RATING REPORT

Waves Singer Pakistan Limited

REPORT DATE:
September 08, 2021

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-2
Rating Outlook	*Stable*		*Stable*	
CP (Preliminary)	A-2		-	
Rating Action	Upgrade		Downgrade	
Rating Date	*7th Spet'21*		*13th Nov'20*	

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
Key Shareholders (with stake 5% or more):	
Mr. Haroon Ahmad Khan & Family – 48.24% Mr. Javed Akhtar Butt – 5.3%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.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Waves Singer Pakistan Limited (WSPL) was incorporated in Pakistan as a listed public limited company under the repealed Companies Ordinance, 1984 (now Companies Act, 2017).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.

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 Askari 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.

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 also recognize extensive relevant experience of the senior management. While top-line was impacted by decline in volumetric sales of key products during CY20 due to outbreak of COVID-19, the company has depicted notable growth in revenue and volumetric sales during 1H21. The company secured corporate orders for the supply of deep freezers, which will generate additional revenue in CY21. Profit margins are under pressure during the review period due to increase in production costs and lack of corresponding increase in selling prices. In the absolute terms, profits generation has improved in 1H21 on account of higher revenue and some improvement in margins on account of increase in selling prices as well as positive impact of rupee appreciation. However, recent rupee devaluation since May'2021 may put some pressure on margins in the 2H21.

In view of lower cash flows generation in CY20, liquidity was supported by interest-free short-term sponsor loan of Rs. 381m. Increase in cash flows generation during the ongoing year bodes well for overall liquidity profile of the company, providing adequate coverage against financial obligations. Working capital cycle of the company continues to remain stretched mainly due to increasing trade receivables, including hire-purchase receivables. The ratings draw comfort from manageable leverage on consolidated basis despite increase in debt utilization over the period under review. Despite higher debt utilization, leverage indicators have depicted some improvement as a result of profits retention and equity injection through rights issuance amounting Rs. 1.4b during 1H21. The company is planning to issue commercial paper of up to Rs. 1.2b, inclusive of green-shoe option, for working capital requirement. Going forward, the ratings will remain sensitive to the timely completion of factory relocation in accordance with the plan, execution of apartments' project within the stipulated timeline and budget, increasing trade receivables on a timeline basis, and vulnerability to foreign exchange risk.

Rating Drivers

WSPL is one of the well-known players 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 started relocation of existing factory to a new location. Land for the new factory has been purchased and construction work is underway. Relocation will be carried out in two phases to ensure continuous production and will be completed by end-CY22. The existing factory land will be sold to a wholly owned subsidiary for development of residential apartments. Finalization of master plan and necessary approvals are expected by end-CY21, and construction work is expected to start in 1QCY22 upon the completion of Phase-1 relocation.

Sales and Profitability: Net revenue decreased to Rs. 8.5b (CY19: Rs. 9.5b) mainly due to lower volumetric sales of deep freezers and refrigerators which cumulatively accounted for 80% (CY19: 88%) of total revenue mix in CY20. Decline in deep freezer and refrigerator sales was due to lower demand in the 1HCY20 on account COVID-19 related lockdown situation. Air conditioner volumes were recorded higher in CY20, though below the company's target due to uncertainty and lower production caused by the COVID-19. The company plans to increase production of air conditioners in CY22. Increase in revenue from sewing machines was led by higher selling price, partially offset by slight decrease in volumes during CY20. Likewise, the company also witnessed growth in TVs, microwave, and water heater revenue due to increase in both selling price and volumetric sales.

