

## RATING REPORT

### Waves Singer Pakistan Limited

**REPORT DATE:**

November 13, 2020

**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-2	A	A-1
Rating Outlook	Stable		Stable	
Rating Action	Downgrade		Upgrade	
Rating Date	13 <sup>th</sup> Nov'20		21 <sup>st</sup> Nov'19	

**COMPANY INFORMATION**

Incorporated in 1984	External auditors: KPMG Taseer Hadi & Co. Chartered Accountants
Public Listed Company	Chairman: Mr. Adnan Afaq CEO: 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)**

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Waves Singer Pakistan Limited (WSPL) was incorporated in Pakistan as a listed public limited company under the repealed Companies Ordinance, 1984 (now Companies Act, 2017).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

**Chairman Profile:**

Mr. Adnan Afaq was appointed as Chairman of the Board in Aug'2020. He has held several leadership positions over the span of his career, including Managing Director of Pakistan Credit Rating Agency, CEO of Askri Investments and Head of Planning & Strategy at Askari Bank Limited.

**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. The company managed to increase revenue during CY19 on the back of both higher sale of units and average price. However, bottom line was largely maintained at the previous year's level mainly on account of increase in interest expense and higher taxation. Lately, the sales dipped mainly due the economic slowdown, outbreak of COVID-19 and following lockdown situation which resulted in lower revenues during 1HCY20. The gross margins also decreased as the company could not pass the full impact of rupee depreciation onto consumers. After easing of lockdown, increase in demand was witnessed due to high temperatures coupled with backlog of sales during the lockdown.

The ratings draw comfort from manageable leverage on consolidated basis despite increase in debt utilization over the period under review. The debt service coverage ratio remained close to the minimum threshold of 1x during 1HCY20. Reduction in interest rates is expected to bode well for the company, going forward. The ratings are sensitive to increasing trade receivables on a timeline basis, high price sensitivity owing to discretionary nature of spending on durable goods, and vulnerability to foreign exchange risk.

**Rating Drivers**

WSPL is one of the well-known player in consumer durable industry of Pakistan. The company is involved in manufacturing and sale of home appliances including deep freezer, refrigerator, sewing machine, washing machine, cooking range, and water heater, among others, under the brand name 'Waves' and 'Singer'. The company also sells third-party electronic products, including deep freezer, refrigerator, LED television, generator, microwave oven and motorcycle, via its retail outlets. The said segment accounts for less than 10% of total revenue of WSPL. The company has recently announced to enter the real estate sector and has sought the approval of Securities and Exchange Commission of Pakistan (SECP) to amend its Memorandum of Association to add the development of Affordable Housing projects and real estate development. Moreover, the company has also increased its authorized capital to Rs. 3.0b from Rs. 2.0b.

**Sales and Profitability:** WSPL recorded net revenue of Rs. 9.5b (CY18: Rs. 8.5b; CY17: Rs. 3.7b) during CY19, reflecting a year-over-year growth rate of 11.4%. The already high proportion of refrigerator and deep freezer in sales mix increased further during CY19. Top-line growth was driven largely by 16% increase in deep freezer volumetric sales with 9% higher average selling price and 2% increase in refrigerator volumetric sales with 19% higher average selling price during CY19. Contribution of air conditioners in revenue mix decreased to 3% during CY19 (CY18: 7%).

Input costs increased to Rs. 5.0b (CY18: Rs. 4.1b; CY17: Rs. 2.0b) mainly on account of rupee depreciation impact on imported raw materials. Marginal decrease in salaries, wages & other benefits to Rs. 372m (CY18: Rs. 383m; CY17: Rs. 229m) was mainly due to reduction in average staff count to 2,668 (CY18: 3,136) offsetting the impact of inflationary adjustments. In line with the higher revenue, WSPL reported gross profit of Rs. 2.6b (CY18: Rs. 2.4b; CY17: Rs. 1.1b) during CY19. Gross margin decreased slightly to 27.7% (CY18: 28.1%; CY17: 29.8%) as the company was able to pass major impact of rupee depreciation, albeit not totally, onto consumer during the period.

