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
24-Jun-2022	BBB	A2	Positive	Maintain	-
24-Jun-2021	BBB	A2	Stable	Maintain	-
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 (“the Company” or “E-Vision”) and its established position in the regenerated polyester staple fiber (r-PSF) industry. The Company has identified a niche in the textile industry by manufacturing fine white, black, and green regenerated polyester staple fiber and polyester chips using post-consumed polyethylene terephthalate (PET) bottles. This market is relatively new and in the growing phase. Management represented those various global environmental authorities are promoting to use of r-PSF as against virgin PSF because the manufacturing process of r-PSF consumes less energy, and does not deplete natural energy resources and r-PSF is ~75% cheaper than virgin polyester fiber. During CY21 revenues showed recovery as compared to the dip in CY20, which exhibited a CAGR of ~16% since CY19. Margins also depicted improvements at all levels due to efficient raw material sourcing and more reliance on imported raw materials, this captures a positive outlook. The financial risk profile of the Company is considered adequate with comfortable coverages, cashflows, and working capital cycle. Capital structure is leveraged where borrowings are comprised of short-term for working capital management. Going forward the sponsors of the Company have approved a future capacity expansion plan from 60tpd (current) to 100tpd. The cost of expansion will be covered from internally generated cashflows and equity contributions with a conservative leverage policy.

The ratings are dependent on upheld sustainable revenues and margins. Meanwhile, maintaining an adequate leveraged capital structure and strong coverages remain critical. Going forward, a better governance framework, improvement in the control environment, and strengthening the quality of external audit function by engaging auditors which are included in SBP’s panel of auditors.

Disclosure	
Name of Rated Entity	E-Vision Manufacturing Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Polyester(Feb-22)
Rating Analysts	Sohail Ahmed Qureshi | sohail.ahmed@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 r-PSF 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 acting as a 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 position in 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 31, 2021. 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. The annual turnover of rPSF segment in the country is PKR~3,563mln while the total demand stood at ~72,000MT per annum in FY21. 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 a few players, of which one of the leading players is E-Vision. Its main competitors are Khalis fiber, Lasani fiber, Pinnacle fiber, Gulf fiber, Ravi fiber, and Sun Fiber.

Revenues The Company’s topline clocked in at ~PKR 1,514mln in CY21 (CY20: ~PKR 829mln, CY19: ~PKR 1,239mln), an increase of ~83% YoY as of Dec-21. Revenue is predominantly generated from the sale of white r-PSF in the local market while the remaining constitutes from black r-PSF with a minor portion of green r-PSF. The export sale also consists of r- PSF chips.

Margins Gross margins of the Company improved in CY21 to 23% (CY20: 12.6%, CY19: 8.9%) on a YoY basis. Similarly operating margins also improved to 11.2% in CY21 (CY20: 6.0%, CY19: 4.8%). During CY21, the bottom line showed a net profit of PKR 80mln (CY20: 6mln, CY19: PKR 9mln), representing a sharp increase in the profit. The Company’s bottom line in 3MCY21 witness a revenues of PKR 35mln, gross margin of 20% and net margin of 6%.

Sustainability COVID-19 has impacted the performance of the Company. The Company remained closed during the lockdown period but it is now fully functional. The Company's primary export countries are China and Turkey which were affected by the pandemic as a result exports were affected; however, the local and export orders have improved during the year.

Financial Risk

Working Capital The Company’s net cash cycle has been reduced to 123days in CY21 (CY20: 186 days, CY19: 101 days). As per the norms of the industry, aging analysis reveals that most of the debtors pay in advance, which mainly constitute corporate clientele. Moreover, in 3MCY21 net working capital days further reduced to 74 days.

Coverages During CY21, E-Vision’s free cash flow (FCFO) is at PKR 185mln as compared to PKR 62mln in CY20. Resultantly, interest coverage and debt coverage stood at 4.6x in CY21 as compared to 1.6x in CY20. Finance costs stood at PKR 40mln in CY21 (CY20: 40mln).