Cost of sales decreased at a slower rate to Rs. 6.7b (CY19: Rs. 6.9b) during CY20. Resultantly, WSPL reported lower gross profit of Rs. 1.3b (CY19: Rs. 1.8b) as the margin declined to 21.6% (CY19: 27.7%) during CY20. Marketing and distribution expense remained largely stable at Rs. 920m (CY19: 928m) with some increase in salaries & benefits to Rs. 445m (CY19: Rs. 406m), depreciation expense of Rs. 159m (CY19: Rs. 145m), while spending on publicity and sales promotions reduced to Rs. 88m (CY19: Rs. 121m). Administrative expenses amounted to Rs. 461m (CY19: Rs. 475m) during the year. The company recorded other expense of Rs. 43m (CY19: Rs. 85m) in the absence of no exchange loss and lower profit participation fund related expense during CY20. Other income was sizable at Rs. 466m (CY19: Rs. 157m) which mainly pertained to reversal of loss allowance against trade receivables amounting to Rs. 355m (CY19: Rs. 133m). As per the management, the company has fully recovered the doubtful debt during the ongoing year that were previously written-off. WSPL incurred finance cost of Rs. 880m (CY19: Rs. 868m) on account of higher utilization of average borrowings. Accounting for tax expense, the company reported lower net profit of Rs. 127m (CY19: Rs. 378m) during CY20.

During 1H21, net revenue of the company increased to Rs. 5.8b (1H20: 3.9b) on account of notable growth in deep freezer volumes, higher refrigerators volumes, and steady increase in selling price for all product categories. WSPL has become an approved manufacturer of deep freezers for Coca Cola Beverages Pakistan Limited (CCBPL) after an extensive third-party Supplier General due diligence of the factory. In this regard, the company has secured a contract to supply 22,900 deep freezers to CCBPL in CY21, generating additional revenue of Rs. 925m during the year. With WSPL now only the 3rd approved supplier of CCBPL, the company will be able to participate in future deep freezers supply tenders as well. The company also secured a contract to supply 2,000 deep freezers to Al-Shaheer Corporation, which will generate additional revenue of Rs. 120m during the ongoing year.

Gross profit was reported higher at Rs. 1.3b (1H20: Rs. 1.0b) with gross margin of 23.2% (1H20: 25.9%) as the increase in price of two key products remained modest vis-à-vis the overall increase in production cost during 1H21. Going forward, recent rupee devaluation is expected to put some pressure on gross margins in the 2H21. In line with higher volumetric sales, marketing and distribution expenses increased to Rs. 520m (1H20: Rs. 411m) while administrative expenses increased to Rs. 252m (1H20: Rs. 214m) mainly due to salary adjustment during 1H21. Other expenses amounted to Rs. 38m (1H20: Rs. 10m) with increase attributable to exchange loss and workers' participation fund expenses. Other income was modest at Rs. 39m (1H20: Rs. 156m) during 1H21. Due to lower average interest rates, financial charges declined to Rs. 351m (1H20: Rs. 518m). Resultantly, the company reported higher net profit of Rs. 293m (1H20: Rs. 52m) as net margin improved to 5.5% (1H20: 1.3%).

Liquidity: Liquidity was impacted by decline in funds from operations (FFO) to Rs. 149m (CY19: Rs. 806m during CY20. However, in line with the higher profits, FFO improved to Rs. 490m during 1H21. Resultantly, the annualized FFO-to-long-term debt and FFO-to-total debt ratios stood at 0.37x (CY20: 0.05x) and 0.15x (CY20: 0.02x), respectively, at end-1H21. The debt service coverage ratio (DSCR) was recorded at 1.58x (CY20: 1.04x) on account of increase in cash flows generation and lower debt repayment due to principal deferment availed under the SBP's COVID-19 relief program. Current ratio remained largely stable at 1.46x (CY20: 1.46x) with increase receivables and inventory was offset by higher trade payables by end-1H21. Net working capital cycle improved to 258 days (CY20: 322 days) on account of improvement in receivable days and inventory turnover. Working capital cycle of the company still remains stretched vis-à-vis peer companies; one of the major reasons that unlike other companies, WSPL also makes hire-purchase sales (on lease/installments) through its own retail network of 140 shop. Some improvement in liquidity and working capital cycle is expected from additional corporate sales as the company allowed lower credit period of 60 days to new corporate clients vis-à-vis 120 days for the dealers network.

