

RATING REPORT

DWP Technologies (Pvt.) Limited

REPORT DATE:

June 07, 2024

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Date	June 07, 2024		August 18, 2023	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION

Incorporated in 2003

External auditors: SARWARS Chattered 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 F. Tapal – 5.9%

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

DWP Technologies (Pvt.) Limited

OVERVIEW OF THE INSTITUTION RATING RATIONALE

DWP Technologies (Pvt.) Limited ('DWPTL' or 'the Company') was incorporated in 2003 as a private limited company under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017).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.

Company Profile

DWP Technologies (Pvt.) Limited ('DWPTL' or 'the Company') was incorporated on February 19, 2003, as a private limited company in Pakistan under the Companies Ordinance, 1984. The manufacturing facility and Head Office is located in Lahore, from where all the activities are managed. The principal activity of the Company is to manufacture and sale of Industrial I.T. and related electronic equipment and products. The registered office of the Company is situated at 1st floor, Room 11, Mandviwala Chambers, Talpur Road, Karachi in the province of Sindh, Pakistan.

Key Rating Drivers

The business risk profile exposed to foreign exchange and currency transfer risks, constrained by Pakistani Rupee depreciation against the greenback and imposed LC restrictions during FY23.

In FY23, due to depleting foreign exchange reserves and exchange rate volatility, the State Bank of Pakistan ("SBP") imposed strict import restrictions by limiting letter of credit facilities for importers. These restrictions affected the technology solutions industry by hindering the import of necessary equipment and goods, thereby constraining volumes. Additionally, the industry faces significant exposure to foreign exchange risks due to its high dependence on imports. However, a considerable portion of the cost escalation is passed on to customers.

Ratings are supported by long-term relationships with suppliers and clients.

The business model of DWPTL focuses on providing a diverse range of products, services, and solutions, including enterprise computing and storage, borderless networking and information security, data center infrastructure, business process outsourcing, and energy solutions. The Company operates through six strategic business units (SBUs): solutions, network, document technology, power, Mechanical Electrical Plumbing (MEP), and Sustainable Digital Energy (SDE). DWPTL has established partnerships and affiliations with leading multinational IT companies such as Cisco Systems, Inc., DELL, Lenovo, HP, EMC Corporation, VMware, Inc., Huawei Technologies Co. Ltd., and Xerox Corporation, enhancing its competitive position and enabling it to competitively bid for large-scale projects. The majority of its customers are prominent entities such as banks, telecom companies, and government organizations, fostering trust and resulting in repeat business opportunities over time.

Topline constrained by import restrictions, revenue declined. Gross margins improved, attributed to inventory gains in FY23.

During FY23, the Company's topline was constrained by hindered volumetric sales from import restrictions. Revenue declined by ~17% in FY23. However, with ease in LC constraints, volumes have depicted an improving trend in 3QFY24.

The Company witnessed an improvement in its gross margins in FY23, mainly due to inventory gains from previously imported stock, reaching 20.4% (FY22: 18.9%). However, net margins declined to 3.8% (FY22: 6.8%) in FY23, primarily due to increased finance costs resulting from a surge in the policy rate.

Adequate capitalization profile with reduction in short-term borrowings in FY23.

In FY23, the Company's capitalization profile strengthened, with gearing and leverage ratios declining to 0.6x (FY22: 1.1x) and 1.5x (FY22: 2.5), reaching adequate levels. This improvement is attributed to a reduction in total debt, primarily driven by decreased short-term borrowings. The Company utilized

its cash reserves to fulfill working capital requirements and minimize short-term debt drawdowns amid a conservative monetary environment and constrained operations.

In 9MFY24, there was a moderate increase in gearing and leverage indicators, primarily driven by a rise in short-term borrowings to address working capital needs amid recovering operations and increased inventory levels. Gearing and leverage ratios reached 0.9x and 1.8x in 9MFY24, respectively, compared to the figures for the same period in the previous year.

Healthy coverage profile, with recovery in debt service coverage and sufficient short-term debt coverage in FY23 and 3QFY24.

Despite constrained operational margins leading to lower funds from operations ('FFO'), the Company's coverage profile marginally improved with a debt service coverage ratio ('DSCR') of 1.7x (FY22: 1.6x) due to a reduction in the current portion of long-term debt. With operational improvement, the DSCR further improved to 2.5x in 3QFY24. Meanwhile, DWPTL has historically maintained adequate short-term debt coverage, which strengthened to 1.9x (FY22: 1.3x) in FY23, and only marginally declined to 1.8x in 3QFY24.

Adequate liquidity profile.

The liquidity profile of the Company is considered adequate, with a five-year average current ratio of 1.1x. The current ratio has further strengthened to 1.3x (FY22: 1.1x) in FY23, remaining mostly unchanged in 3QFY24. The cash conversion cycle deteriorated to a positive 15. days (FY22: -45 days) on account of noted extension of the receivable period and a simultaneous reduction in the payable cycle.

Considerations for Future Reviews

Going forward, ratings will remain sensitive to the Company's ability to strengthen its internal controls framework and maintain its key financial metrics to be commensurate with assigned ratings.

DWP Technologies (Pvt.) Limited

REGULATORY DISCLOSURES						Appendix I
Name of Rated Entity	DWP Technologies (Pvt.) Limited					
Sector	Technology					
Type of Relationship	Solicited					
Purpose of Rating	Entity Rating					
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action	
	<u>RATING TYPE: ENTITY</u>					
	07-Jun-24	A-	A-2	Stable	Reaffirmed	
	18-Aug-23	A-	A-2	Stable	Reaffirmed	
	19-July-22	A-	A-2	Stable	Reaffirmed	
	30-June-21	A-	A-2	Stable	Maintained	
	13-July-20	A-	A-2	Rating Watch - Negative	Maintained	
	28-Feb-19	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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Due Diligence Meetings Conducted	Name	Designation	Date			
	Mr. Shakeeb Shahzad	Manager Banking	June 03, 2024			