the CEO:

Mr. Haroon Ahmad Khan, Chief Executive Officer(CEO) at Singer Pakistan Limited. Mr. Haroon has an extensive experience in managing appliances businesses and had previously been working as Managing Director of one of the most renowned appliances companies of Pakistan. His expertise include financial management and business structuring. He has

RATING RATIONALE

Corporate Profile

Waves Home Appliances Limited (WHALE), formerly Samin Textiles Limited, a subsidiary of Waves Corporation Limited (WCL), is engaged in manufacturing, assembly and wholesale of domestic consumer appliances and other light engineering products. Product portfolio mainly includes deep freezer, refrigerator, sewing machine, washing machine, cooking range, and water heater under the brand name 'Waves'. Headquartered in Lahore, the company operates through its manufacturing facilities located in Multan Road, Lahore and Tehsil Pattoki, District Kasur. ISO certifications are in place with the scope covering quality management and healthy, safety and environment management.

Sponsor Profile & Group Restructuring

Waves Corporation Limited (formerly Waves Singer Pakistan Limited) is a public listed company with roots dating back to 1970s as pioneer of deep freezers in Pakistan, and has since added several consumer appliance products to its portfolio as well as entered into retail and real estate development business. The company recently underwent a group restructuring/scheme of arrangement (effective from Aug'21) wherein the home appliances business was demerged and merged into WHALE while real estate business and retail shop network for consumer appliances and other consumer goods were retained (with formation of two separate wholly-owned subsidiaries). The management anticipates operational synergies from restructuring with individual entities having distinct identities and a more focused business and customer base.

Table: Group Companies

Name	Business Nature
Waves Home Appliances Limited	Domestic consumer appliances
Waves Market Place Limited	Dealer and retailing business
Waves Builders & Developers Limited	Real estate development

Waves Market Place Limited (WML)

Waves Market Place Limited (formerly Electronic Marketing Company Limited), a wholly owned subsidiary of WCL, was founded in 2016. WML is a pioneer in retail sales of home appliances and other multi brand products, offering cash and installment sales to treasured customers with 141 nationwide spread outlets in rural and urban areas. The company has recently experienced robust growth and management intends to list it on the PSX in order to fund expansion plans, which would mainly focus on product diversification, cash sales, and delivery arrangements via modern e-commerce/online platforms.

Waves Builders and Developers Limited (WBDL)

Waves Builders and Developers Limited (formerly Waves Marketing Limited) was established in 2017. It is a wholly owned subsidiary of WCL and is currently undertaking an affordable housing apartment project at the existing factory premises of home appliances business in Lahore. Land has been purchased from the parent company while finalization of master plan and necessary regulatory approvals are underway.

played a key role in structuring and setting up of country's first Independent Power Plant and shaped a number of technology transfer and Joint Venture agreements. He is also a fellow of the Institute of Chartered Accountants of Pakistan.

Production Capacity
In 2021, the company fully exhausted its installed productive capacity in key products such as deep freezers and refrigerators while utilization levels remained low for other products. The management intends to launch and utilize the air conditioners capacity in the near future along with expansion in washing machine and microwave segments.

Table: Plant Capacity & Actual Production

		2021		1H 2022	
	Capacity	Production	Utilization	Production	Utilization
Deep Freezer	115,000	118,797	*103.3%*	81,392	*70.8%*
Refrigerator	125,000	132,114	*105.7%*	78,912	*63.1%*
AC	60,000	-	-	-	-
Water Heater	25,000	9,370	*37.5%*	145	*0.6%*
Washing Machine	40,000	8,538	*21.3%*	3,012	*7.5%*
Micro Wave Oven	60,000	7,771	*13.0%*	2,189	*3.6%*
	467,500	**276,590**	***59.2%***	**165,650**	***35.4%***

Capital expenditure plans with regards to relocation of manufacturing facility, which would result in complete integration of production processes, debottlenecking and cost savings associated with transportation.
Plastic sheets made from imported plastic grains are currently manufactured in Kasur and then transported to Lahore factory, where majority of finished goods production activities take place. However, due to congested location of production units, which creates capacity and logistical constraints, relocation of factories for consolidation of manufacturing activities along with warehouses under one roof is currently underway. This would result in transportation cost savings, while modern layout and production processes with new imported machinery would improve product quality and design and reduce wastages, labor, power, and conversion costs. Moreover, four times larger land area would enable the company for future capacity expansions while achieving economies of scale.

