

## RATING REPORT

### Waves Singer Pakistan Limited

**REPORT DATE:**

October 01, 2018

**RATING ANALYSTS:**

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**RATING DETAILS**

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A	A-2
Rating Outlook	Stable	
Rating Date	24 <sup>th</sup> Sep'18	

**COMPANY INFORMATION**

<b>Incorporated in 1984</b>	<b>External auditors:</b> KPMG Taseer Hadi & Co, Chartered Accountants
	<b>Chairman of the Board:</b> Mr. Umair Khan
<b>Public Limited Company</b>	<b>Chief Executive Officer:</b> Mr. Haroon Ahmad Khan
<b>Key Shareholders (with stake 5% or more):</b>	
Mr. Haroon Ahmad Khan & Family–62.2%	
Mr. Javed Akhtar Butt & Family– 6.8%	
Mr. Muhammad Tariq Malik– 6.8%	

**APPLICABLE METHODOLOGY(IES)**

**JCR-VIS Entity Rating Criteria:** *Industrial Corporates (October 2016)*

<http://jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf>

## Waves Singer Pakistan Limited

### OVERVIEW OF THE INSTITUTION

Waves Singer Pakistan Limited (WSPL) was incorporated in Pakistan as a listed public limited company under the repealed Companies Ordinance, 1984 (now Companies Act, 2017). The company is principally engaged in the manufacturing, assembling, and trading of domestic consumer appliances. Registered office of the company is located at Korangi Industrial Area, Karachi

#### Profile of Chairman

Mr. Umair Khan is from Central Superior Services (CSS) of Pakistan and has worked in a number of senior management positions representing Government of Pakistan (GoP), within and outside the country.

#### Profile of CEO

Mr. Haroon carries extensive experience in managing appliances businesses and had previously been working as Managing Director of Pak Electron Limited (PEL). Mr. Haroon is a fellow member of the Institute of Chartered Accountants of Pakistan (ICAP).

#### Financial Snapshot

Net Profit: 1QFY18: Rs. 156m; FY17: Rs. 327m

Net Equity: 1QFY18: Rs. 8.3b; FY17: Rs. 8.1b

### RATING RATIONALE

The assigned ratings of WSPL take into account considerable market penetration of its two brands, Waves and Singer within the consumer durable industry of Pakistan. Ratings also draw comfort from sound capitalization levels of the company.

WSPL became a merged entity following the merger of Cool Industries (Private) Limited (CIPL) and Link Wel (Private) Limited (LWPL) with Singer Pakistan Limited (SPL) in FY17. CIPL was primarily engaged in the manufacturing and sale of consumer appliances under the brand name “Waves”, while LWPL, an associated company of CIPL, was engaged in the business of import and trade of air conditioners and home appliances. Pursuant to the merger, WSPL sells its products under the two brands, Singer and Waves, respectively.

**Primary revenue driver includes deep freezers and refrigerators; higher production achieved in 1HFY18 on account of post-merger operational and financial synergies:** Deep freezers and refrigerators are the major selling products of the company. WSPL’s brand ‘Waves’ is the market leader in the deep freezer segment, while also commands a share of around 6-7% in the refrigerator segment. ‘Singer’ sales mainly include refrigerators and air conditioners; however, market share of both is considered low. During FY17, production\* of WSPL amounted to 120,255 units of various products, mainly deep freezers and refrigerators. During 1HFY18, production of the company was higher on the back higher utilization of short-term borrowings to procure raw material. Considering industry expansion, production is projected to increase further on the back of utilization of existing production facility in two shifts, instead of one, and also on account of modest increase in existing capacities.

**Asset mix mainly composed of fixed assets, goodwill, inventory and receivables:** Post-merger, asset base of WSPL is mainly composed of fixed assets, intangible assets & goodwill, stock-in-trade and trade debts. By end-1HFY18, fixed assets comprised nearly one-third of the asset base, whereas goodwill, recognized as a result of the merger, comprised around one-fifth of total assets. Stock-in-trade comprised around one-fourth, while trade debts formed 20.1% of the asset base at end-1HFY18.

**Higher profitability during 1HFY18 on account of higher volume sold; the same is projected to enhance, going forward:** During FY17, gross sales\* amounted to Rs. 4.8b, while net sales stood at Rs.3.7b. Gross profit amounted to Rs. 1,097m as other income primarily comprising of gain on sale of fixed assets, provided support to profitability of the company in FY17. During 1HFY18, gross sales stood higher mainly on account of higher volume sold. Gross margin improved on the back of cost efficiencies achieved as a result of the merger, while operating expenses also stood lower. Interest expense increased on the back of higher average borrowings. On account of higher sales and gross margin, net profit also stood higher during 1HFY18. Going forward, profitability is projected to enhance primarily on the back of higher volume of products to be sold, the same is contingent upon growth in disposable income of consumers which would result in increased demand of these products. Deep freezer and refrigerator are expected to remain the primary revenue driver, however share of other products in the revenue mix including air conditioners, washing machine, LED TVs is also projected to increase. As major proportion of raw material is imported, therefore cost increase as a result of exchange rate variation is passed onto the consumers by the manufacturers; same practice is adopted by WSPL.

