RATING REPORT

Digital World Pakistan (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		Negative	
Rating Date	June 07, 2024		August 18, 2023	
Rating Action	Maintained		Maintained	

COMPANY INFORMATION

Incorporated in 2000	**External auditors:** Parker Russell – A.J.S Chartered Accountants
Private Limited Company	**Chairman/CEO:** Mr. Muhammad Farooq Naseem
Key Shareholders (with stake 5% or more):	
Mr. Muhammad Farooq Naseem – 46%	
Mrs. Roohi Farooq Naseem – 28%	
Mr. Aftab F. Tapal – 6%	

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

Digital World Pakistan (Pvt.) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Digital World Pakistan (Pvt.) Limited ('DWPL' or 'the Company') *was incorporated in 2000 as a private limited company under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017). The Company is engaged in manufacturing and sale of consumer electronic products.*

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

Digital World Pakistan (Pvt.) Limited ('DWPL' or 'the Company) is a Company limited by shares incorporated on April 06, 2000, in Pakistan. The principal activity of the Company is manufacturing and sale of varied interrelated "consumer home electronic products". The registered office of the Company is situated al 5 Zafar Ali Road, Gulberg-CV, Lahore, Pakistan.

Production Capacity and Utilization

During FY23, the Company faced several challenges which constrained its volumes and hampered utilization levels. During the year, the decrease in demand due to inflationary pressures and economic conditions, and restrictions on imported goods limited the ability of DWPL to procure raw materials. Moreover, the significant monetary and fiscal tightening enacted by both the State Bank of Pakistan (SBP) and the Government of Pakistan (GOP) resulted in a deceleration of local businesses. Consequently, the capacity utilization in FY23 experienced a decline to 13.3% (FY22: 35.93%; FY21: 41.44%).

Production Capacity and Utilization	FY21	FY22	FY23
Annual Rated Capacity at 100% Capacity	1,100,000	1,150,000	1,195,000
Actual Production	455,862	413,251	158,961
Utilization	41.44%	35.93%	13.30%

Key Rating Drivers

Medium to high business risk profile characterized by heightened exposure to cyclicality and exchange rate risk. However, a medium level of competition among top players in the sector provides support.

VIS categorizes the household appliances industry's business risk profile as medium to high, characterized by significant exposure to cyclicality and exchange rate fluctuations due to local assembly with limited localization. However, only moderate competition among top players, with major market share held by key players in each segment, provides support to the industry's overall risk profile.

The household appliance market is a sub-segment of 'Electrical Equipment' group within the large-scale manufacturing sector, accounting for ~2% of Large-Scale Manufacturing (LSM) sub-segment of the economy. As it is a 'brand' driven market, pricing and marketing strategies play a key role in attracting market shares and can vary entirely for different players among different product segments. In addition, an industry dominated by well recognized brands, extensive capital requirements and a long cash cycle act as high entry barriers. Duty protection in the form of additional customs and regulatory duties provides a price advantage to local players.

The appliance market generates demand from both original (first-hand) and replacement markets. Growth is directly related to per capita income, population growth, technological innovation, energy efficient products, rapid urbanization, and seasonality. In terms of major products, refrigerators have the highest value share, followed by air conditioners, televisions, washing machines, deep freezers, and other products.

Throughout the year, the industry was marred by the slump in demand resulting from stressed economic activity and a contraction in consumer disposable income. Furthermore, production constraints resulting from import restrictions exacerbated the sector's performance challenges. As such the market size in CY23 reported severe contraction. Although some improvements have been observed in macroeconomic conditions, persistent issues such as high energy costs, inflation, and interest rates continue to pose obstacles to the industry's growth prospects going forward.

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

In FY23, the Company's revenue was limited by reduced sales volumes caused by import restrictions and a decline in local demand, primarily due to the price sensitivity of the products aggravated by rising inflation. Revenue declined by ~50% in FY23.

The Company witnessed an improvement in its gross margins in FY23, mainly due to inventory gains from previously imported stock, reaching 19.8% (FY22: 16.1%). However, net margins declined to 2.0% (FY22: 3.3%) in FY23, primarily due to increased finance costs resulting from a surge in the policy rate, remaining relatively stable at 1.91% in 3QFY24.

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 0.7x (FY22: 1.8x) and 2.0x (FY22: 4.1x), reaching adequate levels. This improvement is attributed to a significant decline in short-term debt. 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.

During 3QFY24, there was a noticeable uptick in gearing and leverage indicators. This was primarily attributed to the escalation in short-term borrowings to meet heightened operational demands for working capital. As a consequence, the gearing and leverage ratios for 3QFY24 were recorded at 0.8x and 3.0x, respectively.

Debt service coverage is under stress while short-term debt coverage remains at adequate levels.

Limited operations during FY23 led to lower funds from operations ('FFO'), as a result the debt service coverage ratio ('DSCR') eroded to 1.0x (FY22: 2.3x). The DSCR weakened further to 0.9x in 3QFY24. Meanwhile, DWPL has historically maintained adequate short-term debt coverage, which weakened slightly to 1.4x (FY22: 1.6x) in FY23, before recovering to 1.9x in 3QFY24.

Adequate liquidity profile.

The liquidity profile of the Company is considered adequate, with a three-year average current ratio of 1.2x. The current ratio has remained stable at 1.3x (FY22: 1.2x) in FY23, remaining mostly unchanged in 3QFY24. The cash conversion cycle improved to negative 15 days (FY22: 1 day) during FY23 on account of the significant increase in the payable cycle due to difficulties with obtaining letters of credit.

Considerations for Future Reviews

Going forward, ratings will remain sensitive to the Company's ability to recover its profitability and coverage profiles to be commensurate with assigned ratings.

REGULATORY DISCLOSURES Appendix I

Name of Rated Entity	Digital World Pakistan (Pvt.) Limited
Sector	Consumer Appliances
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
07-Jun-24	A-	A-2	Stable	Maintained
18-Aug-23	A-	A-2	Negative	Maintained
19-July-22	A-	A-2	Stable	Reaffirmed
30-June-21	A-	A-2	Stable	Upgrade
13-July-20	BBB+	A-2	Stable	Downgrade
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.
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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Shakeeb Shahzad	Manager Banking	June 03, 2024