Capitalization and funding: Paid-up capital increased to Rs. 2.8b (CY20: Rs. 1.9b) by end-1H21 as the company issued right shares of Rs. 1.4b during the period. Share premium was also recorded higher at Rs. 5.0b (CY20: 4.6b) while accumulated earnings increased to Rs. 2.0b (CY20: Rs. 1.7b) with retention of profits during 1H21. Resultantly, tier-1 equity accumulated to Rs. 9.8b (CY20: Rs. 8.2b). During CY20, sponsor injected Rs. 381m in the company to support liquidity; the same was paid back during 1H21. Revaluation surplus was recorded at Rs. 326m (CY20: Rs. 338m) at end-1H21.

Long-term borrowings decreased slightly to Rs. 2.7b (CY20: Rs. 2.9b) with the scheduled repayments and no further borrowings during 1H21. During CY20, the company availed SBP's salary & wages relief facility of Rs. 380m and re-profiled short-term debt of Rs. 395m into long-term borrowings. In addition, the company also availed principal deferment relief amounting to Rs. 2.0b (CY20: Rs. 1.7b) at end-1H21. Despite largely stable debt levels, decrease in gearing and debt leverage to 0.68x (CY20: 0.80x) and 0.94x (CY20: 1.06x) was witnessed on the back of equity injection and profit retention during 1H21.

Commercial Paper: WSPL is in process of issuing rated, unsecured, privately placed Commercial Paper (CP) of up to Rs. 1.2b, inclusive of green-shoe option of Rs. 200m. The proceeds of the issue will be utilized by the company to meet working capital requirements; borrowings will not increase as CP will replace other borrowings. The Tenor of the issue is 9 months and will be redeemed at the face value on maturity date (270 days from the issue date). Indicative discount rate is 9-month KIBOR plus 1.75% per annum.

Factory Relocation: WSPL has two manufacturing facilities located at 9km Hanjarwal, Multan Road, Lahore, where majority of production activity takes place and the second facility is located at Dina Nath, Mouza Rakh Serai Cheenba Tehsil Pattoki where plastic sheets are made from imported plastic grains and then sent to Hanjarwal factory for manufacturing of finished products. Since Hanjarwal factory is located in congested area, creating capacity and logistics constraints and sheets manufacturing on another location, the company has started the factory relocation process.

Land for the new factory has been purchased for a total sum of Rs. 400m, financed through rights issue and phase-1 of construction is currently underway. Phase-1 entails relocation of deep freezers line by end-1QCY22 with commencement of commercial production for the next season. Construction cost of phase-1 is estimated at Rs. 600m to be financed through proceeds already received from rights issue. Construction of phase-2 will start subsequently, entailing relocation of refrigerators and other production lines and is projected to be completed by end-CY22. Capital expenditure in CY22 will entail construction cost of Phase-2 and upgradation of deep freezers and refrigerators production lines. Thereby, production capacity of deep freezers will increase in CY22 and refrigerators capacity will increase in CY23.

Housing Development Project: Real estate development project comprising construction of residential apartments is in early planning stages. Based on a comprehensive study conducted by Colliers International, the company has opted to move ahead with the development a mid-range residential apartment project on the current factory land located at Hanjarwal. Finalized master plan, approval of drawings from the LDA, certain other NOCs, and complete marketing and sales arrangement is expected by end-CY21, followed by groundbreaking and formal launch of phase-1 upon the completion of partial relocation of factory in 1QCY22.

