

## Analyst:

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## EMCO INDUSTRIES LIMITED

Chairman &amp; Chief Executive: Mr. Javid Shafiq Siddiqi &amp; Mr. Salem Rehman

## RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Medium to Long-term	Short-term	Medium to Long-term	Short-term
ENTITY	A-	A2	A-	A2
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	May 23, 2025		December 05, 2023	

APPLICABLE  
METHODOLOGY(IES):VIS Entity Rating Criteria  
Methodology – Industrial  
Corporates:[https://docs.vis.com.pk/docs/  
CorporateMethodology.pdf](https://docs.vis.com.pk/docs/CorporateMethodology.pdf)

## Rating Scale:

[https://docs.vis.com.pk/docs/  
VISRatingScales.pdf](https://docs.vis.com.pk/docs/VISRatingScales.pdf)

## RATING RATIONALE

EMCO Industries Limited ('EMCO' or 'the Company') is a public listed company with a dominant market position entailing the production and supply of high voltage porcelain insulators, used in the power sector, particularly in the transmission & distribution of electricity giving the company a strategic status in maintaining supply of power. Overall business risk remains elevated during the review period mainly due to lower demand from DISCOs due to budgetary delays and reprofiling of power sector. However, as part of its business strategy, the Company has started focusing on its export and product diversification. Nonetheless, due to lower demand, topline and profitability was negatively impacted mainly during 9MFY25. Ratings also factor in satisfactory liquidity and cashflow coverage profile of the Company while capitalization indicators largely remain in the same range and considered manageable; from a ratings perspective. However, Debt Service Coverage ratio (DSCR) has weakened in 9MFY25 amid stressed profitability and higher obligations. With the forecasted increase in sales and profitability as also observed in 3QFY25, DSCR is anticipated to improve to satisfactory levels.

Ratings will remain dependent on further improvement in sales & profitability with the maintenance of liquidity, coverages and capitalization indicators.

## COMPANY PROFILE

EMCO Industries Limited ('EMCO' or 'the Company') was incorporated as a Joint Stock Company in Pakistan on August 17, 1954, by the name of Electric Equipment Manufacturing Company (Private) Limited. Later, it was converted into a public company on August 20, 1983, and its name was changed to EMCO Industries

RS. MILLION	FY22	FY23	FY24
Net Sales	2,586	3,545	4,192
PBT	278	419	357
PAT	217	292	219
Paid up call	350	350	350
Equity (incl. surplus on PEE)	2,506	2,785	2,946
Total Debt	1,040	1,564	1,768
Debt Leverage (x)	1.79	2.01	1.90
Gearing (x)	1.07	1.23	1.19
FFO	490	490	457
FFO/Total Debt (x)*	0.34	0.31	0.26
NP Margin	8.4%	8.2%	5.2%

Limited on September 12, 1983. The Company is involved in the production and sale of high/low porcelain-based insulators, switchgears, and substation products used in power sector.

## INDUSTRY PROFILE & BUSINESS RISK

Overall, business risk associated with electrical equipment segment is viewed as medium. EMCO operates in a niche industrial segment, manufacturing electric insulators primarily for the power distribution segment. As per PBS (Pakistan Bureau of Statistics) data, LSM (large-scale manufacturing) sector contracted by 0.03% YoY in FY24 while electrical equipment segment output fell 21.38% in FY24 from FY23. There was mild recovery in LSM sector by 1.8% during 6MFY25 compared 6MFY24. This along with reprofiling of power sector process by GoP and delay in budgetary allocations has decreased the demand of insulators which has impacted the Company's sales. However, EMCO has adopted a business strategy to pursue new international markets and also launched metal hardware segment in order to diversify its product portfolio and support its overall sales.

Uncertainty on demand of insulators remains a concern, however, EMCO's leading presence in the industry and strong clientele base provide comfort to ratings. EMCO's strong customer base minimizes credit risk, as the clients majorly comprise government entities and electricity distribution companies (DISCOs). Although economic indicators stabilized during CY24 and 4MCY25, the future industry outlook remains contingent upon improvement in development sector alongside funds allocation to DISCOs from government bodies.

## Product Profile & Capacity

EMCO's product mix encompasses insulators, switchgear products and associated components (electrical cross arms and pylons). The production capacity is currently being reconfigured as the Company has shifted its focus towards exports, enhancing switchgears and bundled insulators portfolio, and added electrical cross arms to its product line. The update in product line came with a reduction in production capacity due to the considerably larger physical dimensions of these new products, requiring increased space and processing time within the high-temperature kilns.

Management anticipates growth in the demand of switchgears and associated products, electrical cross arms and specialized insulators to drive the volumes in coming years. EMCO has utilized its capacity based on product mix and demand. Depending on the product mix EMCO has a variable plant capacity.