The land has already been acquired while factory is currently under construction. Total project cost is estimated at Rs. 2.3b; of which 40% pertained to land acquisition and the remaining is being utilized for factory construction, as scheduled to be completed by 2022. The phase wise relocation from existing to the new factory will begin in January'23 to ensure business continuity. Deep freezer and refrigerator assembly lines have already been imported and are ready for installation.

Issuance of Commercial Paper
The company is in process of issuing a rated, privately placed, unsecured Commercial Paper (CP) issue of up to Rs. 500m. The CP will have a tenor of 9 months and will be redeemed at the face value on maturity date, with the proceeds to be utilized for working capital requirements. Indicative discount rate is 9-month KIBOR plus 250 bps per annum.

<u>Key Rating Drivers</u>

Few major players dominate the market share in major high-valued household appliances while demand growth is directly linked to disposable incomes, consumer

lifestyle and population growth. Reputation risk, economic contraction, currency risk and high level of competition are major business risk factors.
Household appliance market is a sub-segment of 'Electronics' group of large-scale manufacturing sector, accounting for 4% to the LSM. With total 53 players, market structure can be described as competitive; however, a handful of local and international players dominate the market share in major high-valued appliances. As it is a 'brand' driven market, pricing and marketing strategies play a key role in attracting market shares and can vary entirely for different players among different product segments. Few major domestic players include PEL, Arcelik (Dawlance), Orient, Haier, Waves. In addition, industry dominated by well recognized brands, extensive capital requirement and long cash cycle act as high entry barriers. Duty protection in the form of additional custom and regulatory duties provides price advantage to local players.

The appliance market generates demand from both original (first-hand) and replacement markets, and growth is directly related to per capita income, population growth, technological innovation, energy-efficient products, rapid urbanization and seasonality. In terms of major products, refrigerators have the highest value share, followed by air conditioners, televisions, washing machines, deep freezers, and other products. Localization levels in major products have remained low, ranging between 20% and 25%, and the industry relies heavily on imports for critical raw material components such as compressors, evaporators, thermostats and fan blades. Thus, exposure to price volatility and currency depreciation risk to some extent is present. However, increased import restrictions by government have resulted in enhanced focus towards localization in the industry.

As per industry estimates, market size stands at Rs. 215b, registering a sizeable growth of ~43% in 2021 mainly driven by post pandemic economic recovery and increase in production levels, while average prices have gradually increased over the years. Given macroeconomic challenges along with existing energy crisis, flood losses and rising production costs due to inflation, demand slowdown is expected going forward. The economic contraction, brand/reputation risk as a result of inferior product quality and high level of competition are major business risk factors.

Extensive outreach and well-known brand name with dominant market share in deep freezer segment provide competitive advantage.
The company has an extensive outreach through its nation-wide setup of 16 warehouses, network of 1,700+ dealers, 16 after sales service centers and 509 service workshops, all of which are segmented into north and south regions. Sales and distribution function provide direct sales to dealers and retailers with transportation services provided by a third party vendor. Over the years, the company has maintained its position as the industry leader in deep freezer segment. The strength of distribution network along with strong brand recognition and market penetration, particularly in deep freezer, refrigerator and sewing machine categories is characterized as one of the key rating drivers.

Table: Waves's Market Share - 2021

Products	Major Competitors	Market Share
Deep Freezers	Varioline, Haier, and PEL.	33%
Water heater	Super Asia, Canon	31%
Sewing Machine	Salika, Super UI, Rocket, Berlina	28%
Refrigerators	PEL, Orient, Dawlance, Haier, Ruba Pvt. Ltd.	6%

Washing Machine	PEL, Haier, Dawlance, Orient, Haier	2%
Microwave Oven	Dawlance, Orient, Haier, PEL	1%

Revenue growth is driven by both volumetric and price increase. Factory relocation will result in operational synergies and increase in capacity will drive future growth in earnings.

