



The Pakistan Credit Rating Agency Limited

Rating Report

Orient Energy Systems (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
06-Jul-2023	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Orient Energy Systems (Pvt) limited (“the Company” or “OES”) entity ratings depict the Company’s notable history of providing power generation equipment, renewable energy solutions along with other industrial solutions and services. The Company’s diversified portfolio includes sale of imported supplies relating to power generation such as generators, solar panels, wind turbines, heavy machineries, lubricant oil and building services equipment along with providing after sale support to its customers. Being the authorized dealer of globally recognized manufacturers, OES holds a good reputation in the market. Additionally, the Company is recognized as a reliable after sale service and spare parts provider. The sponsor’s commendable experience in the sector along with strong business acumen provides additional support to the assigned ratings. With rising trend of renewable energy solutions in the country, the Company has also branched out into providing wind and solar solutions to its customers. The team of qualified engineers provides engineering services including Installation, Testing, Commissioning, Operations and Maintenance, Repair, Troubleshooting, Overhauling and other Project Management services to its industrial customers. The Company reported Net Revenues of PKR ~6,271mln during nine month period ended March 2023 (FY22: PKR ~8,955, FY21: PKR ~7,815mln) with substantial portion from the sale and supplies of generators, solar panels, wind turbines and their spare parts. The Company has a significant market presence in the South region. The ongoing macro-economic conditions of the Country pose potential threat to the Company in terms of import of equipment and spare parts. However, through its well managed inventory levels along with diversification into providing turnkey solution and services, the Company has continued to support its operations. The amount of leverage in the Company’s capital structure stands at moderate level. In continuation to the prevailing economic conditions of the Country, the industrial growth is expected to further slowdown.

The ratings are dependent on the company’s ability to sustain its market share. Proactive management of business affairs with improved margins and coverages remains important for the ratings.

Disclosure

Name of Rated Entity	Orient Energy Systems (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Machinery(Dec-22)
Rating Analysts	Hashim Yazdani hashim.yazdani@pacra.com +92-42-35869504

Profile

Legal Structure Orient Energy Systems (Pvt.) Limited (OES) or “the Company” was incorporated on 28th November 2007 as a private limited Company under the Companies Ordinance, 1984. The registered office of the Company is situated at Plot # 9, Sector 24, Korangi Industrial Area, Karachi.

Background OES took over the business from Orient Energy Systems on 1st July 2010 and acquired all assets and liabilities of the firm at book values. Orient Energy Systems was a Partnership Firm, formed in 1996 by five partners with an objective to carry out the business of sales and services of generator sets and allied equipment. In March 2015, a holding Company ASJN Holdings (Pvt.) Limited (ASJN) was formed with an initial paid-up capital of PKR 1 billion. Entire shareholding of OES was transferred to ASJN.

Operations The Company is one of the leading multinational engineering companies in Pakistan, engaged in commercial import, sales, indent and services of generator sets, compressors, earth moving machinery, industrial pumps, chilling plants, solar panels and batteries along with supply of spare parts, lubricant oil, EPC and turnkey solutions.

Ownership

Ownership Structure After corporate restructuring of OES that took place in 2015, majority stake is owned by ASJN Holdings (Pvt.) Limited (99.99%).

Stability The owners of the Company have been involved in the business since 1996. Over the years the Company has expanded its business by offering world class equipment to the local industrial sector. The Company has built strong relationship with its customers by providing tailored services while being a trustworthy and reliable distributor of international well renowned manufacturers.

Business Acumen Apart from the owners proven history of operating in the sector, ASJN Holdings (Pvt.) Limited itself has branched out into other sectors to diversify its portfolio. The holding company has stake in subsidiary companies which are involved in the business of manufacturing and blending of Transformer/Insulating Oil and Lubricant Oils along with Rental Modaraba in the power sector.

Financial Strength Being the overall solution provider to the power sector, the sponsors are committed towards expanding their footprint in the local industry and have strong willingness to provide financial support to their companies.

Governance

Board Structure The board consists of 4 members, including 3 Executive Members and the CEO.

Members' Profile All board members have been involved in the business since its inception and thus have vast experience of the business operations and the sector.

Board Effectiveness The board conducts regular meetings throughout the fiscal year to approve the financial statements of the reporting period. Furthermore, if required, matters relating to the Company's operations along with other important matters are also discussed in the meetings. Proper board minutes are maintained by the Company which captures the agenda and all the discussion made during the board meeting. The Board strive to uphold high standards of Corporate Governance.

