RATING REPORT

DWP Technologies (Pvt.) Limited

REPORT DATE:
July 13, 2020

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity Rating	A-	A-2	A-	A-2
Rating Date	*July 13, '20*		*February 28, '19*	
Rating Outlook	*Rating Watch Negative*		*Stable*	
Rating Action	*Maintained*		*Initial*	

COMPANY INFORMATION

Incorporated in 2003	External auditors: SARWARS Chartered Accountants
Private Limited Company	Chairman/CEO: Mr. Farooq Naseem
Key Shareholders (with stake 5% or more):	
Mr. Farooq Naseem – 48%	
Mrs. Roohi Farooq Naseem – 27%	
Mr. Aftab F. Tapal – 6%	

APPLICABLE METHODOLOGY(IES)

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

DWP Technologies (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

DWP Technologies (Pvt.) Limited (DWPTL) was incorporated in 2003 as a private limited company under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017).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 DWPTL. 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: HY20: Rs. 1.3b; end-FY19: Rs. 1.2; end-FY18: Rs. 1.1; end-FY17: Rs. 1.0b

Assets: HY20: Rs. 4.9b; end-FY19: Rs. 4.6; end-FY18: Rs. 4.4b; end-FY17: Rs. 3.6b

Profit After Tax: HY20: Rs. 42.0m; FY19: Rs. 101m; FY18: Rs. 129m; FY17: Rs. 113m

RATING RATIONALE

The ratings assigned to DWP Technologies (Pvt.) Limited (DWPTL) take into account the company operating under the umbrella of DWP Group; its presence in the ever-evolving highly skilled IT solutions and services sector coupled with extensive knowledge and expertise of the management team in the relevant industry. The ratings draw comfort from the company long-term business relations with the vendors comprising top-tier multination 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 reflect minimal reliance of the company on long-term borrowings and manageable leverage indicators. However, the ratings factor in timeline decline in revenues resulting in heightened financial risk for the company; volatility in liquidity profile remains a key rating concern. Further, ratings remain sensitive to innate uncertainty involving bidding contracts, timely completion of projects, vulnerability of performance risk and complex revenue recognition policies involving arrear adjustments.

The ongoing geopolitical scenario, global economic landscape and slowdown in domestic economic activity amidst the COVID-19 pandemic is likely to pose financial risk to the company impacting revenues, profitability, liquidity and debt repayment capacity going forward. Therefore, the ratings incorporate domino effect the financial crunch of DWPTL's end-customers will have on the company's overall performance indicators. Therefore, company's ability to maintain scale of operations, sustain profit margins and contain leverage indicators around current levels would be the key ratings sensitivities. Further, disruption in operations due to coronavirus outbreak may be a key business risk factor.

Rating Drivers

Group introduction: The group is a provider of products, solutions, and services in the fields of consumer electronics and technology. DWPTL is one of the four companies of DWP Group and is one of the leading providers of end-to-end technology solutions and business process outsourcing services to the corporates, financial services, telecom, defense, education, and public sectors. Other group companies include Digital World Pakistan (Pvt.) Limited (DWPL), DWP Engineering Industries (Pvt.) Limited (DWPEIL), and Elchem Power (Pvt.) Limited (EPL). DWPL deals in import, assembly and sale of home appliances, including air conditioners, televisions, microwave ovens and water dispensers, among others while DWPEIL is engaged in manufacturing and sale of refrigerators. EPL provides solar power and battery solutions to corporate clients.

Business Strategy: The business model of DWPTL revolves around provision of a wide variety of products, services, and solutions, such as enterprise computing & storage, borderless networking & information security, data center infrastructure, business process outsourcing, and energy solutions. DWPTL has divided its operations into six strategic business units (SBUs) for the stake 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.

Projects for the implementation of IT infrastructure and provision of services and solutions are awarded through competitive bidding process. DWPTL is considered one of the pre-qualified bidders in the industry. The company has been able to secure long- and short-horizon projects due to its historical performance track record, deep industry knowledge and experience of the senior management, and financial capacity. DWPTL currently has numerous projects in the pipeline, including Higher Education Commission's (HEC) smart university project worth Rs. 5b with execution time horizon of seven years.

Sales and profitability: Net revenues of the company were recorded slightly lower at Rs. 4.7b during FY19 (FY18: Rs. 4.9b) mainly on account of execution of fewer solutions and HAVC related projects. On the other hand cost of sales also declined proportionately demonstrating no major shift in the revenue mix; the contribution of HVAC related projects and IT infrastructure projects has remained the same as of last year. Hence, as a result of sales mix remaining unchanged, the gross margins of the company were largely maintained at FY18's level at 18.5% during FY19. The increase in administration expenses to Rs. 312.5m (FY18: Rs. 290.6m) during FY19 was a result of inflationary pressure on employee annual increments as the increase was largely manifested in compensation benefits. On the other hand, selling and distribution expense was nominally rationalized to Rs. 280.9m (FY18: Rs. 286.0m) on account of decrease in advertising and promotion expenses. As a result of decline in revenue generation coupled with overall increase in operating expenses, the operating profit declined during the outgoing year. Other expenses incurred by the company decreased on a timeline basis to Rs. 17.5m during FY19 as compared to Rs. 21.9m in the preceding year as an outcome of reduced expense on employee pension schemes. However, in the backdrop of increasing average benchmark interest rates coupled with higher utilization of short-term borrowings, finance cost of the company increased during FY19. Subsequently as a function of drop in sales and higher operating and financial expenses, DWPTL before tax profit was recorded higher during FY19 as compared to preceding year. Furthermore, accounting for taxation the company's bottom line was reported lower at Rs. 100.9m (FY18: Rs. 128.9m) during FY19.