Marketing, selling and distribution costs were curtailed at Rs. 928m (CY18: Rs. 1b; CY17: Rs. 728m) on account of lower promotional spending of Rs. 121m (CY18: Rs. 191m) and lower salaries & benefits of Rs. 406m (CY18: Rs. 447m). Administrative expenses increased to Rs. 475m (CY18: Rs. 378m; CY17: Rs. 196m) mainly on account of increased staff salaries & benefits. Other expenses stood slightly lower

at Rs. 85m (CY18: 109m; CY17: Rs. 49m) in the absence of fire and disposal related loss on fixed assets and provision for doubtful debt during CY19; it mainly included exchange loss of Rs. 34m (CY18: Rs. 44m) and workers' profit participation fund expense of Rs. 32m (CY18: Rs. 27m). Increase in other income to Rs. 157m (CY18: Rs. 37m; 498m) was mainly due to reversal of loss allowance against trade debts amounting to Rs. 133m (CY18: nil) with adoption of IFRS-9.

Financial charges doubled to Rs. 868m (CY18: Rs. 431m; CY17: Rs. 296m) on account of increased utilization of debt financing and higher average interest rate during CY19. Accounting for higher tax expense, net profit was reported at Rs. 378m (CY18: Rs. 382m; CY17: Rs. 312m) with slightly lower margin of 4.0% (CY18: 4.5%; CY17: 8.5%).

**COVID-19 impact on volumes:** During 1HCY20, net revenue of the company amounted to Rs. 3.9b (6MCY19: 5.4b) on account of slowdown in economic activity, and closure of operations and supply chain disruption towards the end-March'2020 as a result of COVID-19 outbreak. The company resumed operations in mid-May'2020. The impact of considerably lower volumes was partially offset by improvement in the average selling price for all the product categories.

Gross profit was reported at Rs. 1.0b (6MCY19: Rs. 1.4b) with slightly lower margin of 25.9% (6MCY19: 26.6%) as the company couldn't pass the full impact of higher production cost onto consumer during 1HCY20. In line with the disrupted business activity, the company incurred lower marketing & distribution expense. Increased debt utilization contributed towards higher financial charges during 1HCY20. Resultantly, net profit of the company declined to Rs. 52m (6MCY19: Rs. 254m) translating into lower net margin of 1.3% (6MCY19: 4.7%). Reduction in interest rates during 2HFY20 is expected to bode well for the company, going forward.

**Liquidity:** In line with the profits, the company generated lower funds from operations (FFO) of Rs. 249m during 1HCY20 (CY19: Rs. 806m; CY18: Rs. 515m). Resultantly, the annualized FFO-to-long term debt and FFO-to-total debt ratios weakened to 0.19x (CY19: 0.35x; CY18: 0.47x) and 0.08x (CY19: 0.13x; CY18: 0.13x) respectively, despite largely unchanged debt utilization at end-1HCY20. The debt service coverage ratio also declined to 1.03x (CY19: 1.34x; CY18: 1.18x).

The current ratio increased to 1.50x (CY19: 1.28x; CY18: 1.34x) on account of reduction in short-term borrowings and trade payables coupled with further accumulation of trade debts. Inventory plus receivables to short-term borrowings was recorded at 2.16x (CY19: 1.92x; CY18: 2.12x) at end-1HCY20. The lengthening of cash conversion cycle was mainly due to decrease in inventory and receivables turnover owing to COVID-19.

**Capitalization and funding:** Paid-up capital of the company was Rs. 1.88b (CY19: Rs. 1.88b; CY18: Rs. 1.63b) at end-1HCY20, with increase attributable to issuance of fully paid bonus shares in CY19. Share premium was Rs. 4.6b (CY19: Rs. 4.6b; CY18: Rs. 4.8b) while retained profit amounted to Rs. 1.6b (CY19: Rs. 1.5b; CY18: Rs. 1.8b). During CY19, the company paid cash dividend of Rs. 204m. Revaluation surplus was recorded at Rs. 352m (CY19: Rs. 363m; CY18: Rs. 117m).

Total liabilities decreased slightly to Rs. 8.6b (CY19: Rs. 8.8b; CY18: Rs. 6.3b) by end-1HCY20 mainly due to decrease in right-of-use liabilities by Rs. 245m lower trade payables. Trade and other payables stood at Rs. 1.5b (CY19: Rs. 1.9b; CY18: Rs. 1.8b) while short-term borrowings decreased to Rs. 3.8b (CY19: Rs. 4.1b; CY18: Rs. 3.0b) by end-1HCY20. However, the company replaced the short-term borrowings with long-term debt which, inclusive of current maturity and finance lease, increased to Rs. 2.7b (CY19: Rs. 2.3b; CY18: Rs. 1.1b) by end-1HCY20. Resultantly, the gearing was unchanged at 0.80x (CY19: 0.80x; CY18: 0.49x) while debt leverage decreased slightly to 1.06x (CY19: 1.11x; CY18: 0.76x) respectively, by end-1HCY20.

