

# RATING REPORT

## Devsinc (Private) Limited

**REPORT DATE:**

October 31, 2024

**RATING ANALYSTS:**

Husnain Ali

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M. Amin Hamdani

[amin.hamdani@vis.com.pk](mailto:amin.hamdani@vis.com.pk)**RATING DETAILS**

Rating Category	Initial Rating	
	Medium to Long-term	Short-term
Entity	BBB+	A2
Rating Date	October 31, 2024	
Rating Outlook/Watch	Stable	
Rating Action	Initial	

**COMPANY INFORMATION**

Incorporated in 2021	External auditors: Ali Akhtar Adnan Chartered Accountant
Private Limited Company	Chief Executive Officer: Mr. Usman Asif
Key Shareholders (with stake 5% or more)	Chairman of the Board: Mr. Usman Asif
<i>Mr. Usman Asif – 99.99%</i>	

**APPLICABLE METHODOLOGY(IES)**

Applicable Rating Criteria: Corporates:

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

VIS Issue/Issuer Rating Scale:

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

**Devsinc (Private) Limited**

**OVERVIEW OF THE INSTITUTION**

**RATING RATIONALE**

*Devsinc (Private) Limited was established in 2021 and is engaged in the export of software development services. The Company's head office is located at Ghazi Road, Lahore.*

**Profile of Chairman and CEO**

*Mr. Usman Asif is the owner of Developers Incorporate and Devsinc (Pvt) Ltd. He holds a Bachelors in Computer Science from National University of Computer and Emerging Sciences (NUCES) and Masters in Science from Lahore University of Management Sciences (LUMS). Mr. Usman has also acquired certification of Technology Entrepreneurship from Stanford University from the United States.*

Devsinc (Private) Limited (commonly referred to as "Devsinc" or "the Company") was founded on April 14, 2021, in Lahore, Pakistan. Specializing in the export of software development services, Devsinc offers expertise in areas such as web development, mobile app development, Generative AI, cybersecurity, and cloud migration and management.

Devsinc's head office is located in Lahore, with a regional office in Islamabad. The Company is primarily focused on providing customized front-end (visual elements of websites and mobile applications) and back-end (data infrastructure and coding) software solutions, primarily catering to clients in the United States. These clients come from diverse sectors such as healthcare, financial services, e-commerce, and hospitality.

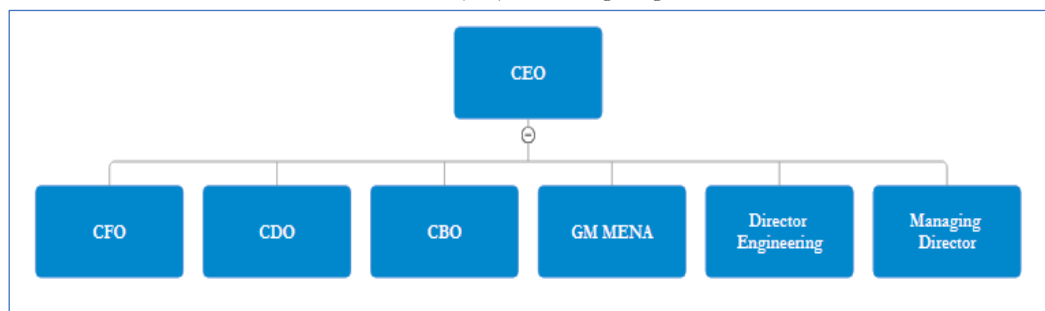
Initially the sponsor, Mr. Usman Asif, set up Developers Incorporate (DI) in 2008, a software development company operating as a sole proprietorship. In 2021, Devsinc was founded for the purpose of consolidating the operations, business activities and software development in Pakistan and also expanding the operations in the Middle East and the US. Since its inception, Devsinc has successfully completed over 3,000 projects and engages with more than 236 clients. With a strategic vision of growth, Devsinc is expanding its operations and diversifying its services into the B2B (business-to-business) sector. The Company aims to establish a global footprint in 23 countries.

Devsinc's initial business model relied on lead generation through freelancing platforms such as Upwork, Fiverr, and LinkedIn. As the company evolved, it began generating business through in-house marketing efforts and from multiple LLCs (Limited Liability Companies) owned by the sponsor. The Company currently operates across various regions United States, UAE, KSA, and Pakistan, contributing to a group revenue of USD 12.5 million for January to August 2024.

