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-2020	BBB	A2	Stable	Maintain	YES
16-Jan-2020	BBB	A2	Stable	Maintain	-
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, already small in size, has displayed declining trend attributable to withdrawal of zero rated tax policy. Margins have remained volatile owing to fluctuations in global oil prices, a key factor impacting product price. Impact of new entrants and seasonal constraints that limit availability of raw material, pose 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. The Company posted modest profitability and the trend has remained volatile as margins fluctuate. The Company's financial risk profile remains strong with no long-term borrowings. This is supported by improving cashflows and strong coverages as quantum of borrowings remains small. The Company's overall governance structure and financial transparency need improvement.
The Rating Watch signifies the prevailing uncertainty due to the outbreak of COVID-19 pandemic. This has impacted the entire textile chain as demand contracted due to shutdown in domestic and global markets and tough economic conditions. Recent SBP measures will provide some respite in this regard. The Company's production facilities have been shut down but restarted production with easing in lockdown though demand remaines subdued. PACRA is closely monitoring the situation and will take rating action accordingly.

The ratings are dependent on sustaining operations and improving topline. Meanwhile, maintaining a low leveraged capital structure and strong coverages remain critical. Going forward, better governance framework will be positive for the ratings. Prolonged downturn in business conditions leading to lower revenues and margins due to Covid-19 outbreak will adversely impact ratings.

Disclosure

Name of Rated Entity	E-Vision Manufacturing Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Polyester(Feb-20)
Rating Analysts	Fahad Iqbal | fahad.iqbal@pacra.com | +92-42-35869504

Profile

Legal Structure E-Vision Manufacturing Limited (E-Vision, “The Company”) 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 with gross capacity of 30 tons per day which has now expanded to ~60 tons per day.

Operations The Company is involved in the manufacturing and recycling of polyester staple fiber (PSF) using waste of polyethylene terephthalate (PET) bottles or other waste material. E-Vision's rPSF is mainly used in the manufacturing of yarn for woven & knitted fabric for home textile & other garments industry. The Company’s production facility is located in Sundar Industrial Estate, Lahore, and consists of two units: washing unit and production unit.

Ownership

Ownership Structure The Company’s shareholding is held through an offshore investment company, Marylebone Management Limited, incorporated in the British Virgin Islands. Marylebone Management Limited (owned by Mr. Salman Ganny) holds 60% stake while remaining stake of E-Vision (40%) lies with Mr. Abdul Ghaffar (CEO).

Stability The Company does have a succession plan. In case of death of Mr. Salman Ganny, Marylebone Management Limited and E-Vision will be managed by other family members who have varied experience in business. Family includes his father Mr. Salim Ganny who is an investor and entrepreneur and his wife Mrs. Reema Ganny who has experience in corporate banking.

Business Acumen Mr. Salman Ganny has experience in real estate, steel, engineering and textile sectors. He is currently the Chairman of Johnson and Phillips (Pakistan), engaged in manufacturing and marketing of electrical equipment as well as Board member in Horizon Steel (Pvt.) Limited, a Karachi-based steel manufacturing company.

Financial Strength Mr. Salman Ganny paternal family is Ganny Rangoonwala and maternal family is Tabani. Both families are reputable business families based in Karachi for over six decades. Mr. Ganny and family have ability and willingness to support the business and for this purpose various guarantees have been issued.

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), who represents Mr. Ganny, are also on the Board.

Members’ Profile Mr. Salman Ganny – Chairman and founder of the company is an investor and entrepreneur based in Pakistan and UAE. Additionally, in Pakistan he holds board positions in Johnson and Phillips Pakistan Limited and Horizon Steel Private Limited. Previously he held management positions overseas in Real Estate and Investment companies.

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

Financial Transparency Hassan Farooq & Company are the external auditors of the company. The auditor is QCR rated, however, does not appear on the list of State Bank’s panel of auditors. They have expressed an unqualified opinion on the financial statements of the company for the year ended December 31st, 2019. The board has also set up an internal audit function.

