RATING REPORT

DWP Technologies (Pvt.) Limited

REPORT DATE:
July 19, 2022

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 19, '22*		*June 30, '21*	
Rating Outlook	*Stable*		*Stable*	
Rating Action	*Reaffirmed*		*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 A. Tapal – 6%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (August 2021)
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 Limited (DWPTL) was incorporated in 2003 as a private limited company under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017).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.

RATING RATIONALE

DWP Technologies (Pvt.) Limited Pakistan (DWPTL) is one of the four companies of DWP Group and is involved in the provision of end-to-end technology solutions and business process outsourcing services to banks/financial institutions, as well as corporations in the 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). The assigned ratings of DWPTL take into account the company's long-term business relations with the vendors comprising top-tier multinational information technology companies, and customers comprising large public and private sector organizations of Pakistan mainly from the telecom and banking sectors.

Business risk is on the lower side because of long-term relationships with suppliers and clients.

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. Operations of the company are divided into six strategic business units (SBUs) namely, solutions, network, document technology, power, Mechanical Electrical Plumbing (MEP), and Sustainable Digital Energy (SDE). There are partnerships and affiliations with the top tier multinational IT companies, such as Cisco Systems, Inc., DELL, Lenovo, HP, EMC Corporation, VMware, Inc., Huawei Technologies Co. Ltd. and Xerox Corporation. This provides a competitive advantage over other businesses in the industry and enables the company to place competitive bids for large-scale projects as well. Furthermore, most of the customers are large entities, including banks, telecom companies, and government organizations. DWPTL has worked on multiple projects over the years, helping to establish a relationship of trust, which in turn leads to recurring business.

Topline of the company has depicted growth on a timeline basis.

Revenue for FY21 rose by 20% YoY. Major contracts completed during the period included multiple projects for major banks, telecom companies, large corporates, and other government & semi-government entities spread across all business segments. The sales process involves the quotation of tenders by clients, specifying their exact requirements. DWPTL then communicates these with the suppliers who quote their prices for different projects. On the basis of quotation from the suppliers, the entity puts forward its bids. In order to ensure that a contract is secured, major partners tend to offer discounts, which positively impacts the gross margins.

In order to create synergies, clients usually want similar systems, which leads to recurrent orders. The management expects a further increase of about 15% in the topline in the ongoing year, and the sales figure for 1HFY22 is on track to achieve the same. Recently, the entity has been awarded a large project from a major government entity and various projects of over Rs. 5b are in process in various stages. The company has recently started a new business unit catering to data centers, which is called Sustainable Digital Energy (SDE). It will offer an additional stream of revenue and is likely to grow over time. Going forward, the plan is to discontinue the Power unit (which has very limited contribution in the overall mix) and replace it with the Sustainable Digital Energy division given increased focus of clients towards management of renewable energy sources.

Stable growth in profit levels with margins improving on a timeline basis

Gross margins for FY21 increased slightly to 19.5% (FY20: 19.0%, FY19: 18.5%) arising as a result of the varying nature of projects. Overall profitability profile of the company was supported by lower finance charges (lower bank charges and no loss on long-term investment) and other income. With other expenses increasing in line with sales growth, net margins of the company improved to 4.5% for FY21 (FY20: 3.5%, FY19: 2.2%). Profitability indicators followed a similar increasing trend in HY22. However, maintaining the same in view of rising interest rate environment is considered important from a ratings perspective.

An adequate liquidity profile.

Funds from Operations (FFO) of the company depicted noticeable improvement in FY21 on the back of higher profitability, which was sustained in 1HFY22. Consequently, cash flow coverages of the company improved significantly at end-Dec'21, despite an increase in the quantum of debt. FFO to Long Term Debt, FFO to Total Debt, and Debt Servicing Coverage Ratio were reported at 0.71x (FY21: 0.85x, FY20: -0.67x), 0.11x (FY21: 0.15x, FY20: -0.04x), and 1.64x (FY21: 9.72x, Fy20: -0.52x), respectively. 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. Inventory and trade debts also provide sufficient coverage against short-term debt.

Going forward, the projected enhancement in profitability is expected to improve the liquidity profile, which is important to maintain assigned ratings. However, given increasing working capital requirements due to currency devaluation and dependence on imports from key IT suppliers, maintenance of liquidity coverages at similar levels is considered important.

Leverage indicators have increased on a timeline basis

Equity base of the company (excluding revaluation surplus) increased at end-Dec'21 led by profit retention. The growth in equity base was subdued in the review period as the company paid dividends for the first time since inception in FY21 and HY22 with a similar trend projected going forward. Quantum of debt rose in the period July'20 to Dec'21, a major proportion of the same was attributable to additional short-term borrowings to finance the working capital needs. Furthermore, The company also availed long-term facilities for the payment of salaries & wages, and to finance a long-term project at subsidized rates. Resultantly, despite the growth of equity base, gearing ratio was reported higher at end-Dec'21 (1HFY22: 1.45x, FY21: 1.48x, FY20:1.06x) and leverage ratio remained at elevated levels (1HFY22: 3.06x, FY21: 3.41x, FY20: 3.09x). High leverage levels are mainly on account of advances from customers. Going forward, the long-term loan is expected to be repaid gradually, while the quantum of short-term borrowings will vary in line with the working capital requirements of the business. No additional long-term debt is planned. Ratings are sensitive to strengthening of capitalization indicators going forward.

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure I

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 II

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				
19/07/2022	A-	A-2	Stable	Reaffirmed
30/06/2021	A-	A-2	Stable	Maintained
13/07/2020	A-	A-2	Rating Watch - Negative	Maintained
28/02/2019	A-	A-2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Liaqat Ali	DGM Banking & Finance	April 13, 2022
Mr. Hamza Shahbaz	Manager Banking	April 13, 2022