**Management Team**

The Company is led by CEO, Mr. Usman Asif, who holds a 99.99% shareholding in Devsinc. With a Bachelor's degree in Computer Sciences from FAST National University (NUCES) and a Master's from Lahore University of Management Sciences (LUMS), Mr. Asif has a wealth of experience in software development.

Devsinc (Pvt) Ltd - Organogram



Other key members of the management team include:

- *Mr. Jawad Firdous, Managing Director*, who manages human resources, operations, and product management. He holds a Bachelor's degree from GCU Faisalabad and a Master's in Computer Engineering from LUMS. He has been with the Company since 2013.

- *Mr. Qamar Abbas Sipra, CFO*, with over 30 years of experience, leads the finance, accounts, internal audit, and reporting functions. He has served in organizations such as Daily Pakistan, LUMS, and Confiz Limited.
- *Mr. Andy Crebar, Chief Business Officer (CBO)*, an Australian national with 13 years of experience in fintech, is responsible for business development and marketing, focusing on B2B expansion in the US and Middle East. He joined the Company in June 2024.

### Corporate Structure and Shareholding

Devsinc has two directors: Mr. Usman Asif, who also serves as Chairman of the Board, and Mrs. Afeefa Zaman, who holds a nominal role as a signatory and is not involved in the day-to-day operations or decision-making of the company.

### Takeover of Devsinc Incorporate (sole proprietorship) by Devsinc (Pvt) Ltd

Devsinc (Pvt) Ltd executed a strategic takeover of Devsinc Incorporate (sole proprietorship owned by Mr. Usman Asif) on July 1, 2023. All business transactions and operations were being carried in the name of Developers Incorporate from 2008 till 2023. All assets, liabilities, receipts, bills receivable, properties and assets and other engagements of Devsinc Incorporate were fully transferred to Devsinc (Private) Limited.

To assess overall financial health, we examined at Developers Incorporate's financial results from 2021 to 2023 and Devsinc's results for year ending 2024 (post-merger).

### Devsinc (Pvt) Limited financial performance pre-merger

The Company posted a loss of Rs. 0.2m in FY22 on account of expenses paid for incorporation. In FY23, owing to income on savings accounts, Devsinc made a net profit of Rs. 0.1m in FY23.

Debt coverages and capitalization ratios are virtually inapplicable on account of absence of bank borrowings and full incorporation with DI in July'23. Below is a snapshot of Devsinc (Pvt) Ltd (pre-merger) financials:

Devsinc (Pvt) Ltd pre-merger financial results		<i>(PKR in m)</i>	
BALANCE SHEET	FY22 (A)	FY23 (A)	
Total assets	0.9	1.1	
Total liabilities	0.1	0.2	
Total equity	0.8	0.9	
INCOME STATEMENT	FY22 (A)	FY23 (A)	
Other income	-	0.1	
Operating cost	(0.2)	-	
Profit before tax	(0.2)	0.1	
<b>Net profit</b>	<b>(0.2)</b>	<b>0.1</b>	
CASH FLOW STATEMENT	FY22 (A)	FY23 (A)	
Cash flows from operating activities	(1.1)	-	
Cash flows from investing activities	-	-	
Cash flows from financing activities	1.1	-	
RATIO ANALYSIS	FY22 (A)	FY23 (A)	
Current ratio (x)	8.22	5.05	
Leverage (x)	0.14	0.25	
ROAA	-	10.9%	
ROAE	-	13.0%	

**Internal Operations and IT Infrastructure**

Devsinc's operations are supported by a team of 586 employees, with around 60% focused on software engineering. Total headcount across all group companies is 1,300 employees. The Company generates leads through LinkedIn, Upwork, Fiverr, and its LLC network, offering clients flexibility in taxation and limited liability protections. The Company's IT systems are built on ODOO ERP, and its data is securely managed within an Internal Data Center (IDC).

Internal audit function reports directly to the Board through the CFO however the department is not entirely independent. Moreover, several initiatives to enhance internal controls underway. Room for improvement in the governance, internal and external control framework exists.

**External auditor**

The Company's external auditors, Ali Akhtar Adnan Chartered Accountants, have a valid QCR rating. The Company's external auditor, who has been engaged with Devsinc since FY21, issued unqualified audit opinions for FY21, FY22 and FY23 indicating no significant issues with the Company's financial statements.

