RATING REPORT

DWP Technologies (Pvt.) Limited

REPORT DATE:
July 2, 2021

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	*June 30, '21*		*July 13, '20*	
Rating Outlook	*Stable*		*Rating Watch Negative*	
Rating Action	*Maintained*		*Maintained*	

COMPANY INFORMATION

Incorporated in 2003	External auditors: SARWARS Chartered Accountants
Private Limited Company	Chairman/CEO: Mr. Muhammad Farooq Naseem
Key Shareholders (with stake 5% or more):	
Mr. Muhammad 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 Limited (DWPTL) was incorporated in 2003 as a private limited company under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017).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. Muhammad Farooq Naseem is the founder of DWPTL. He serves the company as Chairman of the Board and Chief Executive Officer. Mr. Farooq has over 25 years of experience in Electronics, Information Technology, Textile and Agro industries.

Financial Snapshot

Tier-I Equity: end-1HFY21: Rs. 1.5b; end-FY20: Rs. 1.4b; end-FY19: Rs. 1.2b;

Assets: end-1HFY21: Rs. 5.9b; end-FY20: Rs. 5.8b; end-FY19: Rs. 4.6b;

Profit After Tax: 1HFY21: Rs. 102m; FY20: Rs. 167m; FY19: Rs. 101m;

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's long-term 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.

Growth in revenue has been witnessed during the ongoing year on the back of increase in demand of technology related products during pandemic. Gearing have remained comfortable while debt leverage continued to remain high amid higher trade creditors and advances from customers. Volatility in cash flows remains a concern. Ratings remain sensitive to inherent uncertainty involving bidding contracts and vulnerability to performance risk.

Rating Drivers

Business Strategy: 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, banking/financial services, telecom, defense, education, and public sector companies. Other group companies include Digital World Pakistan (Pvt.) Limited (DWPL), DWP Engineering Industries (Pvt.) Limited (DWPEIL), and Elchem Power (Pvt.) Limited (EPL). 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) namely, 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., DELL, Lenovo, 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.

Asset mix largely comprised current assets: Total assets stood slightly higher at Rs. 5.9b (FY20: Rs. 5.8b; FY19: Rs. 4.6b) at end-1HFY21. Stock in trade stood higher at Rs. 1.2b (FY20: Rs. 801.6m; FY19: Rs. 999.1m) by end-1HFY21 owing to increase in finished goods inventory in line higher unbilled projects in execution stage and raw materials. Meanwhile, stock in transit stood lower at Rs. 343.5m (FY20: Rs. 631.6m; FY19: Rs. 178.8) at end-1HFY21. The company prepares quarterly execution plan for each project and imports required products accordingly. Trade debts stood higher at Rs. 1.8b (FY20: Rs. 1.2b; FY19:

Rs.1.2b) by end-1HFY21. DWPTL generally receives payments within 30 – 45 days of invoice generation while given 90% of the client base comprising corporates, commercial banks and public entities, credit risk arising from trade debts is considered manageable. Aging of trade debts indicates that 9% of receivables were due above six months. Loans and advances amounted to Rs. 922.6m (FY20: Rs. 1.1b; FY19: Rs. 788.8m) and mainly constituted advance taxation and margin deposit against LCs and bank guarantees. Trade deposits and short term prepayments of Rs. 116.1m (FY20: Rs. 124.5m; FY19: Rs. 140.8m) were largely related to security and earnest money.

Fixed assets stood at Rs. 1.1b (FY20: Rs. 1.1b; FY19: Rs. 1.2b) at end-1HFY21. Property, plant and equipment (PP&E) was recorded at Rs. 638.9m (FY20: Rs. 643.9m; FY19: Rs. 489.5m) at end-1HFY21. Increase in PP&E during FY20 was mainly related to capitalization of warehouse building. Capital work in progress (CWIP) decreased to Rs. 376.4m (FY20: Rs. 409.1m; FY19: Rs. 625.5m) by end-1HFY21 and entirely comprised assets under performance obligation which the company has been amortizing since 2018. It comprises cost of inventory purchased for HEC project against which economic benefit is set to be realized, going forward. The project entailed providing network and security surveillance services to over 100 universities. Long-term investments comprised 0.44% equity investment in DWPL, amounting Rs. 2.5m. Other long-term investments constituted Sharia compliant mutual funds for two years carried at market value with profit reinvested on a monthly basis.