## FINANCIAL RISK

### Capital Structure

EMCO has registered an increase in short-term borrowings during the review period amid higher working capital requirements. Despite this, gearing and leverage indicators witnessed a decline at-end FY24 attributed by increase in equity due to internal cash generation. By end-9MFY25, despite a further increase in total debt due to continued reliance on short-term borrowings, gearing and leverage indicators further declined, supported by the retention of net profit.

## Profitability

The Company prioritized growth of switchgears and other accessories in the face of weakened demand of insulators. The lower offtake of line insulators led to insulator revenue decreasing to Rs. 2.87b (FY23: Rs. 3.02b) in FY24. Substation products (switchgears) sales increased to Rs. 1.14b in FY24 from Rs. 369.05m in FY23. The contribution of insulators in terms of value to net sales has declined to 70% (FY24: 72%, FY23: 87%, FY22: 87%) in tandem with expansion of substation equipment portfolio. The strategic realignment, coupled with pricing revisions, contributed to an overall net sales increase of 18.3%, reaching Rs. 4.2b (FY23: Rs. 3.5b) in FY24. EMCO integrated electrical cross arms and specialized components in its hardware products line, generating Rs. 380.2m revenue in 9MFY25.

Export sales more than doubled to Rs. 169.2m (FY23: Rs. 79.7m), comprising 4.1% (FY23: 2.3%) of total sales in FY24. While Turkey emerged as the largest export market for EMCO in FY24, upcoming export growth will be driven by increasing demand from the US as well as growth in demand from China, as per management. Exports sales in terms of volumes and value are projected to increase in the coming years.

Majority of the sales are to power distributors including DISCOs and K-Electric Limited while the rest emanates from NTDC (National Transmission and Despatch Company). Sales mix in terms of customers granularity varies year-on-year due to government fund allocation to the power grid; Top 10 customers contributed 82.0% to the topline (FY24: 85%, FY23: 85%) in 9MFY25.

In FY24, gross margin largely remained stable at 26.8% (FY23: 27.2%) as the Company passed on the increase in input costs on to customers. Operating costs increased to Rs. 270.1m (FY23: 200.5m) in FY24, reflecting inflationary pressures. Finance cost rose to Rs. 392.7m (FY23: Rs. 248.0m) on account of increased borrowings and high interest rates. Net profit decreased to Rs. 219m (FY23: Rs. 292m) while net margin declined to 5.2% (FY23: 8.2%) in FY24 owing to higher operating expenses and increased financial charges.

Downturn in demand was pronounced in the ongoing year, amidst delays in budgetary allocations to DISCOs, as net sales decreased to Rs. 2.9b (9MFY24: Rs. 3.2b) in 9MFY25. Erosion in gross margin due to high input costs (9MFY25: 18.8%, 9MFY24: 27.5%) coupled with continuously elevated operating expenses and finance costs, led to a significantly lower net profit of Rs. 26.8m (9MFY24: Rs. 221.6m) in 9MFY25.

Topline and profit margins for the entire FY25 will decline in comparison with FY24 mainly due to compressed demand and high finance costs. However, with the new

budget coming in June 2025, the underutilized funds have increased the demand from DISCOs, resulting in a healthy order book.

### Debt Coverage & Liquidity

Cash flows were negatively impacted by lower profits in the review period as FFO (funds from operations) decreased to Rs. 457.3m (FY23: Rs. 490.4m) in FY24. DSCR (debt servicing coverage ratio) declined to 1.52x (FY23: 2.40x) due to lower FFO and in conjunction with an increase in repayment of long-term borrowings in FY24. However, the same has remained satisfactory from the ratings perspective. Short-term debt coverage was intact (end-FY24: 2.29x, end-FY23: 2.30x).

Current ratio witnessed a slight decrease to 1.49x (end-FY23: 1.58x) at end-FY24 due to higher short-term borrowings. Moreover, cash conversion cycle lengthened to 169 days in FY24, compared to 151 days in FY23, due to an increase in trade debts (end-FY24: Rs. 1.24b, end-FY23: Rs. 748.9m), which was a result of delayed budgetary allocations to DISCOs. Aging profile of trade debts showed improvement, as shown in the table below:

Aging profile of trade debts	FY23	FY24
Within 90 days	81.0%	88.2%
Between 91 to 180 days	6.0%	6.8%
Between 181 to 365 days	3.5%	1.3%
More than 365 days	9.6%	3.7%

At end-9MFY25, DSCR deteriorated to 0.94x on account of decrease in profits and FFO. Meanwhile, short-term debt coverage (2.09x) and current ratio (1.46x) slightly declined by end-9MFY25.