Financial Transparency A proper MIS system in place that generates monthly and quarterly financial reports. Annual financial statements are timely audited and are available to the shareholders. Yousuf Adil Chartered Accountants is the external auditor of the Company. The auditors have expressed an unqualified opinion for the unconsolidated financial statements of the Company for the year ended June 30, 2022.

Management

Organizational Structure The Company has a well formulated organizational structure with the presence of 4 divisions including Generators, Renewable Energy, Product Support & Services and other industrial solutions such as earth moving machineries, chilling plants, industrial pumps, lubricant oil etc. Each division is supported by sub departments including (i)Project Development, (ii)Procurement and Supply Chain, (iii)Engineering, (iv)Finance, (v)Information Technology, (vi)Human Resource and (vii)Compliance.

Management Team The senior management consists of personnel having vast prior experience in their respective fields along with required qualification. Majority of the senior management employees have been associated with the Company for a considerable time which ensures their vast knowledge and understanding of the Company's operations. Mr. Nasim Ahmed is the CEO of the Company who is also amongst the shareholders. His experience is spread over a period of 30 years in the field of power generation, energy solutions, engineering, project management, contract management, legal management of cargo, containers, tankers etc.

Effectiveness Each of the divisions and departments are headed by an experienced and qualified resource including electrical, mechanical and civil engineers. The senior management team is actively supervised and assisted by the board which conducts regular meetings with the Group CEO and divisional heads to ensure smooth functioning of each department.

MIS The Company has deployed Microsoft Dynamics AX 2012 which is an Enterprise Resource Planning (ERP) software that provides tailored solution to the Company. It helps the management to meet their business requirements whether it be related to financial management, human capital management, procurement and sourcing, service management, sales and marketing, supply chain management, business intelligence or accounting and reporting.

Control Environment The Company has established a Compliance department to ensure that the management is adhering to the Company's policies and procedures. The board of directors also acts as an oversight function and is involved in the decision-making process to ensure service quality and smooth operations of the Company.

Business Risk

Industry Dynamics The Engineering and Technology services industry is a very niche sector that caters to a specific target market which includes infrastructure development projects including motorways, exploration and production sites, private sector projects including solar and wind power generation, different industrial sectors along with providing equipment to high scale projects including hyper malls, banks and hospitals etc. The industry is heavily dependent on import of equipment and spare parts. Thus exposing the players to cyclicality, import restrictions and duties and foreign exchange risk.

Relative Position Relative positioning in this type of industry is based on brand of equipment and customer relationship and loyalty. OES being the authorized dealer of leading global manufacturers has significant presence in the South region of the country. The Company caters to the entire needs of the customer from purchase of equipment to installation, commissioning, testing and regular maintenance and overhauling services.

Revenues During 9MFY23, the Company reported Net Revenues of PKR 6,271mln (FY22: PKR 8,955mln, FY21: PKR 7,815mln). Sale from Product Support and services contribute approx. 32-35% to the reported revenue while sale and installation of renewable energy equipment including solar and wind form approx.25-30%. Remaining revenues are achieved from sale of generators and other equipment along with their installation, services and maintenance.

Margins Over the years, the Company's Gross Profit Margins has remained relatively stable resulting from a majority stable revenue stream from the Engineering and Product services provided by the Company. Gross Margin for nine-month period ended March 2023 clocked in at 21.4% (FY22: 21.8%, FY21: 24.8%). Alternatively, the Net Profit Margin of the Company has remained low with a declining trend over the years as a result of rising finance cost. (9MFY23: 2.1%, FY22: 1.1%, FY21: 4.0%).

Sustainability The Company has an established market presence as a reliable and dependable power and industrial engineering solution provider. The Company and its sponsors are actively seeking future opportunities to expand their business portfolio in the power solution sector in order to sustain their market presence and operations in the country.

Financial Risk

Working Capital The company's working capital management is a function of its inventory management along with receivable and payable days. Receivables against sale of equipment and services stood at PKR 2,960 (FY22: PKR 3,658mln, FY21: PKR 2,396mln) which in turn contribute to high Gross Working Capital Days (9MFY23: 333 days, FY22: 300 days, FY21: 301 days).

Coverages Coverages have declined over the periods owing to fall in reported FCFO's as a result of economic slowdown. Interest Coverage (EBITDA/Finance Cost) during the 9MFY23 was recorded at 1.7x (FY22: 2.5x, FY21: 3.8x).

