

RATING REPORT

Microtech Industries (Pvt.) Limited

REPORT DATE:

July 12, 2024

RATING ANALYSTS:

Muhammad Subhan

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Rating Category	Rating
Entity	A-/A-2
Rating Date	July 12, 2024
Rating Outlook/Rating Watch	Stable
Rating Action	Initial

COMPANY INFORMATION

Incorporated in 1993

External auditors: UHY Hassan Naeem & Co. Chartered Accountants

Private Limited Company

Chief Executive Officer (CEO): Mr. Shayan Siddiqi

Key Shareholders (with stake 5% or more):

Mr. Shayan Siddiqi ~ 98.5%

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>

OVERVIEW OF
THE INSTITUTION

RATING RATIONALE

Microtech Industries (Pvt) Ltd. was founded by Nauman Saeed in 1992 as a small design house. In 2005, it was incorporated as a private company limited by shares. By 2010, the company expanded into a purpose-built production factory spanning over 140,000 sq.ft, equipped with the latest and modern tools to enhance its production capabilities. Microtech Industries (Pvt) Ltd. is engaged in doing business of comprehensive solutions across diversified fields such as energy metering, telecommunications, tracking products, and fleet management services.

Company Profile:

Microtech Industries (Private) Limited, (“MIL” or “the Company ”) was incorporated in Pakistan under the Companies Ordinance, 1984 (now the Companies Act, 2017) as a single member company on January 15, 2003. During the year end June 30, 2005 the Company was converted into a private limited company from the single member company. MIL is an organization engaged in the design, development, and manufacturing of hi-tech energy meters and providing comprehensive solutions in related fields. The Company has 140,000 square feet factory located at Attari Industrial Estate, 18-KM Ferozpur Rd, Sufiabad, Lahore.

The Company maintains common directorship with two associated entities: Simla Tracon (Pvt.) Ltd. (STL) and Microtech Transformers (Pvt.) Ltd. (MTL). Mr. Shayan Siddiqi holds ownership stakes of 33% in STL and 50% in MTL.

Group Profile:

The Simla Group of Companies includes entities such as Microtech Industries (Pvt.) Ltd. and Simla Tracon (Pvt.) Ltd. STL operates as a trading intermediary connecting importers and MIL. The group plans to expand with upcoming ventures like Microtech Transformers (Pvt.) Ltd., which is in its implementation stage and expected to commence operations in 2026, and Simla Foods Global (SFG), focused on citrus concentrate and juices.

Product Mix:**Energy Meters:**

The Company generates revenue primarily from its energy-metering segment, segmented into Static Energy Meters, Smart Energy Meters, and Automatic Metering Reading (AMR) systems. Its primary products include the Single-Phase Meter, Three Phase Meter, and Industrial Meter. Key competitors include PEL, KBK Electronics etc.

Key Rating Drivers:

Business risk profile characterized by regulated market, a confined clientele, and imported raw material dependency.

The business risk profile of MIL is considered high given the regulated market, a confined customer base, and dependency on imported raw material. However, lower demand risk, low cyclicity, and high barriers to entry supports the assigned ratings.

The Company primarily generate revenue from sale of energy meters and its demand is emanated from electricity distribution companies in Pakistan (DISCOS). The manufacturing of energy meters demands technologically advanced components, and due to their unavailability locally, the company imports them from China. This dependency on the raw materials expose the industry to exchange rate volatility and additional risks such as the import restrictions faced by the country in FY23.

CEO Profile: Mr. Shayan Siddiqi demonstrates a commitment to diversified business strategies through MicroTech Industries and Simla Tracon. With over 12 years of experience, he has driven operational enhancements and led strategic initiatives in sectors such as Smart Energy Metering, Telecommunication, and IoT solutions. His leadership at Simla Tracon has expanded product offerings including Simla Appliances and industrial equipment. Beyond business, Mr. Siddiqi's philanthropic efforts through Simla Foundation focus on providing free meals to hospitals, SOS Village, and company staff, with plans for broader community outreach. His expertise spans corporate governance, project management, and supply chain optimization, supporting his strategic leadership and operational effectiveness.