**Sector Brief**

Pakistan's IT sector constitutes of companies mainly engaged in business process outsourcing (BPO) services and software development services. Pakistan's IT industry blossomed in recent years, transitioning into a fledgling industry, accounting for approximately 1% of the GDP at about 3.5 billion USD in FY24. While the sector's primary revenue is generated from export of services, it also benefits from domestic contracts with government institutions, financial institutions, and telecommunications companies.

IT exports surged by 24% in FY24, reaching \$3.2 billion from the previous year's \$2.59 billion. The sector recorded an impressive \$300 million in exports in June 2024 alone, a 33% increase from the previous year. This spike is largely driven by increased demand for Pakistani IT services in the Gulf Cooperation Council (GCC) countries, particularly Saudi Arabia, together with relative stability of the Pakistani rupee; and the central bank's decision to increase the retention limit in Exporters' Specialized Foreign Currency Accounts from 35% to 50%.

Furthermore, factors like a burgeoning population, governmental investment in IT infrastructure, and competitive labor costs have been driving the expansion of Pakistan's IT services sector. Leading players of the industry include Systems Limited (SYS), the largest company in the digital ecosystem, with an annual turnover of Rs. 32b, followed by NetSol Technologies (NETSOL), generating a revenue of Rs. 9.3b during FY24. Other large software companies include Symmetry Group, TRG Pakistan, 10Pearls, Txkel, Cubix, Folio3 and Contour Software.

Pakistan's IT industry now has a mature ecosystem that can serve the needs of global entities at among the lowest of costs, nearly 70% lower than developed markets such as North America. The industry has doubled over the last four years and expected to reach \$7 billion over the next 2-4 years.

**Rating Drivers****Business risk underpinned by healthy sector growth, government initiatives and global market dynamics**

Global software development service market was estimated around USD 380.7b in 2023 and is projected to reach USD 1,288.9b by 2032 with majority of the revenue being generated from the US. On the domestic front, the sector is supported by GoP's initiatives with Pakistan Software

Export Board (PSEB) advocating for growth in technology parks, reduction in internet issues and job creation for tech graduates. As of reporting date, Pakistan is the 3rd largest country in terms of online labour. As per PSEB, the number of registered software houses stands at 17,000. Business risk profile of the Company is supported by strong growth potential of Pakistan's overall software services exports which has grown at a CAGR of 21% from FY20 to FY24. Moreover, software services exports of Pakistan surged by 30% while remittances (in rupee terms) increased by 27% during 2MFY25 compared to the SPLY. In line with growth across the subsector, topline of the Company has grown at CAGR of 66% from FY20 to FY24.

#### **Strong business margins**

Low business risk is further supported by strong profit margins of the business. Over the last four years, gross margins have averaged around 50% which stands favorably amongst peers. Net margins of the business also remain healthy around 24% barring FY23, wherein the Company undertook some additional entertainment expenses as well as expanded into new rental premises. However, margins reverted in FY24.

Amid evolving needs for AI tools and rapid innovation in fintech and services sector, the demand for software services has grown exponentially. Moreover, outsourcing of services from weaker currency economies generates strong margins of software companies in developing countries such as Pakistan.

While Pakistan's market share in global software development remains less than 1%, software development outsourcing to Pakistan is poised to expand at a CAGR of 14% from 2024 to 2029, as per data from Statista. Profit margins are further enhanced by the industry's substantial export revenues, which provide the opportunity for currency exchange gains.

#### **Business scalability constrained due to talent acquisition and retention challenges**

The cost-effectiveness of operating in markets like Pakistan, where labor and infrastructure expenses are relatively low, allows businesses to scale efficiently and maintain competitive pricing. However, the rapid growth of the IT sector has led to increased demand for highly specialized talent, such as software developers, data scientists, and AI experts.

Finding and retaining qualified individuals with the right expertise can be difficult due to a limited supply of professionals with advanced skills however, Devsinc's overall headcount across all departments has increased in tandem with expanding operations. Employee turnover, driven by intense competition for skilled talent, may disrupt ongoing projects. Devsinc has developed employee retention policies and is in the process of hiring several senior executives to the lead its human resources management team. Nevertheless, addressing challenge of retaining skilled employees remains essential for maintaining sustainable growth.

#### **Business mix diversification**

Devsinc was dealing with individual clients in a B2C (business-to-client) model growing at a modest rate. However, the Company has focused on tapping into B2B market to diversify business mix and scale the overall business under the Devsinc umbrella. The Company is in the process of closing B2B deals with various companies.