Capitalization The Company has a moderately leveraged structure as a result of borrowings to fund its receivable delays and imports. As of March 2023, the Company leveraging stood at 39.9% (FY22: 49.2%, FY21: 50.7%).



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

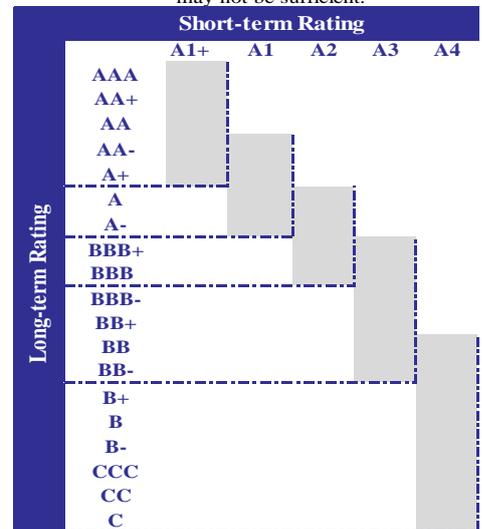
Orient Energy Systems (Pvt.) Limited Engineering and Technology	Mar-23 9M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	1,017	1,023	1,073	1,086
2 Investments	-	-	-	332
3 Related Party Exposure	80	168	92	159
4 Current Assets	9,501	10,401	8,252	8,746
a Inventories	3,898	4,753	3,916	3,774
b Trade Receivables	2,960	3,658	2,396	2,808
5 Total Assets	10,597	11,591	9,417	10,323
6 Current Liabilities	5,123	5,378	3,142	3,316
a Trade Payables	2,700	3,308	2,293	2,379
7 Borrowings	1,978	2,847	2,947	3,851
8 Related Party Exposure	208	208	234	375
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	3,288	3,157	3,093	2,780
11 Shareholders' Equity	3,288	3,157	3,093	2,780
B INCOME STATEMENT				
1 Sales	6,271	8,955	7,815	6,382
a Cost of Good Sold	(4,932)	(7,000)	(5,875)	(5,113)
2 Gross Profit	1,340	1,955	1,940	1,270
a Operating Expenses	(782)	(1,070)	(972)	(1,115)
3 Operating Profit	557	885	968	155
a Non Operating Income or (Expense)	(148)	(160)	28	(6)
4 Profit or (Loss) before Interest and Tax	409	725	996	149
a Total Finance Cost	(278)	(281)	(298)	(521)
b Taxation	-	(342)	(386)	(343)
6 Net Income Or (Loss)	131	102	313	(715)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	249	331	659	(148)
b Net Cash from Operating Activities before Working Capital Changes	(10)	70	343	(712)
c Changes in Working Capital	1,034	(93)	320	840
1 Net Cash provided by Operating Activities	1,025	(23)	663	129
2 Net Cash (Used in) or Available From Investing Activities	(45)	172	345	(257)
3 Net Cash (Used in) or Available From Financing Activities	(869)	(166)	(935)	(451)
4 Net Cash generated or (Used) during the period	110	(16)	72	(579)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-6.6%	14.6%	22.4%	-26.8%
b Gross Profit Margin	21.4%	21.8%	24.8%	19.9%
c Net Profit Margin	2.1%	1.1%	4.0%	-11.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	20.5%	2.7%	12.5%	10.8%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	5.4%	3.3%	10.6%	-22.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	333	300	301	407
b Net Working Capital (Average Days)	202	186	192	260
c Current Ratio (Current Assets / Current Liabilities)	1.9	1.9	2.6	2.6
3 Coverages				
a EBITDA / Finance Cost	1.7	2.5	3.8	0.3
b FCFO / Finance Cost+CMLTB+Excess STB	0.4	0.4	0.8	-0.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-27.3	17.1	4.4	-3.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	39.9%	49.2%	50.7%	60.3%
b Interest or Markup Payable (Days)	66.8	63.7	37.1	35.2
c Entity Average Borrowing Rate	13.7%	8.5%	7.4%	10.8%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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):
 a) Broker Entity Rating
 b) Corporate Rating
 c) Debt Instrument Rating
 d) Financial Institution Rating
 e) Holding Company Rating
 f) Independent Power Producer Rating
 g) Microfinance Institution Rating
 h) Non-Banking Finance Companies Rating

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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 | Clause 11-(A)(p).

(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)

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