Growth in topline in the ongoing year: Net revenues of the company were recorded slightly higher at Rs. 4.8b (FY19: Rs. 4.7b) in FY20 while slower growth in revenues was mainly on account of fewer HVAC projects executed amid economic slowdown due to lockdown. Revenue from HVAC amounted to Rs. 1.2b (FY19: Rs. 1.4b) with decrease in contribution to the revenue mix to 25% in FY20 vis-à-vis 29% in the preceding year. Given higher network projects executed amounting Rs. 1.8b (FY19: Rs. 1.3b), its contribution in the sales mix increased to 38% (FY19: 28%) during FY20. Revenue contribution from solutions and document technology remained largely unchanged at 27% and 8% (FY19: 28% and 9%), respectively. Cost of sales was recorded slightly higher at Rs. 3.9b (FY19: Rs. 3.8b) during FY20. Gross margins increased slightly to 19% (FY19: 18.5%). Administrative expenses decreased to Rs. 296.5m (FY19: Rs. 312.5m) primarily on account of lower depreciation charge and salaries, allowances and benefits. While average headcount was higher, the decrease in salaries expense was in line with higher number of lower cost contractual employees hired in FY20 for some projects. Selling and distribution expenses decreased to Rs. 270.7m (FY19: Rs. 280.9m) in line with overall decrease in related costs to curtail operating expenses. Freight and carriage outward was lower as major projects have now concise delivery places or one-point delivery given reduction in power projects which entailed relatively higher cost. Finance cost increased slightly to Rs. 26.6m (FY19: Rs. 22.6m) owing to higher average borrowings adjusted for letter of credit facilities and increase in banking charges. Other expenses of Rs. 26.4m (FY19: Rs. 17.5m) pertained to employees related expenses and loss on long-term investment. Other income was nominal at Rs. 0.1m (FY19: Rs. 6.8m). Accounting for taxation, net profit was recorded higher at Rs. 167.1m (FY19: Rs. 100.9m) during FY20 with slightly higher net margin of 6.1% (FY19: 5.1%) in FY20.

During 1HFY21, net sales amounted to Rs. 3.3b; the management expects topline to grow to Rs. 6b by end-FY21. DWPTL has recorded revenue amounting Rs. 1.7b during Jan-May'21 while orders amounting Rs. 1.5b are in the execution stage out of which, the management expects to record further revenue of around Rs. 1b till end-FY21. Rise in demand of technology related products during Covid-19 has reflected positively on company's revenues. For FY22, the company has secured projects from various sectors amounting Rs. 1.0b. Gross margins during 1HFY21 decreased slightly to 18.2% mainly on account of some decrease in profit margins of network related projects due to higher input cost. Finance cost amounted to Rs. 20.3m in 1HFY21 and recorded an increase on an annualized basis due to higher average short-term borrowings adjusted for letter of credit facilities along with uptick in long-term borrowings. Net profit stood higher at Rs. 101.6m during 1HFY21 as compared to Rs. 41.7m in the corresponding period last year.

Improvement in liquidity position in the ongoing year on back of lower tax adjustments: Liquidity position of the company improved in 1HFY21 as Funds from Operations (FFO) turned positive to Rs. 164.3m from negative FFO in the preceding two years (FY20: Rs. (54.4)m; FY19: Rs. (138.1m)). FFO was negative in FY20 and FY19 mainly due to higher tax deduction in advance. In the ongoing year, tax deductions were lower as the company received exemption from withholding tax (WHT) for six months. DWPTL is registered as a manufacturing concern in tax framework and is subject to tax deduction at import stage as withholding tax. Given higher advance tax deduction at import stage, sizeable tax assets are accumulated, rendering the company eligible for tax exemption from time to time. Annualized FFO to long-term debt and total debt (excluding letter of credit facilities) were adequate at 3.45x and 0.25x, respectively. Given modest repayments of long-term borrowings, Debt Service Coverage Ratio (DSCR) was sufficient at 7.73x in 1HFY21. Coverage of short-term borrowings via inventory and trade debts remained adequate at 2.74x (FY20: 1.89x; FY19: 2.07x) at end-1HFY21.