## GOVERNANCE

The Company has an experienced and qualified management team with the function wise organizational hierarchy in place. Board members consist of four executive and four independent directors including a female representation. The roles of chairman and chief executive are different with each being clearly defined. In addition, the Audit, Nomination, Risk Management and HR committees are chaired by independent directors. Out of twelve directors, nine have completed Directors' Training Program while the rest have availed exemption.

FINANCIAL SUMMARY (Rs Millions)						
<b>BALANCE SHEET</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>9MFY25</b>	<b>FY25P</b>
Property, plant and equipment	1,887.9	2,398.4	2,814.4	2,897.9	2,888.4	2,718.9
Stock in Trade	594.2	760.0	1,241.0	1,175.6	1,283.9	1,536.5
Trade debts	593.1	624.1	749.0	1,242.4	1,073.6	1,520.8
Cash and bank balances	40.6	15.7	18.4	10.1	26.4	10.0
<b>Total Assets</b>	<b>3,476.0</b>	<b>4,244.3</b>	<b>5,338.6</b>	<b>5,769.0</b>	<b>5,842.4</b>	<b>6,250.1</b>
Trade and Other Payables	326.6	341.7	524.6	514.4	543.2	426.8
Long-term Debt (incl. current portion and lease liability)	213.0	349.5	719.2	715.6	672.3	631.1
Short-Term Borrowings	650.6	690.4	851.5	1,055.0	1,129.5	1,345.7
<b>Total Debt</b>	<b>863.6</b>	<b>1,039.9</b>	<b>1,570.7</b>	<b>1,767.7</b>	<b>1,801.2</b>	<b>1,976.9</b>
<b>Total Liabilities</b>	<b>1,404.9</b>	<b>1,738.0</b>	<b>2,553.4</b>	<b>2,822.8</b>	<b>2,818.3</b>	<b>3,258.0</b>
Paid up Capital	350.0	350.0	350.0	350.0	350.0	350.0
<b>Tier-1 Equity</b>	<b>768.7</b>	<b>970.8</b>	<b>1,270.0</b>	<b>1,488.0</b>	<b>1,528.4</b>	<b>1,609.0</b>
<b>INCOME STATEMENT</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>9MFY25</b>	<b>FY25P</b>
Net Sales	2,077.3	2,586.3	3,545.5	4,192.4	2,927.8	3,965.0
Gross Profit	527.4	611.2	964.0	1,123.7	551.8	849.3
Finance Cost	87.5	103.3	248.0	392.7	258.9	334.8
Profit Before Tax	279.8	278.0	419.9	357.4	46.4	163.3
<b>Profit After Tax</b>	<b>201.9</b>	<b>217.0</b>	<b>292.9</b>	<b>219.0</b>	<b>26.8</b>	<b>115.9</b>
<b>Funds from Operation (FFO)</b>	<b>354.4</b>	<b>357.1</b>	<b>490.8</b>	<b>457.3</b>	<b>60.1</b>	<b>320.8</b>
<b>RATIO ANALYSIS</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>9MFY25</b>	<b>FY25P</b>
Gross Margin	25.4%	23.6%	27.2%	26.8%	18.8%	21.4%
Net Margin	9.7%	8.4%	8.3%	5.2%	0.9%	2.9%
FFO to Total Debt (x)*	0.41	0.34	0.31	0.26	0.03	0.16
FFO to Long Term Debt (x)*	1.66	1.02	0.68	0.64	0.09	0.51
Debt Servicing Coverage Ratio (x)*	2.60	2.90	2.40	1.52	0.94	1.31
Current Ratio (x)	1.40	1.50	1.60	1.49	1.46	1.48
Short-Term Debt Coverage (x)	1.80	2.00	2.30	2.29	2.09	2.27
Cash Conversion Cycle (days)*	156	149	151	169	186	228
Return on Average Assets (%)*	6.5%	5.6%	6.1%	3.9%	0.6%	1.9%
Return on Average Equity (%)*	30.7%	24.9%	26.1%	15.9%	2.3%	7.5%
Gearing (x)	1.12	1.07	1.23	1.19	1.18	1.23
Leverage (x)	1.83	1.79	2.01	1.90	1.84	2.02

Annualized\*

P: management projections



REGULATORY DISCLOSURES					Appendix I
Name of Rated Entity	EMCO Industries Limited				
Sector	Engineering				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
	RATING TYPE: ENTITY				
	May 23, 2025	A-	A2	Stable	Reaffirmed
	December 05, 2023	A-	A2	Stable	Reaffirmed
	November 14, 2022	A-	A2	Stable	Reaffirmed
	December 07, 2021	A-	A2	Stable	Reaffirmed
	October 27, 2020	A-	A2	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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Due Diligence Meetings Conducted	Name	Designation			Date
	Salem Rehman	Chief Executive			12-May-2025
	Riaz Ahmad	Chief Financial Officer			