Management

Organizational Structure E-Vision has a lean organizational structure divided into various functional departments, namely: i) Production, ii) Procurement, iii) Marketing, iv) Human Resources and Administration and v) Finance. The Manager Finance reports to the CFO – Mr. Arif Siddiqui – while all other departmental heads and managers are reporting to the CEO – Mr. Abdul Ghaffar.

Management Team Mr. Abdul Ghaffar – company CEO – is a Chartered Accountant with over twenty years of experience in various manufacturing concerns including glass, textile and industrial gases companies as well as experience in financial services sector. He is actively involved in day-to-day operations and decision making in the Company. The management team, though small in size, constitutes well-experienced, seasoned individuals.

Effectiveness The Company has formed four management committees to assist decision making. While the Audit Committee and Human Resource Committee convene on need basis, the Management Committee and Procurement Committee meet monthly. Meetings minutes are properly documented. All departmental leads meet with the CEO daily to discuss day-to-day developments and issues.

MIS E-Vision implemented BMA Complete Solutions V 1.2 in 2014 as an ERP solution to streamline the flow of information from all departments. The software provided by M/S Soft Consult comprises modules for inventory management, financial accounting, HR management, sales support and fixed assets management while production management module is being developed.

Control Environment Daily reports regarding the Company’s receivables and payables position, purchases and procurement, and bank position are prepared and submitted to higher management. The Company also has a lab on its premises for quality testing of fibers to ensure quality control. Furthermore, an international certification has been acquired by the Company: Global Recycled Standard. Company is also ISO 9001 certified.

Business Risk

Industry Dynamics The recycled polyester staple fiber industry (r-PSF) in Pakistan is growing due to rising local and international demand for the product, driven by its economic viability and friendliness toward the human body in comparison to virgin polyester making it an attractive substitute. R-PSF derives its pricing from the price of virgin polyester fiber. Generally, prices of r-PSF remain at ~75% of the price of virgin polyester fiber. Being derivative of crude oil, their prices fluctuate accordingly, making r-PSF a price volatile product.

Relative Position The r-PSF 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. E-Vision remains the only player in the local industry with an import license.

Revenues The Company’s topline declined clocking in at ~PKR 236mln in 1QCY20 (1QCY19: ~PKR 389mln), a decrease of ~39% YoY as the sales were impacted by the withdrawal of zero rated sales tax policy. The sales mix has historically been dominated by local sales. Revenue is predominantly generated from sale of white r-PSF (1QCY20: ~70%) in local market while the remaining constitutes black r-PSF with a very minor portion of green r-PSF. Export sale also consists of r-PSF chips.

Margins Gross margins of the Company improved (1QCY20: 16.1%, 1QCY19: 7.9%) on YoY basis primarily due to reduction in raw material prices which were improved due to decline in crude oil price. Similarly operating margins also improved to 11.7% in 1QCY20 (1QCY19: 4.6%). Finance cost in 1QCY20 increased by ~54% (1QCY20 ~PKR 13mln, 1QCY19 ~PKR 6mln) on the backing of high interest cost and increase in short term borrowings. Although there was decline in the topline but the costs were well managed by the Company due to which the net profits remained stagnant at ~12mln 1QCY20 (1QCY19: ~PKR 12mln).

Sustainability COVID-19 has impacted the performance of the Company. The Company remained closed in lockdown period but the Company is now operating at ~75-80% capacity. The Company primary export country is Turkey which is affected by COVID due to which the exports of E-Vision are affected, however, the local order have improved during this period which is a sign of relief for the Company. The Company has also availed the salary loan facility at 3% from April to June 2020.

Financial Risk

Working Capital The Company’s net cash cycle increased to 120 days in 1QCY20 (1QCY19: 65 days) as the import of PET in the form of compressed bottles increased from previous years and they take more time to be converted into finished goods. During COVID-19 the inventory has not piled up because the demand for local orders has not gone down.

Coverages During 1QCY20, E-Vision’s free cash flows (FCFO) grew YoY to stand at ~PKR 32mln (1QCY19: ~PKR 19mln). However, interest coverage and debt coverage declined to 1.4x in 1QCY20 compared to 5.5x in the previous year due to higher finance cost.

Capitalization At 1QCY20, the Company has moderately leveraged capital structure with leveraging ratio of ~42% (1QCY19: ~30%) constituting exclusively of short-term borrowings.