The Company's revenue stream heavily relies on contract wins from tenders, posing inherent revenue risk. However, significant market presence in the energy meters market provide comfort to the ratings.

Ratings also account for sizable market presence.

MIL maintains a significant market footprint with 1.5 mln energy meters installed and a notable presence in AMR-enabled metering networks. The Company holds an 18% market share in static meters within a market volume of 5 mln units annually, and over 25% in smart meters against a total market volume of 250,000 meters as of the last financial year. It serves a wide array of sectors including residential, agricultural, small industrial, and public sectors.

Moreover, as anticipated by the Company, the volume of AMR meters will increase from 250,000 meters to 400,000 meters per annum resulting in a market share of 25%.

Significant revenue growth and improvement in the profitability supports the assigned ratings

The Company's revenue composition includes sales from both products and services, with products representing the predominant share. In FY23, the Company experienced a notable 113% increase in revenue. This substantial growth in top-line performance was primarily driven by increased prices and heightened sales volume of energy products, attributable to elevated order levels. Additionally, both gross margin and net margin showed improvement, reaching 26.7% (FY22: 12.5% in FY22) and 7.3% (FY22: -4.2% in FY22) respectively for FY23.

In 9MFY24, the Company achieved its highest revenue primarily driven by a substantial increase in sales of three phase and industrial energy meters. The gross margin and net margin for the period were reported at 19.9% and 7.1%, respectively. Moreover, as per the management, MIL achieved its highest revenue of around PKR 5 bln for FY24.

Furthermore, the Company has entered into a contract valued at approximately PKR 1.4 bln with Islamabad Electric Supply Company (IESCO) for the manufacturing of 600,000 AMR meters, with completion expected within 2 years. This contract is expected to contribute positively to the Company's revenue in the future.

Strong coverage profile

In FY23, the Company demonstrated a strong coverage profile with its debt service coverage ratio (DSCR) improving to 3.2x (FY22: 0.5x). This improvement in the DSCR was principally driven by increased funds flow from operations (FFO) throughout the year, stemming from improved profitability. The DSCR continued to strengthen, reaching 3.5x in 9MFY24, supported by further growth in FFO and profitability.

Improvement in the capitalization profile, however leverage remains elevated

The Company exhibited improved capitalization metrics in FY23, as evidenced by its gearing ratio improving to 1.8x (FY22: 2.8x), and its leverage ratio improving to 3.8x (FY22: 4.7x). These improvements in the Company's capitalization profile during FY23 were driven by a reduction in short-term debt and improvement in profitability giving rise to the equity base.

In 9MFY24, the Company's capitalization metrics further improved, with the gearing ratio and leverage ratio improving to 0.8x and 2.4x, respectively. This improvement primarily stemmed from an augmented equity base due to unappropriated profit, coupled with a reduction in total debt.

Adequate liquidity profile

In FY23, the Company's liquidity profile showed a modest improvement, as indicated by its current ratio increasing to 1.0x (FY22: 0.9x). This improvement was attributed to a higher proportion of current assets relative to current liabilities. Similarly, in 9MFY24, the Company's liquidity position continued to strengthen, with the current ratio further improving to 1.1x.

Key Ratings Considerations:

Going forward, the ratings will remain sensitive to maintenance of the capitalization profile.

Microtech Industries (Pvt.) Limited

Appendix I

REGULATORY DISCLOSURES					
Name of Rated Entity	Microtech Industries (Pvt.) Limited				
Sector	Electrical Goods/Equipments				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook/Rating Watch	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	12-Jul-24	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	S.No.	Name	Designation	Date	
	1.	Mr. Muhammad Sohail Sarwar	CFO	July 03, 2024	
	2.	Mr. Khurram Baig	Manager Accounts		