RATING REPORT

DWP Technologies (Pvt.) Limited

REPORT DATE:
Aug 18, 2023

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	*Aug 18, '23*		*July 19, '22*	
Rating Outlook	*Stable*		*Stable*	
Rating Action	*Reaffirmed*		*Reaffirmed*	

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 – 47.7%	
Mrs. Roohi Farooq Naseem – 26.9%	
Mr. Aftab A. Tapal – 5.9%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Corporates (May 2023):
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

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 Limited (DWPTL) was incorporated in 2003 as a private limited company under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017).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 DWPL. 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 is mainly 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. DWPL is part of the DWP Group which is largely involved in the consumer electronics and technology industries. Other group entities include Digital World Pakistan (Pvt.) Ltd. (DWPL) DWP Engineering Industries (Pvt.) Limited (DWPEIL), and Elchem Power (Pvt.) Limited (EPL). However, Elchem Power (Pvt.) Ltd., which was engaged in the manufacture of UPS batteries, has currently shut down operations.

Manageable business risk owing to strong relationships with suppliers and clients

DWPTL provides a variety of IT related products, services, and solutions to companies, such as enterprise computing & storage, borderless networking & information security, data center infrastructure, business process outsourcing, and energy solutions. These operations are divided into six strategic business units (SBUs): solutions, network, document technology, power, healthcare, and heat, air ventilation, & cooling (HAVC). According to management, the power and healthcare divisions are both no longer operational as they contribute minimally to the Company's core business offerings.

The Company is one of the leading players in the local IT industry owing to its robust reputation in the market built by quality offerings and a decade of experience. The same helps generate recurring business from clients which primarily constitute of **large entities having low credit risk** including commercial banks, telecom companies and governmental organizations. Additionally, DWPTL also maintains **strong partnerships with globally renowned IT companies** including Cisco Systems, Inc., DELL, Lenovo, HP, EMC Corporation, VMware, Inc., Huawei Technologies Co. Ltd. and Xerox Corporation. These affiliations provide a competitive edge in the market, not only in terms of quality but also in securing lucrative long-term contracts. According to management, the Company did not face significant issues in importing necessary IT equipment and materials, particularly for governmental projects and do not foresee major import-related issues hampering its operations going forward.

Reduction in topline depicted in the ongoing year due to lower business contracts amidst challenging operating environment

The topline increased by ~19% amounting to Rs. 6.9b in FY22 (FY21: Rs. 5.8b). DWPTL completed about 21 major projects across various sectors with about **one fourth of revenue** emanating from large commercial banks, namely, HBL, UBL and Standard Chartered in FY22. The sales mix depicted a shift towards the Solutions segment which contributed about 35.6% (FY21: 28.7%) to the topline followed by the HVAC segment at 32.9% (FY21: 27.7%) and Network segment at 23.3% (FY21: 35.6%) during FY22. Sales mix movement is dependent on the type of contracts garnered.

During 9MFY23, net revenue was reported at Rs. 3.5b, however, management projects the same to report at Rs. 6.2b for the full year FY23 supported by the invoicing for projects received recently.

Currently, the Company is servicing projects in progress (PIP) valuing Rs. 2.1b across a diverse set of institutions. Client concentration in the same is on the higher side with about 40% relating to a project of Higher Education Commission of Pakistan (HEC). The project involves setting up of a large-scale data center and sustainable energy division. The total size of the two-year project is about Rs. 1.5b out of which 44.7% has already been completed while service fees will generate additional revenue for five years following completion as per contract. With limited contracts for HVAC in the ongoing year, sales mix concentration was skewed towards Solutions, Network and document technology segments contributing around three fourth of the revenue in the ongoing year. Additionally, with the closure of operations of the healthcare and power segments, sales mix is expected to remain skewed towards the remaining tech related business divisions.

