

## RATING REPORT

## Transfopower Industries (Pvt.) Limited

**REPORT DATE:**

March 14, 2024

**RATING ANALYSTS:**

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Rating Category	Rating
Entity	A-/A-2
Rating Date	March 14, 2024
Rating Outlook	Stable
Rating Action	Initial

## COMPANY INFORMATION

Incorporated in 1993

External auditors: M/s EY Ford Rhodes Chartered Accountants

Private Limited Company

Chief Executive Officer (CEO): Mr. Fawad Jahanzeb Saeed

Key Shareholders (with stake 5% or more):

Mr. Fawad Jahanzeb Saeed ~ 35.29%

Mr. Furqan Elahi ~ 28.38%

Mr. Hasaan Shahid Baig ~ 21.53%

Mrs. Shahla Khanum Malik ~ 10.41%

## APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Corporates:

<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>

## Transfopower Industries (Pvt.) Limited

OVERVIEW OF  
THE INSTITUTION

## RATING RATIONALE

**Transfopower  
Industries (Pvt) Ltd.**

*was incorporated in February 1993 as a private limited company. The Company is engaged in the production and sale of power and distribution systems including transformers and energy meters. The head office and manufacturing facility of the Company are both situated in Thokar Niaz Baig, Lahore.*

**CEO Profile: Mr. Fawad Jahanzeb Saeed** holds a bachelor's degree in Electrical Engineering and has over 25 years of experience in the industry.

**Company Profile:**

Transfopower Industries (Private) Limited, ("TIPL" or "the Company") was incorporated in Pakistan on 17 February 1993 as a private limited company. The Company's registered office and plant is located at 2-KM Katar Bund Road, Off Multan Road, Thokar Niaz Baig, Lahore, Pakistan. The principal activity of the Company is manufacturing and sale of power and distribution systems.

Three engineer friends own TPIL, an ISO-certified leader in Pakistan's transformer manufacturing for over 30 years.

**Group Structure:**

The Company has two related concerns, namely, Wire Manufacturing Industries Limited (WMIL) and Potential Engineers (Pvt.) Ltd (PEPL).

WMIL, a top player in its industry, was established as a private limited company in October 1992 and transitioned to an unquoted public limited company in July 1995. The Company specializes in manufacturing pre-stressed concrete wire/strand, mainly used in bridges, storage tanks, and silos. WMIL is the sole producer of 270-k grade material in Pakistan, leading to a product range that includes high-pressure concrete pipes, railway sleepers, and concrete poles. WMIL is considered a related concern due to the CEO of TPIL also serving as a director at WMIL.

PEPL started in 1976 as a subcontractor for two major construction companies, working on a 500kV transmission line from Tarbela Power Station to Faisalabad, covering around 300 kilometers. The Company has since grown, completing projects for WAPDA and Karachi Electric Supply Company (KESC), including installation of 500kV, 220kV, and 132kV transmission lines and managing high-tech equipment.

**Product Mix:**

The product portfolio comprises of two divisions namely transformers and energy meters.

In the transformer division, the key products are pole mounted and pad mounted transformers. These are categorized based on their capacity and type. Pole mounted transformers range from 10kVA to 1,500kVA, while pad mounted transformers range from 63kVA to 1,250kVA. Besides these, the Company also manufactures other types of transformers including power transformers (750kVA to 10,000kVA), furnace transformers (1,250kVA to 6,000kVA), special transformers, dry-type transformers, and non-inflammable transformers.

The energy meters division is split into conventional and smart meters. Conventional meters are available as single or three-phase units. Smart meters encompass automatic meter reading (AMR) and automatic metering infrastructure (AMI) systems, offering real-time electricity consumption data, and aiding in reducing line losses and tampering.

**Key Rating Drivers:****Business risk profile supported by medium cyclicity, and stable future demand.**

VIS considers the engineering and transformer industry's business risk as low to medium given its oligopolistic nature, specialized product reliance by the power sector, and limited competition from imported products due to the high cost of comparable capacity imported transformers. The industry's nature is moderately cyclical due to the steady demand emanating from government, premium private sector electricity distribution companies in Pakistan, renowned housing authorities, and large-scale manufacturing companies.

The business risk profile is further supported by reduced demand risk, as revenue is directly tied to per capita energy consumption, which is on an upward trend in the country. This increase is driven by factors such as population growth, rising urbanization, and growing technological dependence.

**Ratings also account for sizable market presence.**

The Company, holding a 25% market share, competes mainly with PEL, with both firms dominating three-fifths of the market and the rest occupied by smaller local players. Further, TIPL operates on a business-to-business model, focusing on public sector entities and large private clients, with 52% of its sales to DISCOs ensuring relatively stable payments. However, it faces liquidity risks due to payment delays in the power sector, mitigated by longstanding relationships for timely payment. The Company's client base, though limited due to its specialized product range, includes significant players like Bahria Town and DHA, with the top ten customers accounting for 83% of its revenue, indicating a high client concentration risk.

**Improving trajectory witnessed in the Company's profitability performance.**

In FY23, the Company witnessed a 49.9% growth in its topline primarily driven from the increase in the average selling price per unit coupled with increased sales of high value products. Similarly, the gross margins grew to 16.1% (FY22: 13.7%) in FY23 on account of higher topline growth, cost control measures, and ability to pass on rising cost to its customers.