Steadily increasing a relatively smaller equity base on the back of profit retention: The core equity of the company increased to Rs. 1.5b (FY20: Rs. 1.4b; FY19: Rs. 1.2b) by end-1HFY21 on the back of profit retention while total equity increased to Rs. 1.6b (FY20: Rs. 1.5b; FY19: Rs. 1.3b) after including revaluation surplus on land. Debt profile of the company majorly comprises short-term borrowings which stood at Rs. 1.2b (FY20: Rs. 1.4b; FY19: Rs. 1.1b) at end-1HFY21 and largely comprised outstanding letter of credit facilities. The company has available letter of credit facilities amounting to Rs. 1.9b (FY20: Rs. 1.7b; FY19: Rs. 1.7b) from various commercial banks. Long-term borrowings stood at Rs. 95.3m (FY20: Rs. 80.8m; FY19: Rs. 20.1m) at end-1HFY21; the company obtained diminishing musharaka facility under SBP Refinance Scheme for payment of wages and salaries in FY20 with a total availed limit of Rs. 210m at a subsidized rate.

Gearing remained comfortable at 0.88x (FY20: 1.06x; FY19: 0.96x) at end-1HFY21 owing to some decrease in debt level and higher equity base. Whereas debt leverage continued to remain high at 2.92x (FY20: 3.09x; FY19: 2.70x) at end-1HFY21 on account of higher trade and other payables. Trade and other payables stood higher at Rs. 2.9b (FY20: Rs. 2.6b;

FY19: Rs. 1.9b) mainly due to increase in trade creditors and advances from customers. The company avails a credit period of up to 120 days from the suppliers. Increase in trade and other payables in FY20 vis-à-vis FY19 was mainly manifested in higher advances from customers mainly due to payment from a single customer against bank guarantee amounting Rs. 500m.

The management has mobilized an additional long-term borrowing to the tune of Rs. 250m in 3QFY21 to finance a long-term technology related project. The loan is obtained under Temporary Economic Refinance Scheme (TERF) charged at a subsidized rate. Capitalization indicators are expected to remain around current levels, going forward.

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

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	FY18	FY19	FY20	1HFY21
Non-Current Assets	949	1,180	1,114	1,078
Stock-in-Trade	691	999	802	1,207
Stock in Transit	106	179	632	343
Trade Debts	1,063	1,194	1,176	1,762
Loans, Advances, Deposits & Prepayments	730	930	1,184	1,039
Cash and Bank Balance	829	141	877	512
Total Assets	**4,368**	**4,622**	**5,785**	**5,942**
Trade and Other Payables	1,976	1,934	2,624	2,872
Short Term Borrowings	918	1,144	1,382	1,210
Long-Term Borrowings *(Including current maturity)*	31	20	81	95
Other Liabilities	204	184	191	156
Total Liabilities	**3,129**	**3,282**	**4,278**	**4,333**
Paid Up Capital	304	304	304	304
Tier-1 Equity	**1,117**	**1,217**	**1,384**	**1,486**
Total Equity	**1,239**	**1,340**	**1,507**	**1,609**

INCOME STATEMENT	FY18	FY19	FY20	1HFY21
Net Sales	4,900	4,663	4,829	3,254
Gross Profit	904	863	917	592
Operating Profit	327	269	350	228
Profit Before Tax	296	236	297	196
Profit After Tax	129	101	167	102
FFO	162	(138)	(54)	164

RATIO ANALYSIS	FY18	FY19	FY20	1HFY21
Gross Margin (%)	18.5	18.5	19.0	18.2
Net Working Capital	379	236	533	680
FFO to Long-Term Debt	5.29	-	-	3.45*
FFO to Total Debt	0.17	-	-	0.25*
Debt Servicing Coverage Ratio (x)	5.53	-	-	7.73
ROAA (%)	3.2	2.3	3.2	3.5*
ROAE (%)	12.3	8.6	12.8	14.2*
Gearing (x)	0.85	0.96	1.06	0.88
Debt Leverage (x)	2.80	2.70	3.09	2.92
Inventory + Receivable/Short-term Borrowings (x)	2.16	2.07	1.89	2.74
Current Ratio	1.13	1.07	1.13	1.16

**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

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	DWP Technologies (Pvt.) Limited
Sector	Technology
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see table below
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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Due Diligence Meetings Conducted	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
30/06/2021	A-	A-2	Stable	Maintained
13/07/2020	A-	A-2	Rating Watch Developing-Negative	Maintained
28/02/2019	A-	A-2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Liaquat Ali	Senior Manager Banking & Finance/Company Secretary	June 02, 2021