During HY20, net sales amounted to Rs. 2.0b, indicating a downward trend in revenues, with gross margins exhibiting slight improvement during ongoing year in line with increased contribution of software related products entailing lower input cost. The decline in administration and selling cost was in sync with decline in revenues. Moreover, on an annualized basis the finance cost was also recorded lower at Rs. 9.1m in line with decline in average short-term borrowings adjusted for letter of credit facilities. However, the decline in the top line translated in reduced after tax profit amounting to Rs. 41.7m reaped during HY20 as compared to Rs. 101.1m in the corresponding period last year.

Liquidity & Cash Flows: DWPTL's liquidity position deteriorated during the period under review as the Funds from Operations (FFO) declined from Rs. 162.1m during FY18 to negative in FY19 primarily as a result of sizable income tax paid amounting to Rs. 387.9m (FY18: Rs. 188.7m) along with reduced profitability. As a result, FFO in terms of debt obligations has remained insufficient. The FFO generation remained negative during HY20; however the declining trend was largely rescued during the ongoing year as the quantum of negative cashflows declined during HY20 as a result of adjustment of income tax expense. Nonetheless, owing to prevalence of cash outflows from operating activities, the liquidity profile remains critical to ratings and will be monitored vigilantly. Further, Debt Service Coverage Ratio (DSCR) was also recorded in negative during FY19; meanwhile the same was reported nominally positive at end-HY20. The company meets its working capital requirements with a mix of short-term borrowings and internally generated funds. The company prepares quarterly execution plan for each project and imports required products accordingly. DWPTL receives payments within 30 – 45 days of invoice generation and avails a credit period of up to 120 days from the suppliers.

Capitalization and Funding: The core equity of the company augmented to Rs. 1.3b (FY19: Rs. 1.2b; FY18: Rs. 1.1b) by end-HY20 on the back of internal capital generation, while total equity increased to Rs. 1.4b (FY19: Rs. 1.3b; FY18: Rs. 1.2b). Debt profile of the company majorly comprises short-term borrowings with minimal reliance on long term financing. Long-term debt decreased to Rs. 14.8m (FY19: Rs. 20.1m; FY18: Rs. 30.7m) by end-HY20 in line with timely repayment of contractual obligations. 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. The short-term borrowings stood higher at Rs. 1.4b at end-HY20 (FY19: Rs. 1.1b; FY18: Rs. 918m) due to increase in outstanding against letter of credit facilities and higher running finances. Trade & other payables stood Rs. 2.0b by end-HY20, quantum of payables has been range bound since the last two consecutive financial years. Albeit expansion of equity base, gearing has increased to 1.10x (FY19: 0.96x; FY18: 0.85x) in line with increased utilization of short-term credit; however debt leverage remained at FY18's level of 2.81x at end-HY20; although the same declined to 2.70x at end-FY19, the leverage was maintained at the same level owing to offsetting of increase in borrowings by decline in tax liabilities. As per the management, there is no plan to mobilize new long-term debt over the foreseeable future, while the utilization of short-term will remain dependent on working capital requirements hence, the further augmentation of equity and will positively impact the leverage indicators.

Asset Mix: Fixed assets increased to Rs. 1.1b at end-HY20 (FY19: Rs. 1.2b; FY18: Rs. 949m) with the addition of capital work in progress (CWP). CWP is related to ongoing construction work on office and warehouse building along with costs of inventory purchased for HEC project against which no economic benefits have been realized at the reporting date. The cost is to be amortized over the period of seven years starting from the year in which benefit accrue. Stock in trade stood higher at Rs. 847.3m (FY19: Rs. 999.1m;

FY16: Rs. 691.2m) in line with higher stock semi-finished and finished goods held against executable orders. Trade receivables also increased during the review period owing to around 98% of the sales being made on credit coupled with relaxed credit terms offered to customers to maintain market presence. DWPTL typically receives payments within 30 to 45 days from the date of invoice generation. The aging profile as of end-FY19 shows that 22% (FY18: 26%) of outstanding receivables were past due 90 days and 10% (FY18: 13%) were past due 180 days. No provision for doubtful debts was recognized during the year. Loans and advances stood higher at Rs. 787.1m (FY19: Rs. 788.8m; FY18: Rs. 561.1m) with the increase manifested in advance tax asset. Trade deposits & prepayments decreased to Rs. 109.2m (FY19: Rs. 140.8m; FY18: Rs. 169.6m) mainly owing to reduction in earnest money at end-HY20.