Stable margins (excluding the effect of one-off gain in FY22) with slight variability in the review period

Gross margins decreased marginally to 18.9% in FY22 (FY21: 19.5%) which is attributable to the variation in terms of individual projects. According to management, contracts with non-governmental entities are normally denominated in USD which provides a hedge against currency devaluation. However, while major government projects are usually based on PKR, the Company is able to pass on higher costs as well. Hence, gross margins are stable. Additionally, the Company usually receives discounts from major suppliers in order to secure contracts which helps boost margins. Net margins, on the other hand, increased to 6.8% in FY22 but this is attributable to gain on sale of land amounting to Rs. 172.2 m. Excluding this one-off gain, net margin declined marginally to 4.3% (FY21: 4.5%). This reduction is a consequence of lower gross margins as well as increase in financing costs to Rs. 73.1m (FY21: Rs. 24.2m) owing to policy rate hikes. During 9MFY23, the Company's gross margins witnessed an uptick to 20.5% on the account of greater proportion of USD based contracts while net margins further reduced to 3.5% owing to higher financing charges. Net margins for the Company are thin because of elevated tax rates on the service sector. Going forward, improving profitability indicators will be important, particularly bottom-line performance.

Stressed liquidity indicators with debt servicing capacity reported at less than 1.00x in 9MFY23

The Company's Funds from Operations (FFO) declined in the ongoing year (9MFY23) to Rs. 65.6m (FY22: Rs. 264.1m, Rs. 357.9m) owing to lower profitability. Consequently, cash flow coverages were constrained with FFO to Long Term Debt and FFO to Total Debt standing at 0.41x (FY22: 0.84x, FY21: 0.85x) and 0.09x (FY22: 0.37x, FY21: 0.27x), respectively. Debt-servicing coverage also decreased to 0.82x (FY22: 1.64x, FY21: 9.72x) being below the benchmarks for the assigned ratings. Ratings are dependent on improving the same over the next year to levels that meet the rating requirements.

Trade debts stood at Rs. 1.7b at end-March'23 (FY22: Rs. 1.4b, FY21: Rs. 1.4b). While 25.8% of receivables are due above 180 days, the associated risk is considered minimal given that the client base largely constitutes of renowned corporate entities, commercial banks and government institutions which carry high credit quality and with whom the Company has long-term relationships. Payments are generally received between 30-45 days from invoicing date. Stock-in-trade amounted Rs. 1.1b (FY22: Rs. 1.3b, FY21: Rs. 1.1b) at end-Mar'23 and is usually procured after generation of purchase orders with clients. Additionally, the Company reported sizeable loans and advances of Rs. 1b (FY22: Rs. 1.2b, FY21: Rs. 1.1b) at end-Mar'23 which constitute primarily of advance tax payments. Liquidity indicators were satisfactory with current ratio remaining relatively stable at 1.09x (FY22: 1.11x, FY21: 1.07x) while short-term borrowing coverage was reported at 1.99x (FY22: 1.36x. FY21: 1.65x) at end-Mar'23.

Improvement in leverage indicators

Tier-1 equity rose slightly to Rs. 2.4b at end-March'23 (FY22: Rs. 2.2b, FY21: Rs. 1.3b) owing to higher profit retention. Dividend payout ratio for 9MFY23 was nil (FY22: 9.3%, FY21: 16.7%) nor is any upcoming dividend payment planned for the ongoing year owing to the adverse macroeconomic environment, according to management. Debt levels decreased to Rs. 1.6b (FY22: Rs. 2.3b, FY21: Rs. 2.4b) at end-Mar'23 largely on the account of reduction in short-term borrowings in line with lower working capital requirements. Long-term borrowings were comparatively minimal at about Rs. 214m (FY22: Rs. 315.1m, FY21: Rs. 422.1m) at end-Mar'23 which constituted mainly of long-term financing to purchase assets pertaining to the HEC project. Going forward, further long-term borrowings are not planned by the management. Consequently, gearing and leverage both improved to 0.69x (FY22: 1.09x, FY21: 1.48x) and 1.88x (FY22: 2.54x, FY21: 3.41x), respectively. However, leverage remains on the higher side which is attributable to sizeable trade payables and advances from customers. The ratings will remain sensitive to the maintenance of capitalization levels going forward.

REGULATORY DISCLOSURES — Annexure I

Name of Rated Entity	DWP Technologies (Pvt.) Limited
Sector	Technology
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
18/08/2023	A-	A-2	Stable	Reaffirmed
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

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
Mr. Liaquat Ali	DGM Banking & Finance	June 2, 2023
Mr. Shakeeb Shahzad	Manager Banking	June 2, 2023