

## RATING REPORT

### DWP Technologies (Pvt.) Limited

**REPORT DATE:**

March 04, 2019

**RATING ANALYSTS:**

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**RATING DETAILS**

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A-	A-2
<i>Rating Outlook</i>	<i>Stable</i>	
Rating Action	Initial	
<i>Rating Date</i>	<i>February 28, '19</i>	

**COMPANY INFORMATION**

Incorporated in 2003	External auditors: SARWARS Chartered Accountants
Private Limited Company	Chairman/CEO: Mr. Farooq Naseem
<b>Key Shareholders (with stake 5% or more):</b>	
Mr. Farooq Naseem – 40%	
Mr. Taha Muhammad – 19%	
Mr. Zaka Muhammad – 12%	
Mrs. Roohi Farooq Naseem – 12%	
Mr. Aftab F. Tapal – 6%	

**APPLICABLE METHODOLOGY(IES)**

**VIS Entity Rating Criteria: Industrial Corporates (May 2016)**

<https://www.vis.com.pk/ke-meth.aspx>

**DWP Technologies (Pvt.) Limited**

**OVERVIEW OF THE INSTITUTION**

DWP Technologies (Pvt.) Limited (DWPITL) was incorporated in 2003 as a private limited company under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017). The company provides end-to-end technology solutions and business process outsourcing services to institutional clients.

**Profile of the Chairman/CEO**

Mr. Farooq Naseem is the founder of DWPITL. He serves the company as Chairman **of the Board** and Chief Executive Officer. Mr. Farooq has over 20 years of experience in Electronics, Information Technology, Textile and Agro industries.

**Financial Snapshot**

**Tier-I Equity:** end-FY18: Rs. 1.1; end-FY17: Rs. 1.0b; end-FY16: Rs. 0.9b.

**Assets:** end-FY18: Rs. 4.3b; end-FY17: Rs. 3.6b; end-FY16: Rs. 2.8b.

**Profit After Tax:** FY18: Rs. 129m; FY17: Rs. 113m; FY16: Rs. 74m.

**RATING RATIONALE**

DWP Technologies (Pvt.) Limited (DWPITL) is a provider of end-to-end technology solutions and business process outsourcing (BPO) services with nationwide footprint. The company is a part of DWP Group and is majority owned by the sponsoring family. The assigned ratings take into account deep knowledge and expertise of the management team, positive dynamics of the IT solutions and services sector, and longstanding business relations with the vendors comprising top-tier multinational information technology companies and customers comprising largest telecom companies and banking institutions of Pakistan. Barriers to entry are considered moderate due to demanding technical, financial and operational expertise for pre-qualification bidding. The ratings also factor in manageable debt leverage and gearing levels and adequate debt service coverages. However, the ratings are constrained by high dependence of number and quantum of contracts, and vulnerability to performance risk.

**Rating Drivers**

**Business Strategy**

DWPITL has divided its operations into six strategic business units (SBUs) for the sake of simplicity, which include solutions, network, document technology, power, healthcare, and heat, air ventilation, & cooling (HAVC). The partnerships and affiliations with the top-tier technology companies, including Cisco Systems, Inc., EMC Corporation, VMware, Inc., Huawei Technologies Co., Ltd. and Xerox Corporation, etc., provide a competitive advantage and serve as a barrier to entry. Customer base comprises large organizations of whom business operations are dependent on technology infrastructure and solutions. Major customers include telecommunication companies, commercial banks, universities, corporates, and public entities.

**Sales and profitability**

Net revenues of the company have increased on a timeline basis, driven largely by growth in solutions, network, and HAVC businesses. Net revenue increased during FY18 on account of higher revenue from solution and HAVC services. Cost of sales were recorded higher due to increased import of IT infrastructure related products. However, gross margins improved on the back of higher revenues and favorable price during FY18. Administration expenses stood higher mainly on account of increase in salaries & benefits. Whereas, selling & distribution expenses also increased due to higher sales promotions and advertising spending for market awareness. Financial charges decreased slightly with the lower utilization of running finance during the year, while tax expenses was recorded higher. Resultantly, net profits stood higher with largely stable net margins during FY18.