#### **Sound Liquidity indicators**

The Company maintains a sound liquidity position, reflected in a current ratio of 2.87x at the end of FY24 (compared to 0.32x in FY23 and 6.51x in FY22).

Liquidity is further bolstered by an efficient cash conversion cycle which indicates the Company's swift ability to convert its resources into cash. Additionally, the healthy ageing of trade receivables, with minimal overdue amounts, contributes to its robust liquidity profile.

*Table: Devsinc (Private) Limited - cash flows and liquidity indicators*

<b>(Rs. in m)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>
FFO	29.7	266.7	146.7	197.9
Current ratio (x)	12.88	6.51	0.32	2.87
Trade debts/sales	13.9%	0.0%	17.3%	8.0%
Receivables days	51	0	63	29
Payables days	16	5	40	14
Cash conversion cycle (days)	34	(5)	23	15

#### **Low financial risk profile supported by zero debt capital structure**

The debt profile of the Company consists of primarily sponsor interest free loans, repayable on demand of the sponsor. Therefore, the same have not been accounted as equity for rating purposes. Total equity stood at Rs. 790.3m (end-FY23: Rs. 153.8m) at end-FY24 on account of sustained profit retention. Gearing and leverage were recorded at 0.03x and 1.76x respectively in FY24.

Sponsor support will continue in the form of a long-term, unsecured interest free loan while leverage is projected to improve by end-FY25. As per management, going forward, Devsinc plans to meet its capital expenditure requirements and any working capital needs from internal capital generation and sponsor support.

#### **Corporate governance framework**

There is significant room for improvement in the corporate governance framework. The Company's single-person ownership and limited Board representation expose it to key person risk. The lack of independent directors and Board committees, weakens oversight and accountability. Additionally, management meetings are informal, with no minutes recorded, compounds governance risks. The Company also lacks a documented succession plan for the medium-term, creating significant risk given Mr. Usman's central role in decision-making. These factors collectively underscore the need for improvements in Devsinc's corporate governance structure to ensure long-term stability and effective oversight.

To address these risks, the Company will be forming an independent Board by 2025 while the Chief Business Officer (CBO) has been chosen as the designated successor CEO. He will be leading the decision-making and leadership team, while the present CEO will remain as Chairman of the Board.

**Devsinc (Private) Limited**
**Appendix I**

FINANCIAL SUMMARY <span style="float: right;">(PKR in m)</span>						
MERGED/CONSOLIDATED RESULTS						
	Developers Incorporate & Devsinc (pre-merger)			Devsinc (post-merger)		
RATIO ANALYSIS	FY21 (A)	FY22 (A)	FY23 (A)	FY24 (M)	FY25 (P)	FY26 (P)
Gross margin	58.5%	44.9%	49.5%	58.2%	56.4%	58.2%
Net margin	47.3%	20.2%	3.4%	26.7%	23.6%	27.9%
FFO	29.7	266.7	146.7	197.9	NA	NA
Current ratio (x)	12.88	6.51	0.32	2.87	3.00	3.20
Trade debts/sales	13.9%	0.0%	17.3%	8.0%	7.6%	7.3%
NWC	120.1	39.2	(547.7)	180.9	215.0	265.0
Cash Cycle (days)	34	(5)	23	15	10	10
Gearing (x)	-	-	-	0.01	0.00	0.00
Leverage (x)	0.05	0.08	5.71	1.76	1.10	0.77
ROAA	103.7%	57.1%	5.2%	11.1%	22.1%	42.3%
ROAE	108.3%	61.1%	14.6%	70.8%	199.2%	560.1%

- **(A):** FY21-FY23 figures based on Audited Financials of Devsinc Incorporate
- **(M):** FY24 figures based on management accounts of Devsinc (Private) Limited after Devsinc Incorporate was integrated into Devsinc (Private) Limited in Jul'23
- **(P):** FY25 and FY26 figures are based on projections provided by management.

REGULATORY DISCLOSURES					Appendix II
<b>Name of Rated Entity</b>	Devsinc (Private) Limited				
<b>Sector</b>	Information Technology				
<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/Watch</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	31/Oct/2024	BBB+	A2	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 Meeting</b>	<b>Name</b>		<b>Designation</b>		<b>Date</b>
	Qamar Abbas Sipra		CFO		12-Sep-2024
	Harris Umer		Manager Accounts		
	Sharjeel Ehsan Khokar		Lead Audit & Finance		