### Housing Development Project

WSPL has recently announced to enter the real estate sector and has sought the approval of Securities and Exchange Commission of Pakistan (SECP) to amend its Memorandum of Association to add the

development of Affordable Housing projects and real estate development. Moreover, the company has also increased its authorized capital to Rs. 3.0b from Rs. 2.0b.

The company has two manufacturing facilities located at 9KM Hanjarwal, Multan Road, Lahore (68 Kanal area) where major production activity takes place and the second facility is located at Dina Nath, Mouza Rakh Serai Cheenba Tehsil Pattoki (8 Kanal area) where plastic sheets are made from imported plastic grains. As the company's Multan Road factory is located at the densely populated entrance of Lahore, the management is looking to relocate it to city surroundings. Acquisition of land is in process. After the relocation, the company is planning to construct multiple residential apartment towers over the next few years.

**Waves Singer Pakistan Limited**
**Annexure I**

<b>CONSOLIDATED FINANCIAL SUMMARY (amounts in PKR millions)</b>				
<b>BALANCE SHEET</b>	<b>CY17</b>	<b>CY18</b>	<b>CY19</b>	<b>1HCY20</b>
Property, Plant & Equipment	4,681	4,755	5,705	5,349
Intangibles & Goodwill	2,978	2,966	2,946	2,934
Other Fixed Assets	28	33	42	74
Stock-in-Trade	2,592	3,092	3,653	3,497
**Trade Debts	2,157	3,246	4,247	4,707
Advances, Prepayments & Other Receivables	107	150	146	76
Taxation-net	346	334	236	116
Stores, Spares & Tools	23	31	38	45
Cash & Bank Balances	292	105	164	147
<b>Total Assets</b>	<b>13,203</b>	<b>14,713</b>	<b>17,177</b>	<b>16,945</b>
Trade and Other Payables	1,191	1,790	1,865	1,548
Long Term Debt (including current maturity)	705	1,079	2,303	2,671
**Short-term Debt	2,749	2,995	4,114	3,797
Other Liabilities	391	460	555	537
<b>Total Liabilities</b>	<b>5,036</b>	<b>6,324</b>	<b>8,836</b>	<b>8,553</b>
Tier-1 Equity	8,049	8,272	7,977	8,040
Surplus on revaluation of freehold land	118	117	363	352
Paid-Up Capital	1,450	1,750	2,000	2,000
<b>INCOME STATEMENT</b>	<b>CY17</b>	<b>CY18</b>	<b>CY19</b>	<b>1HCY20</b>
Net Sales	3,686	8,516	9,484	3,894
Gross Profit	1,097	2,278	2,629	1,008
Profit Before Tax	336	511	622	119
Profit After Tax	312	382	378	52
FFO	28	515	806	249
<b>RATIO ANALYSIS</b>	<b>CY17</b>	<b>CY18</b>	<b>CY19</b>	<b>1HCY20</b>
Gross Margin (%)	29.8	26.8	27.7	25.9
Net Margin	8.5	4.5	4.0	1.3
FFO to Total Debt (x)	0.01	0.13	0.13	0.15*
FFO to Long-term Debt (x)	0.04	0.48	0.35	0.19*
DSCR (x)	0.39	1.18	1.34	1.03
Debt Leverage (x)	0.63	0.76	1.11	1.06
Gearing (x)	0.43	0.49	0.80	0.80
ROAA	3.6	2.7	2.4	0.6*
ROAE	7.5	4.7	4.7	1.3*
Current Ratio (x)	1.34	1.34	1.28	1.50
Inventory + Receivables/ Short-term Borrowings (x)	1.73	2.12	1.92	2.16

\*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](http://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](http://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](http://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.

<b>REGULATORY DISCLOSURES</b>		<b>Annexure III</b>			
<b>Name of Rated Entity</b>	Waves Singer Pakistan Limited				
<b>Sector</b>	Consumer Appliance				
<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><u>RATING TYPE: ENTITY</u></b>				
	13-11-20	A-	A-2	Stable	Downgrade
	21-11-19	A	A-1	Stable	Upgrade
	24-09-18	A	A-2	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>		
	Mr. Haroon Ahmad Khan	CEO	September 11, 2020		
	Mr. Arslan Shahid	Chief Financial Officer	September 11, 2020		