Capitalization During CY21, the Company has a moderately leveraged capital structure with leveraging ratio of ~48.2% (CY20: 47.2%, CY19: ~39.3%) constituting exclusively of short-term borrowings.

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Financial Summary
PKR mln

E-Vision Manufacturing Limited	Mar-22	Dec-21	Dec-20	Dec-19
Polyester	3M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	460	388	357	347
2 Investments	-	-	-	-
3 Related Party Exposure	0	0	-	-
4 Current Assets	758	830	729	588
a Inventories	*390*	*427*	*455*	*263*
b Trade Receivables	*88*	*188*	*91*	*128*
5 Total Assets	1,218	1,219	1,086	936
6 Current Liabilities	151	184	154	82
a Trade Payables	*55*	*74*	*68*	*24*
7 Borrowings	483	487	429	324
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	25	23	23	29
10 Net Assets	559	524	480	500
11 Shareholders' Equity	559	524	480	500
B INCOME STATEMENT				
1 Sales	596	1,514	829	1,239
a Cost of Good Sold	*(475)*	*(1,171)*	*(724)*	*(1,128)*
2 Gross Profit	121	344	105	111
a Operating Expenses	(59)	(174)	(55)	(51)
3 Operating Profit	62	169	50	59
a Non Operating Income or (Expense)	*(1)*	*(16)*	*3*	*(3)*
4 Profit or (Loss) before Interest and Tax	60	154	52	56
a Total Finance Cost	*(17)*	*(48)*	*(43)*	*(45)*
b Taxation	*(8)*	*(26)*	*(4)*	*(1)*
6 Net Income Or (Loss)	35	80	6	9
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*84*	*185*	*62*	*83*
b Net Cash from Operating Activities before Working Capital Changes	*62*	*141*	*16*	*43*
c Changes in Working Capital	*9*	*(105)*	*(55)*	*(10)*
1 Net Cash provided by Operating Activities	71	36	(39)	34
2 Net Cash (Used in) or Available From Investing Activities	(75)	(48)	(30)	(17)
3 Net Cash (Used in) or Available From Financing Activities	(5)	5	70	(18)
4 Net Cash generated or (Used) during the period	(9)	(6)	2	(1)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	57.5%	82.6%	-33.1%	-0.5%
b Gross Profit Margin	20.3%	22.7%	12.6%	8.9%
c Net Profit Margin	5.8%	5.3%	0.7%	0.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	15.6%	5.3%	0.9%	5.9%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	25.7%	16.0%	1.2%	1.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	84	140	206	106
b Net Working Capital (Average Days)	74	123	186	101
c Current Ratio (Current Assets / Current Liabilities)	5.0	4.5	4.7	7.1
3 Coverages				
a EBITDA / Finance Cost	5.9	5.5	2.2	2.1
b FCFO / Finance Cost+CMLTB+Excess STB	4.1	2.4	0.8	1.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.2	0.4	3.4	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	46.4%	48.2%	47.2%	39.3%
b Interest or Markup Payable (Days)	32.3	89.2	72.9	97.4
c Entity Average Borrowing Rate	12.4%	8.8%	11.1%	14.5%

Credit Rating

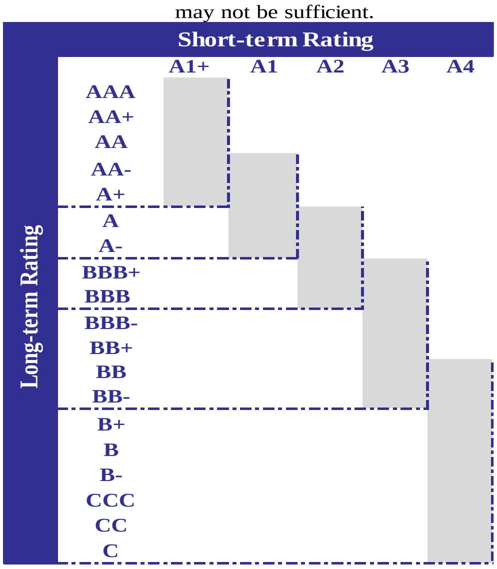
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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)
Proprietary Information