

RATING REPORT

Waves Singer Pakistan Limited

REPORT DATE:

November 26, 2019

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-1	A	A-2
Rating Outlook	Stable		Stable	
Rating Action	Upgrade		Initial	
Rating Date	21 st Nov '19		24 th Sep '18	

COMPANY INFORMATION

Incorporated in 1984	External auditors: KPMG Taseer Hadi & Co. Chartered Accountants
Public Listed Company	Chairman: Mr. Umair Khan CEO: Mr. Haroon Ahmad Khan
Key Shareholders (with stake 5% or more):	
Mr. Haroon Ahmad Khan & Family – 62.2%	
Mr. Javed Akhtar Butt & Family – 6.8%	
Mr. Muhammad Tariq Malik – 6.8%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (May 2019)
<https://www.vis.com.pk/kec-meth.aspx>

Waves Singer Pakistan Limited

OVERVIEW OF THE INSTITUTION

Waves Singer Pakistan Limited (WSPL) is incorporated in Pakistan as a listed public limited company under the repealed Companies Ordinance, 1984 (now Companies Act, 2017).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.

Chairman Profile:

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.

CEO Profile:

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).

RATING RATIONALE

The assigned ratings take into account strong brand recognition and considerable market penetration of WSPL into the consumer durable industry of Pakistan, particularly in the deep freezer, refrigerator and sewing machine categories. The ratings take into account extensive experience of senior management. Going forward, the company intends to enhance operations by expanding its market penetration across key product categories. The ratings draw comfort from sustained growth in cash flows generation, adequate debt service coverage and manageable leverage. The ratings are sensitive to increasing trade receivables due to relaxed credit terms, changing consumer preferences for electronics goods, high price sensitivity owing to discretionary nature of spending on durable goods, and vulnerability to foreign exchange risk.

Growth in revenue and profits emanating from increasing volumes of key products

Despite challenging business environment, net revenue of WSPL has increased to Rs. 7.2b during 9MCY19, reflecting a year-over-year growth rate of 22%. The product mix remained largely stable as refrigerator and deep freezer segments account for majority of total revenue. Going forward, the company intends to enhance focus on air conditioners market. Gross profit amounted to Rs. 2b during the period, driven by higher revenue. However, gross margin decreased slightly to 27.4% during as the company was able to pass major impact of rupee depreciation, albeit not totally, onto consumer during the period. In line with the business activity, marketing & distribution and administrative expenses amounted to Rs. 735m, respectively. Finance cost increased on account of higher utilization of debt financing and increase in borrowing rates. WSPL has reported net profit of Rs. 313m with a net margin of 4.3%.

Improving cash flows generation with largely stable current ratio

Liquidity position has been supported by improving cash flows generation on a timeline basis. In line with the higher profits, the company generated Rs. 643m in funds from operations (FFO) during 9MCY19, which positively impacted the company's capacity to meet its financial obligations. Despite increased utilization of debt financing, the annualized FFO-to-long term borrowings and FFO-to-total borrowings ratios improved to 0.54x and 0.15x, respectively, by end-9MCY19. Likewise, the debt service coverage ratio improved to 1.36x.

The current ratio remained largely stable at 1.33x. The company also improved its cash conversion cycle during the period, partially by improving inventory turnover. While inventory plus receivables to short-term borrowings ratio decreased to 1.85x by end-9MCY19, though remained adequate.

Stagnant equity growth followed by increase in leverage

Tier-1 equity remained stagnant at Rs. 8.2b at end-9MCY19 as the company paid cash dividend of Rs. 204m during the period. Total liabilities were recorded at Rs. 7.7b at end-9MCY19 mainly on account of higher utilization of borrowings during the period. Trade and other payables decreased to Rs. 1.5b due to payments to suppliers. In line with the growing scale of operations and elevated working capital requirements, short-term borrowings increased to Rs. 4.1b at end-9MCY19. Total long-term borrowings, inclusive of current maturities, amounted to Rs. 1.6b at end-9MCY19, as the company mobilized new debt to partially finance the expansion in plant and machinery. With largely stagnant equity, owing to cash dividend payment, and higher debt burden, the gearing and debt leverage increased to 0.69x and 0.94x, respectively, by end-9MCY19. However, the said indicators are considered manageable.

Waves Singer Pakistan Limited
Annexure I

CONSOLIDATED FINANCIAL SUMMARY (amounts in PKR millions)			
BALANCE SHEET	CY17	CY18	9MCY19
Property, Plant & Equipment	4,681	4,755	4,901
Intangibles & Goodwill	2,978	2,966	2,936
Stock-in-Trade	2,592	3,092	3,290
Trade Debts	2,157	3,246	4,258
Other Assets	796	653	708
Total Assets	13,203	14,713	16,092
Trade and Other Payables	1,191	1,790	1,549
Long Term Debt <i>(including current maturity)</i>	705	1,079	1,595
Short-term Debt	2,749	2,995	4,073
Other Liabilities	391	460	528
Total Liabilities	5,036	6,324	7,745
Total Equity	8,167	8,389	8,347
Paid-Up Capital	1,450	1,750	2,000
INCOME STATEMENT			
INCOME STATEMENT	CY17	CY18	9MCY19
Net Sales	3,686	8,516	7,241
Gross Profit	1,097	2,394	1,981
Profit Before Tax	336	511	428
Profit After Tax	312	382	313
FFO	28	515	643
RATIO ANALYSIS			
RATIO ANALYSIS	CY17	CY18	9MCY19
Gross Margin (%)	29.8	28.1	27.4
FFO to Total Debt (x)	0.01	0.13	0.15*
FFO to Long-term Debt (x)	0.04	0.48	0.54*
Debt Leverage (x)	0.63	0.76	0.94
Gearing (x)	0.43	0.49	0.69
DSCR (x)	0.39	1.18	1.36
Current Ratio (x)	1.34	1.34	1.33
Inventory + Receivables/ Short-term Borrowings (x)	1.73	2.12	1.85

*Annualized

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Annexure 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					Annexure III
Name of Rated Entity	Waves Singer Pakistan Limited				
Sector	Consumer Appliance				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	21-11-19	A	A-1	Stable	Upgrade
	24-09-18	A	A-2	Stable	Initial
Instrument Structure	N/A				
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.				
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