**Adequate liquidity profile owing to sound coverages:** The company’s extended cash cycle is mainly being managed through procuring additional short-term borrowings. FFO remained positive while DSCR stood at 1.74x (FY17: 0.39x) during 1HFY18. Going forward, FFO is projected to increase on the back of higher profitability, while coverages are also expected to improve. Increase in cash flows is highly dependent upon the company achieving its sales targets; the same remains to be seen over time.

**Sound capitalization owing to the merger:** Post-merger, TIER-1 equity of the company augmented primarily owing to 96.45m shares issued to the shareholders of CIPL & LWPL. In addition, retained earnings also increased majorly on the back of sale of fixed assets. However, by end-1HFY18, gearing and debt leverage increased to 0.51x (FY17: 0.43x) and 0.77x (FY17: 0.62x) respectively, mainly due to higher utilization of short-term borrowings and trade payables in order to manage working capital requirements of the company.

*\*Profitability, cash flow and production numbers of FY17 include full year numbers of SPL and half-year numbers of CIPL as the merger became effective on July 01, 2017. Also, reporting period of CIPL was Jul-Jun, while reporting period of SPL is Jan-Dec; pursuant to the merger, reporting period of WSPL is Jan-Dec.*

**JCR-VIS Credit Rating Company Limited**

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

**Waves Singer Pakistan Limited****Appendix I****Consolidated**

<b>FINANCIAL SUMMARY</b> (amounts in PKR millions)			
<b><u>BALANCE SHEET</u></b>	<b>FY16</b>	<b>FY17</b>	<b>1HFY18</b>
Fixed Assets	1,657.7	4,681.0	4,520.5.0
Stock-in-Trade	509.0	2,592.3	2,696.5
Trade Debts	1,063.4	2,156.8	2,913.3
Intangible Assets & goodwill	22.3	2,993.8	2,961.4
Advances, Prepayments & Other Receivables	32.9	106.9	434.3
Long-term Investments & Deposits	335.7	27.2	36.1
Taxation-net	157.1	345.9	470.9
Stores, Spares & Tools	5.1	22.9	35.3
Cash & Bank Balances	150.1	291.7	470.9
<b>Total Assets</b>	<b>3,933.3</b>	<b>13,218.5</b>	<b>14,502.5.2</b>
Trade and Other Payables	474.8	1,192.3	1,870.9
Long Term Debt (including current maturity)	564.3	705.2	737.4.1
Short-term Debt	1,177.9	2,748.9	3,381.3
Other Liabilities	312.4	390.2	286.0
<b>Total Liabilities</b>	<b>2,528.9</b>	<b>5,036.6</b>	<b>6,275.6.0</b>
Tier-1 Equity	308.5	8,063.9	8,063.9
Surplus on revaluation of freehold land	1095.9	118.1	116.0.
<b>Total Equity</b>	<b>1,404.4</b>	<b>8,182.0</b>	<b>8,227.0</b>
<b><u>INCOME STATEMENT</u></b>			
<b>Net Sales</b>	<b>1,399.6</b>	<b>3,685.6</b>	<b>5,477.5</b>
<b>Gross Profit</b>	<b>489.3</b>	<b>1,097.3</b>	<b>1,312.2</b>
<b>Operating Expenses</b>	<b>503.8</b>	<b>905.1</b>	<b>848.4</b>
<b>Other Expenses</b>	<b>12.9</b>	<b>122.7</b>	<b>48.3</b>
<b>Other Income</b>	<b>182.2</b>	<b>498.3</b>	<b>9.5</b>
<b>Earned Carrying Charges</b>	<b>111.4</b>	<b>79.4</b>	<b>76.7</b>
<b>Interest Cost</b>	<b>141.8</b>	<b>296.2</b>	<b>200.5</b>
<b>Profit before Tax</b>	<b>124.4</b>	<b>350.9</b>	<b>301.1</b>
<b>Net Profit</b>	<b>95.1</b>	<b>327.5</b>	<b>237.6</b>
<b><u>RATIO ANALYSIS</u></b>			
<b>Gross Margin (%)</b>	<b>34.9</b>	<b>29.8</b>	<b>29.1</b>

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<b>FFO</b>	7.4	28.1	135.8
<b>FFO to Total Debt</b>	0.004	0.01	0.07
<b>FFO to Long-term Debt</b>	0.01	0.04	0.37
<b>Debt Leverage</b>	8.2	0.62	0.77
<b>Gearing</b>	5.6	0.43	0.51
<b>DSCR</b>	0.35	0.39	1.74

## ISSUE/ISSUER RATING SCALE & DEFINITIONS

## Appendix II

### 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:** JCR-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.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.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.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.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.

**'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.jcrvis.com.pk/images/policy\\_ratings.pdf](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when JCR-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.

## JCR-VIS Credit Rating Company Limited

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REGULATORY DISCLOSURES					Appendix III	
<b>Name of Rated Entity</b>	Waves Singer Pakistan Limited					
<b>Sector</b>	Consumer Appliances					
<b>Type of Relationship</b>	Solicited					
<b>Purpose of Rating</b>	Entity Ratings					
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>	
	<b>RATING TYPE: ENTITY</b>					
	Sep 24,'18	A	A-2	Stable	Initial	
<b>Instrument Structure</b>	N/A					
<b>Statement by the Rating Team</b>	JCR-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.					
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