Waves Builders and Developers (Pvt.) Limited (WBDL), one of the two wholly owned subsidiaries of WSPL, will undertake the project. WBDL will acquire existing factory land covering 62 kanal area from the parent company. WBDL will mobilize a long-term loan to partially pay for the land while remaining will be considered WSPL's equity in WBDL. WBDL is in process of finalizing term finance facility. The facility will be for a tenor of 5 years, including grace period of 2 years. Additionally, running finance facility is also being negotiated to have a cover if any shortfall arises in advance booking/collection of Tower 1 and 2. All the proceeds from collection and repayment will be routed through an escrow account. WSPL will utilize the proceeds from transfer of land to repay long-term loan and remaining will be utilized for Phase-2 capex.

Construction will be carried out in different phases. Phase-1 will entail development of tower 1 and 2, starting from CY22and will be completed in 36 months. Phase-2 will involve construction of tower 3, 4, and 5, which is expected to start from CY23 and will be completed in 36 months. The company will construct tower 6 to 9 in Phase-3, starting from CY24 and will be completed in 36 months. Phase-4 will entail development of tower 10 and 11, starting from CY25 and will be completed in 24 months.

Waves Singer Pakistan Limited — Annexure I

CONSOLIDATED FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**CY19**	**CY20**	**1H21**
Property, Plant & Equipment	5,705	5,571	5,992
Intangibles & Goodwill	2,946	2,917	2,906
Other Fixed Assets	42	61	62
Stock-in-Trade	3,653	2,963	3,599
Trade Debts	4,247	5,885	6,275
Advances, Prepayments & Other Receivables	146	106	109
Taxation-net	236	188	153
Stores, Spares & Tools	38	34	60
Cash & Bank Balances	164	143	294
Total Assets	**17,177**	**17,867**	**19,450**
Trade and Other Payables	1,865	1,685	2,099
Long Term Debt *(including current maturity)*	2,303	2,850	2,672
Short-term Debt	4,114	3,955	4,032
Other Liabilities	555	536	482
Total Liabilities	8,836	9,027	9,286
Tier-1 Equity	7,977	8,503	9,839
Surplus on revaluation of freehold land	363	338	326
Paid-Up Capital	1,876	1,876	2,814
INCOME STATEMENT	**CY19**	**CY20**	**1H21**
Net Sales	9,484	8,525	5,827
Gross Profit	2,629	1,844	1,349
Finance Cost	868	880	351
Profit Before Tax	622	269	407
Profit After Tax	378	127	318
FFO	806	149	490
RATIO ANALYSIS	**CY19**	**CY20**	**1H21**
Gross Margin (%)	27.7	21.6	23.2
Net Margin	4.0	1.5	5.5
FFO to Total Debt (x)	0.13	0.02	0.15*
FFO to Long-term Debt (x)	0.35	0.05	0.37*
DSCR (x)	1.34	1.04	1.58
Debt Leverage (x)	1.11	1.06	0.94
Gearing (x)	0.80	0.80	0.68
ROAA	2.4	0.7	3.4*
ROAE	4.7	1.5	6.9*
Current Ratio (x)	1.28	1.46	1.46
Inventory + Receivables/ Short-term Borrowings (x)	1.92	2.24	2.45

**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**
	RATING TYPE: ENTITY				
	08-09-21	A	A-2	Stable	Upgrade
	13-11-20	A-	A-2	Stable	Downgrade
	21-11-19	A	A-1	Stable	Upgrade
	24-09-18	A	A-2	Stable	Initial
	RATING TYPE: Instrument (CP)				
	08-09-21		A-2		Preliminary
Instrument Structure	WSPL is in process of issuing rated, unsecured, privately placed Commercial Paper (CP) of up to Rs. 1.2b, inclusive of green-shoe option of Rs. 200m. The Tenor of the issue is 9 months and will be redeemed at the face value on maturity date (270 days from the issue date). Indicative discount rate is 9-month KIBOR plus 1.75% 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.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2021 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
Due Diligence Meetings Conducted	**Name**	**Designation**	**Date**		
	Mr. Haroon Ahmad Khan	CEO	August 12, 2021		
	Mr. Arslan Shahid	Chief Financial Officer	August 12, 2021		