While crossing the Rs. 8b mark in 2021, sales revenue posted a 5-Year CAGR of ~22% (as per standalone financials of home appliances business) for the period (2017-21). The year-on-year uptick of ~21% was a function of both price increases (pass on impact of rupee depreciation) and a healthy volumetric increase due to post-pandemic demand recovery. Net sales during 1H'22 were reported at Rs. 5.6b, with management expecting topline to cross over Rs. 12b in 2022 and Rs. 14b in 2023 on the back of capacity additions and projected volumetric and price growth. Achievement of projected revenue growth will be important going forward from ratings perspective.

In terms of product mix, deep freezers and refrigerators generate around 87% of revenues on last three years average basis, with the remainder coming from water heaters, washing machines, microwave ovens and sewing machines. The management intends to launch air conditioners and expand on washing machine and microwave segments, which will aid in product revenue diversification. Client concentration is low, with top 10 clients (primarily institutions) accounting for 36% of total sales revenue (with a single client, Coca Cola Beverages Pakistan Ltd, accounting for 21%).

Table: Product wise Sales Data (Rs. in m)

Dealer and Retail	2021		HY22	
	Unit Sold	Average Price (In Rs.)	Unit Sold	Average Price (In Rs.)
Refrigerators	120,640	38,612	79,264	40,782
Deep freezers	115,694	39,491	81,684	42,981
Sewing Machine	7,812	12,782	923	13,719
Washing Machines	7,891	16,712	592	17,192
Microwave ovens	7,152	15,671	2,204	16,361
Water Heater	9,101	27,812	1,298	29,819
Total	**268,290**		**165,965**	

Profitability margins have remained healthy over the years.

Gross margins have remained healthy over time (1H'22: 21.1%; 2021: 22.0%; 2020: 21.8%), reflecting a consistent increase in selling prices across all product categories relative to increase in production costs. With localization plans in place, management expects to reduce input costs while gross margins are projected to sustain at above 22%. On the cost front, overall operating overheads increased in line with inflation, while financial charges were reduced, resulting in improved net margins. Other income also supported the bottom-line.

Capitalization is supported by sponsor loan and projected low leveraged capital structure.

With paid-up capital of Rs. 2.7b, total equity base (excluding revaluation surplus) stood at Rs. 6.9b at end-June'22. The company has not yet paid out dividend; however, projected payout-ratio for 2023 is 29%. Debt profile comprises a mix of short-term and long-term debt, with total interest bearing liabilities amounting to Rs. 4.8b (2021: Rs 4.9b) at end-1H'22; short-term debt comprised nearly three-fourth of total debt. Loan from holding company stood at Rs. 1.8b, which will be converted in to capital contribution by 2022. As a result, leverage metrics are expected to trend downwards.

Working capital cycle is stretched due to elevated debtor days while sizeable receivables constraints liquidity. Debt coverage metrics are sound.
Liquidity profile is constrained due to sizeable receivables and limited cash available on the balance sheet while elevated debtor days have resulted in extended working capital cycle. Credit terms for institutional clients are typically from 15 to 60 days; however, due to intense market competition, credit terms for refrigerators are relaxed and thus, exceed 120 days. On the other hand, freezer being the key product has favorable credit terms. Trade debt ageing profile is satisfactory and the current ratio remains comfortably high at 1.5x. With regards to outstanding debt repayments, projected cash flow generation is considered sufficient.

Corporate governance infrastructure is considered adequate.
Board comprises seven members including 4 non-executive directors, 1 independent director, Chairman and CEO. For effective oversight, two board level committees, namely Audit Committee, Human Resources & Remuneration Committee are in place. As per best practices, independent member chairs both committees and the board has female representation as well.

The company has a well-designed organizational structure under assigned heads, directors, and sales team for carrying out operations across all business segments. Senior management team comprises seasoned professionals with relevant industry experience. With adequate systems and policies in place, IT infrastructure is deemed sound. At present, an oracle-based integrated ERP system is being used, with plans to migrate to SAP going forward. Data backup is maintained on external hard drives and cloud.