Corporate Governance: There are three members on the Board of Directors (BoD). The management team is spearheaded by Mr. Farooq Naseem who also serves as the chairman of the BoD. The Board meetings are held on ad hoc basis and minutes are not maintained formally. The senior management comprises seasoned professionals from the industry and has depicted stability. The financial statements were audited by Sarwars Chartered Accounts who have been reappointed for FY20. A modular ERP platform has been deployed for business process management and reporting. The cloud database server is based on Oracle's grid infrastructure. The company carries backups at regular intervals.

List of Top Vendors and Customers — Appendix I

Vendor Name	DWP's Status	Product Line
EMC	Velocity Solution Center Partner	Storage
Lenovo	Tier-I Partner	Laptops, Computers, LCDs, Servers
Oracle	Gold Partner	Data Base, Sible, Licensing
IBM	Tier-II Partner	Computers, LCDs, Servers, Storage
VM Ware	Enterprise Partner	Security Solutions
McAfee	Premier Partner	Security Solutions
RSA	Tier-I Distributor	Security Solutions
CISCO	Gold Partner/Authorized Technology Partner	All CISCO Networking Equipment
TDME	Distributor	Cisco Networking Equipment
Xerox	Sole Distributor	Photocopier, Printer & Consumable

Customer Name			
Ufone	SCB	Pak Arab Fertilizers	Comsats
Telenor	HBL	ABB (Pvt) Ltd.	City School
Mobilink	MCB	LESCO	Virtual University
Warid Telecom	UBL	NCP	IBA
Wateen Telecom	ABL	Pak Navy	NUST
PTCL	Meezan Bank	Pakistan International Air Lines	University of Lahore
NTC	Dubai Islamic Bank	Agha Khan University Hospital	UET
SECP	National Bank	BYCO	Punjab University
PSO	State Bank of Pakistan	QICT	NDC
KESC	Sindh Bank	KICT	LUMS

Sr#	Customer Name	FY19 Invoices
1	Higher Education Commission	250,414,344
2	Habib Bank Limited	435,287,122
3	K-Electric	164,210,503
4	Meezan Bank Limited	116,572,276
5	Mobilink	129,773,316
6	Pak Telecom Mobile Limited (Ufone)	142,946,490
7	Reliance Aviation	177,825,096
8	Standered Chartered Bank	164,340,142
9	Telenor Pakistan (Pvt.) Ltd.	220,392,789
10	United Bank Limited	174,293,916

DWP Technologies (Pvt.) Limited Annexure II

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY17**	**FY18**	**FY19**	**˙HY20**
Non-Current Assets	543	949	1,176	1,132
Stock-in-Trade	601	691	999	847
Stock in Transit	375	106	179	575
Trade Debts	1,494	1,063	1,198	1,300
Loans, Advances, Deposits & Prepayments	603	730	930	896
Cash and Bank Balance	358	829	141	164
Total Assets	**3,974**	**4,368**	**4,622**	**4,915**
Trade and Other Payables	1,774	1,976	1,939	2,024
Short Term Borrowings	933	918	1,144	1,372
Long-Term Borrowings *(Inc. current matur)*	43	31	20	15
Total Liabilities	**2,864**	**3,129**	**3,282**	**3,533**
Paid Up Capital	304	304	304	304
Tier-1 Equity	**988**	**1,117**	**1,217**	**1,259**
INCOME STATEMENT	**FY17**	**FY18**	**FY19**	**˙HY20**
Net Sales	4,367	4,900	4,663	2,020
Gross Profit	757	904	863	376
Operating Profit	229	327	269	107
Profit Before Tax	199	296	236	96
Profit After Tax	113	129	101	42
FFO	155	162	(138)	(9)
RATIO ANALYSIS	**FY17**	**FY18**	**FY19**	**˙HY20**
Gross Margin (%)	17.3	18.5	18.5	18.6
Net Working Capital	650	379	415	905
FFO to Long-Term Debt	3.68	5.29	(6.88)	(1.22)
FFO to Total Debt	0.16	0.17	(0.12)	(0.01)
Debt Servicing Coverage Ratio (x)	3.55	5.53	(3.49)	0.005
ROAA (%)	3.2	3.2	2.2	1.7
ROAE (%)	12.1	12.3	8.6	6.7
Gearing (x)	0.99	0.85	0.96	1.10
Debt Leverage (x)	2.90	2.80	2.70	2.81
Inventory + Receivable/Short-term Borrowings (x)	2.65	2.03	2.46	3.42
Current Ratio	1.27	1.13	1.14	1.31

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure III

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 IV

Name of Rated Entity	DWP Technologies (Pvt.) Limited
Sector	Technology
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		
13/07/2020	A-	A-2	Rating Watch Developing-Negative	Maintained
28/02/2019	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.
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.
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