VIS
Credit Rating Company Limited

RATING REPORT

Analysts:
Amin Hamdani
(amin.hamdani@vis.com.pk)

APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology – Industrial Corporates
(https://docs.vis.com.pk/docs/CorporateMethodology.pdf)

Rating Scale:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

DIGITAL WORLD PAKISTAN (PVT) LIMITED

Chairman & Chief Executive: Mr. Muhammad Farooq Naseem

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A-	A2	A-	A2
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Maintained	
RATING DATE	July 18, 2025		June 07, 2024	

RATING RATIONALE

The assigned ratings take into account the medium to high business risk profile of household appliances' industry characterized by significant exposure to cyclicality and exchange rate fluctuations. Demand is generally tied to per capita income, urbanization, technological advancements, and seasonality, which during FY24 has remained weak. However, some signs of recovery emerged, with ease in import restrictions and improvement in macroeconomic conditions since beginning of FY25.

During the review period, DWP Engineering Industries, a related party, was merged with and into DWPL. As a result, capital structure weakened due to addition of long-term debt, which was previously absent. In FY24, topline recovered significantly post ease in import restrictions, while the consolidation impact was limited as the acquired refrigerator segment remained non-operational with weak financials. Margins improved, driven by a focus on high-margin product line - air conditioners, consequently strengthening liquidity and cash flows. This led to recovery in coverages in FY24, which weakened back in 9MFY25 following the higher debt levels post-merger. Maintenance of gearing at manageable levels with improvement in leverage indicator is important to maintain current ratings.

Going forward, the ratings are dependent upon expected better macroeconomic conditions to support demand.

COMPANY PROFILE

Digital World Pakistan (Pvt) Limited ('DWPL' or 'the Company') was incorporated on April 06, 2000, in Pakistan. The principal activity of the Company is manufacturing and sale of varied interrelated consumer home electronic products, for the brand 'Gree' under a licensing agreement with Chinese principals and DWPL's own brand 'Ecostar'.

The head office of the Company is situated at 5 Zafar Ali Road, Gulberg-V, Lahore, Pakistan. Manufacturing facility is located at 35-KM Multan Road, Lahore & 60 KM Off Main Multan Road Tehsil Pattoki, District Kasur.

Merger with Related Party

As of March 20, 2024, the Board of Directors, for both DWP Engineering Industries (Pvt) Limited (the related party by common directorship, also engaged in manufacturing and sale of consumer home electronic products) and DWPL have approved a scheme of arrangement and merger, for the consolidation of DWP Engineering Industries, with and into DWPL.

As of 1HYFY25, all relevant court orders and NOCs have been obtained and merger has taken effect with a swap ratio of 1:6 i.e., one share against six of DWP Engineering Industries Ltd. Therefore, interim management accounts for the current year are on consolidated basis.

INDUSTRY PROFILE & BUSINESS RISK

VIS categorizes the household appliances industry's business risk profile as medium to high, characterized by exposure to cyclicality and exchange rate fluctuations as assembler's dependent on imported parts with limited localization.

Household appliance market is a sub-segment of 'Electrical Equipment' group within the Large-Scale Manufacturing (LSM) sector, with ~2% weightage in QIM index of LSM. As it is a 'brand' driven market, marketing, post sales service strategies and prices play a key role in attracting market shares and can vary for different players among different product segments. Moreover, strong brand dominance and significant capital needs create barriers to entry in the market.

Demand stems from both original and replacement markets, closely tied to per capita income, urbanization, technological advancements, and seasonality. Refrigerators lead in volume and value share, followed by air conditioners, TVs, washing machines, and deep freezers.

During FY24 Pakistan's household appliances industry continued to face significant headwinds amidst high manufacturing costs, electricity price hikes, and weak consumer demand. Despite these challenges, some signs of recovery emerged, with ease in import restrictions and improvement in macroeconomic conditions since beginning of FY25.

Product Profile & Capacity

Some recovery in utilization is noted during FY24 post ease in import restrictions. Air conditioners remained Company's top revenue segment.

