The Pakistan Credit Rating Agency Limited

Rating Report

E-Vision Manufacturing Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
17-Jul-2019	BBB	A2	Stable	Maintain	-
15-Jan-2019	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect the adequate business profile of E-Vision Manufacturing Limited and its established position in the regenerated polyester staple fiber industry. The Company has identified a niche in the textile industry by manufacturing fine white, black and green regenerated polyester staple fiber using post-consumed polyethylene terephthalate (PET) bottles. The Company's topline, though small in size, has displayed rising trend attributed to adequate local demand and recent venture into export market. Margins have remained volatile owing to fluctuations in global oil prices, a key factor impacting product price. Impact of new entrants and seasonal constraints limit availability of raw material, posing a challenge to the Company's working capital management and optimal capacity utilization. Margins have recently shown improvement on the back of better procurement of raw material through imports and local market. Bottomline remains small and has shown an unstable trend. The Company's financial risk profile remains strong with no long-term borrowings. This is supported by improving cashflows and strong coverages. The Company's overall governance structure and financial transparency need improvement.

The ratings are dependent on anticipated growth in topline and stability of margins. Sustained high coverages and maintaining leveraging at low levels remains critical. Going forward, better governance framework will be ratings positive. Prolonged downturn in margins and/or coverages will adversely impact ratings.

Disclosure

Disclosure	
Name of Rated Entity	E-Vision Manufacturing Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_Corporate_FY19(Jun-19),PACRA_Crtieria_LT ST Relationship_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study | Polyester(Feb-19)
Rating Analysts	Muhammad Hassan | muhammad.hassan@pacra.com | +92-42-35869504

Profile

Legal Structure E-Vision Manufacturing Limited (E-Vision) is an unlisted, public limited concern incorporated in 2013.

Background E-Vision was incorporated in March, 2013, as a private limited company and subsequently converted to public status in September, 2015. Commercial operations began in August, 2014 and the company availed a five-year tax exemption under Section 65-D of the Income Tax Ordinance.

Operations The Company is involved in the manufacturing and regeneration of polyester staple fiber (r-PSF) using waste of polyethylene terephthalate (PET) bottles or other waste material. The Company's production facility is located in Sundur Industrial Estate with a gross capacity of ~60 tons per day.

Ownership

Ownership Structure The Company's shareholding structure changed recently, with the stake of Marylebone Management Limited (owned wholly by Mr. Salman Ganny) decreasing to ~60% (CY18: ~85%) while the stake of Mr. Abdul Ghaffar has increased to ~40% (CY18: ~15%)

Stability The Company has no formal succession plan, neither has Mr. Ganny chosen a successor. However, a written agreement between the two shareholders exists, which is renewed periodically according to the understanding between the sponsors.

Business Acumen Mr. Ganny has experience in real estate, steel, power and textile sectors while Mr. Abdul Ghaffar has extensive experience in setting up various industrial plants including r-PSF.

Financial Strength Mr. Ganny has business interests in UK and Dubai in the real estate sector. The ability of the sponsor to support the business is yet to be seen.

Governance

Board Structure E-Vision's Board of Directors comprises three members. The Board is Chaired by Mr. Ganny. Mr. Abdul Ghaffar (CEO) and Mr. Arif Siddiqui (company CFO) are also on the Board. Small size of the Board and absence of independent oversight raises concern on the quality of governance. Addition of independent directors would improve governance structure.

Members' Profile Mr. Ganny is an investor and entrepreneur based in United Arab Emirates. In Pakistan, Mr. Ganny presently holds Board positions in E-Vision Manufacturing Limited, Horizon Steel Private Limited and Johnson & Phillips (Pakistan) Limited. Other Board members also have extensive experience in the fields of textile and industrial chemicals.

Board Effectiveness Board meetings are held quarterly with full attendance of directors and meeting packs are shared with directors beforehand. Meanwhile, quality of discussion disclosed in meeting minutes has room for improvement. There are also no Board committees in place to assist the Board.

Financial Transparency Hassan Farooq & Company are the external auditors of E-Vision. The auditor is QCR rated, however, does not appear on the list of State Bank's panel of auditors. They expressed an unqualified opinion on the financial statements of the company for the year ended December 31st, 2018. An internal audit function is also in place with the Head of Internal Audit reporting to the Board.