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Financial Summary
PKR mln

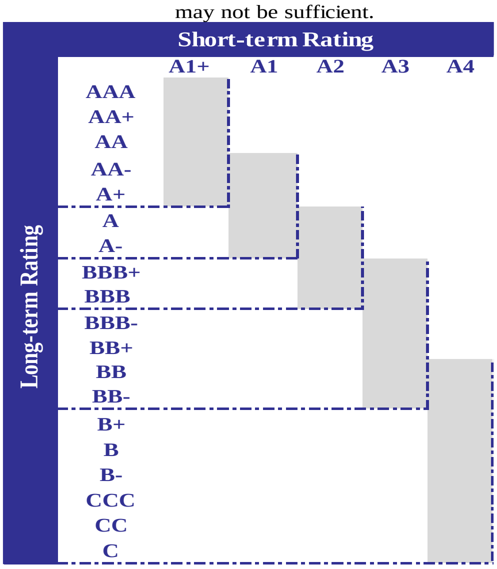
E-Vision Manufacturing Limited	Mar-20	Dec-19	Dec-18	Dec-17
Polyester	3M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	443	347	362	383
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	514	588	596	509
a Inventories	*189*	*263*	*212*	*198*
b Trade Receivables	*88*	*128*	*117*	*81*
5 Total Assets	956	936	959	893
6 Current Liabilities	95	82	52	46
a Trade Payables	*23*	*24*	*13*	*11*
7 Borrowings	344	324	271	298
8 Related Party Exposure	-	-	40	-
9 Non-Current Liabilities	32	29	8	5
10 Net Assets	485	500	588	543
11 Shareholders' Equity	485	500	588	543
B INCOME STATEMENT				
1 Sales	236	1,239	1,245	1,134
a Cost of Good Sold	*(198)*	*(1,128)*	*(1,113)*	*(1,060)*
2 Gross Profit	38	111	132	75
a Operating Expenses	(10)	(51)	(45)	(31)
3 Operating Profit	28	59	87	44
a Non Operating Income	*1*	*(3)*	*(8)*	*(2)*
4 Profit or (Loss) before Interest and Tax	28	56	79	42
a Total Finance Cost	*(13)*	*(45)*	*(33)*	*(24)*
b Taxation	*(3)*	*(1)*	-	-
6 Net Income Or (Loss)	12	9	46	19
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*32*	*83*	*99*	*71*
b Net Cash from Operating Activities before Working Capital Changes	*19*	*43*	*73*	*48*
c Changes in Working Capital	*88*	*(10)*	*(34)*	*(34)*
1 Net Cash provided by Operating Activities	107	34	39	14
2 Net Cash (Used in) or Available From Investing Activities	(102)	(17)	(10)	(3)
3 Net Cash (Used in) or Available From Financing Activities	(7)	(18)	(27)	2
4 Net Cash generated or (Used) during the period	(2)	(1)	2	13
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-23.8%	-0.5%	9.7%	48.0%
b Gross Profit Margin	16.1%	8.9%	10.6%	6.6%
c Net Profit Margin	4.9%	0.7%	3.7%	1.6%
d Cash Conversion Efficiency (EBITDA/Sales)	14.9%	7.4%	9.0%	6.9%
e Return on Equity (ROE)	9.5%	1.7%	8.0%	3.5%
2 Working Capital Management				
a Gross Working Capital (Average Days)	129	106	89	101
b Net Working Capital (Average Days)	120	101	86	94
c Current Ratio (Total Current Assets/Total Current Liabilities)	5.4	7.1	11.6	11.0
3 Coverages				
a EBITDA / Finance Cost	2.8	2.1	3.9	3.4
b FCFO / Finance Cost+CMLTB+Excess STB	2.6	1.9	3.5	3.1
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	41.5%	39.3%	31.6%	35.4%
b Short-Term Borrowings / Total Borrowings	1.0	1.0	1.0	1.0
c Average Borrowing Rate	15.1%	14.6%	10.0%	7.8%

Credit Rating

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 Rating	
Scale	**Definition**
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 Rating	
Scale	**Definition**
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
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) 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.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

Entities
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

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