Waves Home Appliances Limited *(formerly Samin Textiles Limited)* **Appendix I**

FINANCIAL SUMMARY							*(amounts in PKR millions)*
BALANCE SHEET	**June'21***	**Dec'21**	**June'22**		**2022 (P)**	**2023 (P)**	**2024 (P)**
Non-Current Assets	-	6,093.0	7,385.6		7,582.4	7,416.6	7,275.9
Stock-in-Trade	-	3,626.5	3,486.8		3,766.9	3,745.9	3,895.3
Trade Debts	-	6,359.4	4,973.7		4,856.2	4,901.6	5,017.3
Cash & Bank Balances	0.1	0.7	5.0		88.1	105.5	175.1
Total Assets	**1.5**	**16,231.4**	**16,120.2**		**16,459.0**	**16,351.5**	**16,563.6**
Trade and Other Payables	40.7	1,815.3	1,457.5		1,583.4	1,616.0	1,671.7
Short Term Borrowings	-	3,913.5	3,641.9		3,913.5	3,913.5	3,913.5
Long Term Debt *(Incl. current maturity)*	-	748.1	718.1		371.3	236.3	45.0
Total Interest Bearing Debt	**-**	**4,949.9**	**4,835.0**		**4,887.9**	**4,349.2**	**4,199.2**
Total Liabilities	**40.7**	**9,280.6**	**8,879.1**		**7,192.2**	**6,760.5**	**6,715.1**
Paid up capital	267.3	2,678.9	2,678.9		2,678.9	2,678.9	2,678.9
Total Equity *(Excl. revaluation surplus)*	**(39.2)**	**6,951.0**	**7,241.2**		**9,266.8**	**9,591.1**	**9,848.6**
INCOME STATEMENT		**2021**	**HY22**		**2022 (P)**	**2023 (P)**	**2024 (P)**
Net Sales	-	8,112.5	5,576.4		9,803.6	11,323.2	13,701.1
Gross Profit	**-**	**1,783.8**	**1,175.7**		**2,199.0**	**2,579.1**	**3,246.0**
Operating Overheads	(14.6)	(947.3)	(514.3)		(942.7)	(1,042.6)	(1,149.6)
Finance Cost	(5.8)	(537.2)	(349.4)		(712.8)	(901.1)	(801.5)
Profit before Tax	**(18.7)**	**465.6**	**349.7**		**593.6**	**645.3**	**1,306.0**
Profit After Tax	**(18.7)**	**299.7**	**290.2**		**421.4**	**458.2**	**927.2**
RATIO ANALYSIS							
Gross Margin (%)		22.0%	21.1%		22.4%	22.8%	23.7%
Net Margin (%)		3.7%	5.2%		4.3%	4.0%	6.8%
Current Ratio (x)		1.63	1.50		1.42	1.50	1.52
Net Working Capital		3,926.4	2,903.7		2,605.2	2,969.5	3,187.1
Gearing (x)		0.75	0.70		0.55	0.47	0.44
Leverage (x)		1.41	1.29		0.81	0.73	0.71
FFO		n/a	435.9		668.5	733.9	1,178.0
FFO to Long Term Debt (x)		n/a	0.73		0.69	1.68	4.12
FFO to Total Debt (x)		n/a	0.18		0.14	0.17	0.28
Debt Servicing Coverage Ratio (x)		n/a	1.44		1.20	4.40	5.28
ROAA (%)		1.8%	3.6%		2.6%	2.8%	5.6%
ROAE (%)		4.3%	8.0%		4.5%	4.8%	9.4%

**scheme of arrangement (approved in Jun'22) wherein home appliance business was demerged from parent company to WHALE*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES	Appendix III
Name of Rated Entity	Waves Home Appliances Limited *(formerly Samin Textiles Limited)*
Sector	Appliances
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: Entity				
12/14/2022	A	A-2	Stable	Initial
RATING TYPE: Commercial Paper				
12/14/2022		A-2		Preliminary

Instrument Structure	The company is in process of issuing a rated, privately placed, unsecured Commercial Paper (CP) issue of up to Rs. 500m. The CP will have a tenor of 9 months and will be redeemed at the face value on maturity date, with the proceeds to be utilized for working capital requirements. Indicative discount rate is 9-month KIBOR plus 250 bps per annum.
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Haroon Ahmad Khan	Chief Executive Officer	Nov 18, 2022