Management

Organizational Structure E-Vision has a lean organizational structure divided into various functional departments. The departmental heads and managers report to the CEO, Mr. Abdul Ghaffar, and CFO, Mr. Arif Siddiqui.

Management Team Mr. Abdul Ghaffar is a Chartered Accountant with over twenty years of experience in various manufacturing concerns and financial institutions. He is actively involved in day-to-day operations and decision making in the company. The management team constitutes well-experienced, seasoned individuals.

Effectiveness The management team is a key resource ensuring smooth functioning of the company. There are four management committees in place to assist decision making. All departmental leads meet with the CEO daily for discussion on day-to-day developments and issues.

MIS BMA – Complete Solutions V 1.2 was deployed in 2014 as an ERP solution. The software comprises modules for inventory management, financial accounting, HR management, sales support, fixed assets management and production.

Control Environment There is an on-site lab in place for quality testing of fibers. Furthermore, an international certification has been acquired by the company: Global Recycled Standard. The company is also ISO 9001 certified.

Business Risk

Industry Dynamics The r-PSF industry in Pakistan is relatively new and growing due to rising local and international demand for the product driven by its economic viability, sustainability and friendliness toward the human body in comparison to virgin polyester. R-PSF derives its pricing from the price of virgin polyester fiber while volatility in oil prices as well as hoarding by traders and stockers also affects prices. Major challenge for the industry remains the availability of raw material which has been constrained due to new entrants in the industry and also varies seasonally. Recent ban on import of PET bottles and shut-down of polyester-based industries in China is likely to boost local r-PSF market.

Relative Position The r-PSF fiber industry in Pakistan constitutes few players, of which one of the leading players is E-Vision. Its main competitors are Khalis Fiber, Lasani Fiber and Sun Fiber.

Revenues E-Vision's revenue is predominantly generated from sale of white r-PSF (CY18: 62%, CY17: 72%) and black r-PSF to textile companies for the manufacturing of textile madeups. The bulk of revenue is derived locally (~78%) while the remaining is exported. The company's topline for CY18 amounted to ~PKR 1,245mln while in 3MCY19, it showed an increase of ~10% YoY (3MCY19: ~PKR 353mln), a factor of volumetric increase due to strong local demand and increased prices of r-PSF.

Margins The company's gross margin has witnessed volatility in recent years mainly due to fluctuation in oil prices, a key factor impacting price of virgin polyester and, in turn, r-PSF. In 3MCY19, the Company's gross margin showed significant YoY increase (3MCY19: ~6%, 3MCY18: ~1%), a factor of higher pricing as well as lower costs driven led by efficiency in raw material procurement. The benefit translated into improved operation margins while net margins also showed YoY improvement (3MCY19: ~1%, 3MCY18: ~-4%), though still remain quite low. Net profit for the period amounted to ~PKR 3mln (3MCY18: ~13mln loss) while net profit of CY18 amounted to ~PKR 46mln. Currently, the company is availing tax exemption under Section 65-D of the Income Tax Ordinance which is due to end in September, 2019, after which it will incur tax expense.

Sustainability The Company has utilized its internal cash flows to invest in some machinery additions recently which is likely to improve efficiency. It has also shifted its product mix towards coarse/hollow fiber which has created further opportunities abroad. To counter the issue of raw material availability, the company has set up bonded warehouse facilities to import PET post consumed bottles which will allow its plant to run continuously throughout the year. Keeping in view rising local and international demand for r-PSF, E-Vision is planning to set up another production line in CY19 which will double its production capacity.

Financial Risk

Working Capital E-Vision's working capital needs emanate from financing its inventory which constitutes PET bottles and PET crush for which the company relies on internal cash flows as well as short term borrowings (STBs). Inventory levels fluctuate seasonally driven by availability of raw material and demand of the product. The company's net cash cycle showed a slight decrease of 3 days, reaching 65 days in 3MCY19 (CY18: 86 days).

Coverages During CY18, E-Vision's free cash flows (FCFO) grew significantly YoY, a factor of improved profitability, to stand at ~PKR 19mln (3MCY18: ~PKR 1mln). Resultantly, debt service coverage and core coverage improved to 2.8x each in 3MCY19 (3MCY18: 0.2x) while coverages in CY18 stood at 3.5x.