In HY25, a new refrigerator segment has been introduced following the merger with DWP Engineering Industries (Pvt) Limited. However, this plant is currently non-operational. Available credit has been allocated primarily to higher-margin products, i.e., Air Conditioners, therefore a major drop in production of Television segment is also noted. The machinery for refrigerator production is multi-purpose, hence some equipment was repurposed for AC manufacturing during the period. The overall utilization rate in Air Conditioners, Television and other home appliances improved individually on timeline basis, however, the large capacity impact of Refrigerators impacted the overall capacity utilization. The management expects the production of refrigerators to resume in FY26.

FINANCIAL RISK

Capital Structure

As of FY24, the Company reported a conservative gearing ratio of 0.35x (FY23: 0.70x), with no long-term debt and a reduction in short-term borrowings, driven by an improved cash position, hence reduced reliance on debt. However, leverage increased to 3.23x (FY23: 2.03x) due to a significant rise in payables, largely attributed to higher utilization of (deferred payment) Usance LCs.

By 9MFY25, the gearing ratio rose to 0.98x following the consolidation with DWP Engineering Industries, which added PKR 1.06 billion in long-term debt. Short-term borrowings also registered a notable increase. Meanwhile, leverage remained relatively stable at 3.13x. Moreover, the Company anticipates Capex for the purchase of molds required for production of new AC models, to be funded through internal cash. Going forward, keeping the leverage at manageable levels will be an important from the ratings perspective.

Profitability

DWPL reports a 4-year (FY20-FY24) sales CAGR of 10.3% reflecting modest growth over the period, however on a YoY basis, the topline has rose by 67% to PKR 22.5 Bn in FY24 (FY23: PKR 13.5 Bn). This notable increase was mainly a recovery in sales post growth in FY23 due to import restrictions. Increase in sales of high margin product, i.e., Air conditioners and higher pricing during FY24, resulted in an uptick in gross margin to 20.6% (FY23: 19.8%). Finance cost remained stable despite high interest rates due to ~40% decrease in total debt during the year. Consequently, net margin reported at 4.0% (FY23: 2.0%).

The Company has reported strong sales for the period of 9MFY25, recording at PKR 20.2 Bn amidst improvement in macroeconomic conditions, supporting overall demand. Gross margin remained stable while net margin recorded high at 6.7% due to one-time deferred tax reversal (as a result of surplus revaluation on PPE post-merger).

According to the management, the Company has reported PKR 37 Bn in sales as of 11MFY25. Therefore, the expected topline for full year FY25 is estimated at PKR 45-50 Bn.

Debt Coverage & Liquidity

Company's current ratio has largely remained adequate at over 1.0x (FY24: 1.20x, FY23: 1.29x). Meanwhile cash conversion cycle strengthened to -134 days (FY23: -44 days) due to unusual hike in payables during FY24. Funds from operations (FFO) recovered to PKR 1.2 Bn (FY23: PKR 306 Mn, FY22: 1.3 Bn) on the back of improved profitability. As a result, coverage indicators strengthened, with FFO to short term and total debt clocking in at 0.70x and 0.65x (FY23: 0.11x and 0.10x), respectively. Hence, Debt Service Coverage (DSCR) also reported recovery to 2.37x (FY23: 0.99x, FY22: 2.32x).

As of end-9MFY25, current ratio recorded at 1.13x while cash conversion cycle recorded at -7 days amid higher inventory levels, albeit remaining favorable. DSCR weakened to 1.87x, however, the same is considered satisfactory from the given ratings perspective.

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Digital World Pakistan (Pvt) Limited
Sector	Consumer Appliances
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Outlook / Rating Watch	Rating Action
RATING TYPE: ENTITY				
18-July-25	A-	A2	Stable	Reaffirmed
07-June-24	A-	A2	Stable	Maintained
18-Aug-23	A-	A2	Negative	Maintained
19-July-22	A-	A2	Stable	Reaffirmed
30-June-21	A-	A2	Stable	Upgrade
13-July-20	BBB+	A2	Stable	Downgrade
28-Feb-19	A-	A2	Stable	Initial

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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2025 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Due Diligence Meetings Conducted

S.No.	Name	Designation	Date
1.	Mr. Liaquat Ali	GM Banking & Finance	17-June, 2025
2.	Mr. Shakeeb Shahzad	Manager Finance	