In continuation with significant uptick at the operating scale in FY23, TPIL reported a healthier bottom-line with a 95.2% growth in its net profit, which in result also improved its net margin at 5.0% (FY22: 3.8%). Furthermore, the consistent rise in the Company's contract liabilities (unearned revenue) to PKR 810 mln (FY22: PKR 736 mln) is indicating that the Company's revenue is likely to remain stable going forward. As per the management, much of the increase reported in FY23 is due to inflation and the resulting increase in sales price.

**Capitalization profile reported improvement, however, leverage remains elevated.**

The Company in FY23 reported improvement in the capitalization profile as gearing and leverage improved to 0.9x (FY22: 1.5x) and 2.2x (FY22: 2.8x), respectively. This is primarily attributed to a reduction in short-term debt drawdown and an increase in the equity base driven by higher earnings during the reviewed period. However, leverage remains elevated.

**Maintains an adequate liquidity profile with a healthy coverage profile.**

The Company has historically sustained an adequate liquidity profile, with a 5-year average current ratio of 1.3x. In FY23, the current ratio was recorded at 1.4x (FY22: 1.3x). However, much of this liquidity is derived from stock in trade and receivables due to the nature of the business and TIPL's clientele.

At the same time TIPL over the year has also maintained a healthy coverage profile with an average debt service coverage ratio (DSCR) of 1.8x. In FY23, the DSCR was reported at 2.7x (FY22: 1.9x) in FY23.

**Consideration for future review ratings**

Going forward, the ratings will remain sensitive to the improvement in the financial metrics as well as management of working capital with the settlement of the contingent liabilities as contracted.

**Transfopower Industries (Pvt.) Limited**
**Appendix I**

<b>FINANCIAL SUMMARY (amounts in PKR millions)</b>					
<b>BALANCE SHEET</b>		<b>30-Jun-20</b>	<b>30-Jun-21</b>	<b>30-Jun-22</b>	<b>30-Jun-23</b>
Property, Plant & Equipment		1,172.4	1,175.3	1,295.1	1,358.1
Stock-in-Trade		2,015.5	2,724.2	3,543.0	3,306.5
Stores & Spares		6.6	23.4	14.7	12.2
Trade Debts		1,371.4	939.6	1,441.4	2,363.4
Advances, Deposits & Prepayments		133.6	131.3	147.3	286.6
Cash & Bank Balances		94.1	169.2	330.0	166.4
Short Term Investments		-	-	-	238.9
<b>Total Assets</b>		<b>5,234.4</b>	<b>5,596.6</b>	<b>7,235.7</b>	<b>7,966.1</b>
Trade and Other Payables		607.9	970.8	1,320.3	2,017.4
Short Term Borrowings		2,276.6	2,080.8	2,429.5	1,875.2
Long Term Borrowings		113.2	120.9	164.8	109.8
<b>Total Borrowings</b>		<b>2,389.8</b>	<b>2,201.7</b>	<b>2,594.2</b>	<b>1,985.0</b>
<b>Total Liabilities</b>		<b>3,211.0</b>	<b>3,502.4</b>	<b>4,834.7</b>	<b>4,984.7</b>
Paid Up Capital		200.0	200.0	200.0	200.0
Equity (excl. Revaluation Surplus)		<b>1,345.6</b>	<b>1,421.6</b>	<b>1,735.4</b>	<b>2,323.3</b>
<b>INCOME STATEMENT</b>					
		<b>30-Jun-2020</b>	<b>30-Jun-2021</b>	<b>30-Jun-2022</b>	<b>30-Jun-23</b>
Net Sales		4,810.9	5,023.7	8,064.2	12,086.9
Gross Profit		577.2	660.9	1,100.6	1,944.2
Profit Before Tax		11.5	146.2	426.0	914.3
Profit After Tax		-65.4	70.8	309.4	603.9
FFO		-71.7	148.4	426.7	974.6
<b>RATIO ANALYSIS</b>					
		<b>30-Jun-2020</b>	<b>30-Jun-2021</b>	<b>30-Jun-2022</b>	<b>30-Jun-23</b>
Gross Margin (%)		12.00%	13.15%	13.65%	16.09%
Net Margin (%)		-1.36%	1.41%	3.84%	5.00%
Current Ratio (x)		1.29	1.28	1.25	1.35
FFO to Total Debt (x) *		-0.03	0.07	0.16	0.49
FFO to Long Term Debt (x) *		-0.63	1.23	2.59	8.88
Debt Service Coverage Ratio (x) *		0.81	1.22	1.90	2.72
ROAA (%) *		-1.35%	1.31%	4.82%	7.95%
ROAE (%) *		-4.75%	5.12%	19.60%	29.76%
Gearing (x)		1.78	1.55	1.49	0.85
Debt Leverage (x)		2.39	2.46	2.8	2.15
Stock+ Trade debts/ Short-term Borrowings (x)		1.49	1.76	2.05	3.02
Cash Conversion Cycle (days) *		225.40	214.95	181.74	117.76
*Annualized if required					

**Transfopower Industries (Pvt.) Limited**

**Appendix II**

<b>REGULATORY DISCLOSURES</b>					
<b>Name of Rated Entity</b>	Transfopower Industries (Pvt.) Limited				
<b>Sector</b>	Engineering				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: ENTITY</u></b>				
	14-Mar-24	A-	A-2	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>S.No.</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>	
	1.	Mr. Usman Waseem	Chief Financial Officer	February 28, 2024	
	2.	Mr. Shahzad Ahsan	General Manager		