Capitalization The company has a low leveraged capital structure with no long-term borrowings and a leveraging ratio of ~30%, down from 37% in 3MCY18 (~CY18: 32%), owing to repayments of short-term borrowings. Going forward, expansion planned in CY19 is planned to be financed 50% from internally generated funds and the remaining from availing a loan facility. The company paid out a dividend of ~PKR 70mln in Apr19.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

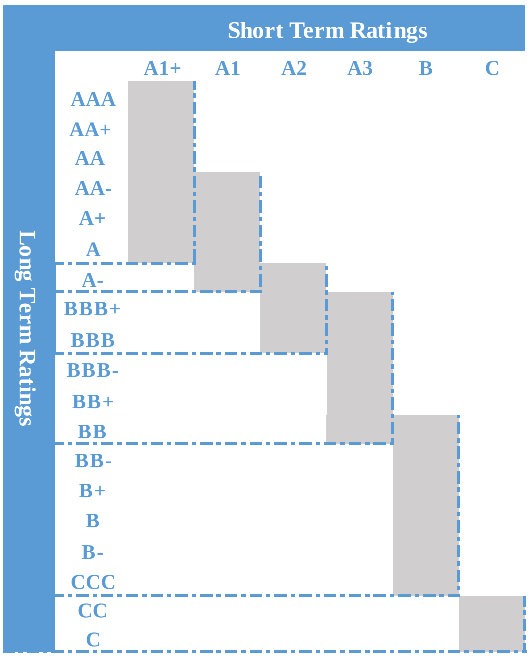
E-Vision Manufacturing Limited	Mar-19	Dec-18	Dec-17	Dec-16
Polyester	3M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	441	362	383	413
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	467	596	509	477
a Inventories	*134*	*212*	*198*	*174*
b Trade Receivables	*109*	*117*	*81*	*71*
5 Total Assets	908	959	893	890
6 Current Liabilities	57	52	46	66
a Trade Payables	*7*	*13*	*11*	*32*
7 Borrowings	251	271	298	296
8 Related Party Exposure	-	40	-	-
9 Non-Current Liabilities	8	8	5	4
10 Net Assets	591	588	543	524
11 Shareholders' Equity	591	588	543	524
B INCOME STATEMENT				
1 Sales	387	1,245	1,134	767
a Cost of Good Sold	*(362)*	*(1,113)*	*(1,060)*	*(628)*
2 Gross Profit	25	132	75	139
a Operating Expenses	(13)	(45)	(31)	(30)
3 Operating Profit	12	87	44	108
a Non Operating Income	*0*	*(8)*	*(2)*	*(5)*
4 Profit or (Loss) before Interest and Tax	12	79	42	104
a Total Finance Cost	*(9)*	*(33)*	*(24)*	*(25)*
b Taxation	-	-	-	-
6 Net Income Or (Loss)	3	46	19	79
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*19*	*99*	*71*	*130*
b Net Cash from Operating Activities before Working Capital Changes	*11*	*73*	*48*	*105*
c Changes in Working Capital	*85*	*(34)*	*(34)*	*(109)*
1 Net Cash provided by Operating Activities	96	39	14	(4)
2 Net Cash (Used in) or Available From Investing Activities	(86)	(10)	(3)	(15)
3 Net Cash (Used in) or Available From Financing Activities	(20)	(27)	2	20
4 Net Cash generated or (Used) during the period	(9)	2	13	1
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	24.3%	9.7%	48.0%	62.1%
b Gross Profit Margin	6.4%	10.6%	6.6%	18.1%
c Net Profit Margin	0.9%	3.7%	1.6%	10.3%
d Cash Conversion Efficiency (EBITDA/Sales)	5.0%	9.0%	6.9%	18.4%
e Return on Equity (ROE)	2.3%	8.0%	3.5%	15.1%
2 Working Capital Management				
a Gross Working Capital (Average Days)	67	89	84	82
b Net Working Capital (Average Days)	65	86	77	66
c Current Ratio (Total Current Assets/Total Current Liabilities)	8.2	11.6	11.0	7.3
3 Coverages				
a EBITDA / Finance Cost	2.8	3.9	3.4	5.9
b FCFO / Finance Cost+CMLTB+Excess STB	2.8	3.5	3.1	5.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.0	0.0	0.0
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	29.8%	31.6%	35.4%	36.1%
b Short-Term Borrowings / Total Borrowings	1.0	1.0	1.0	1.0
c Average Borrowing Rate	10.7%	10.0%	7.8%	8.0%

Credit Rating Scale & Definitions

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings	
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short Term Ratings	
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
Proprietary Information