**Liquidity & Cash Flows**

The liquidity position of DWPITL has remained adequate. Net working capital also stood lower owing to the aforementioned reason. The company meets its working capital requirements with a mix of short-term borrowings and internally generated funds. Growth in funds from operations (FFO) was underpinned by higher profits generation during FY18. The company's capacity to financial obligations is considered adequate, as depicted by slightly improved FFO to long-term debt and FFO to total debt ratios at end-FY18. The debt service coverage also recorded higher due to minimal burden of long-term financing along with higher cash flows.

**Capitalization and Funding**

Core equity stood higher on the back of profits retention during FY18. The debt profile is largely composed of short-term borrowings, with a nominal portion of long-term financing. Long-term debt decreased with the scheduled repayments. Short-term borrowings comprise finance against trust receipt, running finance facility as well as letter of credit against which the company recognizes stock in transit. Gearing and debt leverage indicators improved on account of reduction in total borrowings and higher equity base. As per the management, there is no plan to mobilize any major long-term borrowings for the foreseeable future, while the utilization of short-term will remain dependent on working capital requirements. Hence, leverage indicators are projected to improve on the back of profit retention.

**DWP Technologies (Pvt.) Limited**
**Annexure I**

<b>FINANCIAL SUMMARY</b> <i>(amounts in PKR millions)</i>			
<b>BALANCE SHEET</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>
Non-Current Assets	551	543	949
Stock-in-Trade	554	601	691
Stock in Transit	225	375	106
Trade Debts	767	1,494	1,063
Loans, Advances, Deposits & Prepayments	508	603	730
Cash and Bank Balance	413	358	829
<b>Total Assets</b>	<b>3,018</b>	<b>3,974</b>	<b>4,368</b>
Trade and Other Payables	1,193	1,774	1,976
Other Liabilities	111	114	204
Short Term Borrowings	666	933	918
Long-Term Borrowings <i>(Inc. current matur)</i>	50	43	31
<b>Total Liabilities</b>	<b>2,020</b>	<b>2,864</b>	<b>3,129</b>
<b>Tier-1 Equity</b>	<b>875</b>	<b>988</b>	<b>1,117</b>
<b>INCOME STATEMENT</b>			
<b>Net Sales</b>	<b>3,173</b>	<b>4,367</b>	<b>4,900</b>
<b>Gross Profit</b>	<b>554</b>	<b>757</b>	<b>904</b>
<b>Operating Profit</b>	<b>153</b>	<b>229</b>	<b>327</b>
<b>Profit After Tax</b>	<b>74</b>	<b>113</b>	<b>129</b>
<b>FFO</b>	<b>60</b>	<b>155</b>	<b>162</b>
<b>RATIO ANALYSIS</b>			
<b>Gross Margin (%)</b>	<b>17.5</b>	<b>17.3</b>	<b>18.5</b>
<b>Net Working Capital</b>	<b>531</b>	<b>650</b>	<b>379</b>
<b>FFO to Long-Term Debt</b>	<b>1.18</b>	<b>3.68</b>	<b>5.29</b>
<b>FFO to Total Debt</b>	<b>0.08</b>	<b>0.16</b>	<b>0.17</b>
<b>Debt Servicing Coverage Ratio (x)</b>	<b>1.61</b>	<b>3.55</b>	<b>5.53</b>
<b>ROAA (%)</b>	<b>-</b>	<b>3.2</b>	<b>3.1</b>
<b>ROAE (%)</b>	<b>-</b>	<b>12.1</b>	<b>12.3</b>
<b>Gearing (x)</b>	<b>0.82</b>	<b>0.99</b>	<b>0.85</b>
<b>Adjusted Gearing (x)*</b>	<b>0.35</b>	<b>0.62</b>	<b>0.11</b>
<b>Debt Leverage (x)</b>	<b>2.31</b>	<b>2.90</b>	<b>2.80</b>
<b>Adjusted Debt Leverage (x)*</b>	<b>1.84</b>	<b>2.54</b>	<b>2.06</b>
<b>Inventory + Receivable/Short-term Borrowings (x)</b>	<b>2.32</b>	<b>2.65</b>	<b>2.03</b>
<b>Current Ratio</b>	<b>1.31</b>	<b>1.27</b>	<b>1.13</b>

\*Excluding Cash & Bank

**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.

REGULATORY DISCLOSURES		Annexure III			
<b>Name of Rated Entity</b>	DWP Technologies (Pvt.) Limited				
<b>Sector</b>	Technology				
<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>				
	28/02/2019	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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