



The Pakistan Credit Rating Agency Limited

Rating Report

E-Vision Manufacturing Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Jun-2023	BBB	A2	Positive	Maintain	-
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. Currently, this market is in a phase of rapid growth. According to the management’s representations 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 ~25% cheaper than virgin polyester fiber. Despite all macroeconomic turbulence and operational challenges such as high inflation, historic high policy rates coupled with massive rupee depreciation. During CY22, the company’s topline clocked in at ~PKR 2,086mln, reflecting a growth of ~37.7% on a YOY basis mainly due to the high prices of polyester. However, margins and profitability showed slight dilution due to the challenges mentioned. The Company’s financial risk profile 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 capacity expansion plan from 60tpd (current) to 100tpd. This strategic expansion is expected to result in the refinement of the product quality and standard which will comprehend the export portfolio. The cost of expansion will be covered from internally generated cashflows and equity contributions from sponsors.

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-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Polyester(Feb-23)
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 the 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 the home textile & other garments industry. The Company's production facility is located in Sundar Industrial Estate, Lahore, and consists of two units: a washing unit and a 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's paternal family is Ganny Rangoonwala and his maternal family is Tabani. Both families are reputable business families based in Karachi for over six decades. Mr. Ganny and his family have the 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, 2022. 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 the 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. The company is also ISO 9001 certified.

Business Risk

Industry Dynamics Global demand for PSF is favorable with research projected to estimate Polyester Staple Fiber (PSF) market size to reach USD 3024.3 million by 2026. The basic raw materials for PSF include Pure Terephthalic Acid (PTA) and Mono Ethylene Glycol (MEG). Being derivatives of crude oil, their prices fluctuate accordingly, thereby making PSF a price-volatile product. This reflects that margins are significantly dependent on international prices and exchange rate fluctuation. Furthermore, over 80% of the world's production of PSF takes place in China, India, and Southeast Asian countries, which are also the major exporters of the product. Almost ~36% of the industry's financing comprises LTFF/TERF and Export Finance Schemes, which are offered at subsidized rates. Over ~70% of the Polyester Staple Fiber (PSF) is supplied to the textile value chain, i.e., the spinning sector.

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 In CY22 net sales revenue increased to ~PKR 2,086mln, reflecting a growth of 38% due to high prices of polyester (CY21: ~PKR1,514mln)

Margins In CY22 gross profit increased to ~PKR 394mln (CY21: PKR 343mln). Furthermore, the company's net profit margins declined to 3.1% in CY22 (CY21:5.3%).

Sustainability The company's primary export countries are Turkey and China. The local and export orders have improved in the period of CY22. Furthermore, the company is planning to expand its operations soon. EVML is also considering getting listed on Pakistan Stock Exchange. The company will also be collaborating with IKEA, after achieving 100% raw material imports

Financial Risk

Working Capital In CY22, company inventory days reached 86 days (CY21: 106 days) as the Company's working cycle is well maintained to cater to upcoming demand needs. Meanwhile, in CY22 trade receivables reached 24 days (CY21: 34 days) while the trade payable days reached decreased to 11 days during CY22 (CY21:17days) Resultantly, as the result of improvement in inventory days, trade receivable days and trade payable days, the gross working capital days decreased significantly to 111 days in CY22 (CY21:140 days).

Coverages The company's FCFO stands at ~PKR 196mln during CY22 (CY21: ~PKR 185mln). Furthermore, the finance cost of the company stood at PKR 88mln during the same period. The interest coverage ratio of the company decreased and clocked at 3.0x(CY21:5.5x). And the debt coverage ratio reached 2.2x (CY21:2.4x).

Capitalization During CY22, the Company's leveraging recorded at ~48.9% (CY21: ~48.2%). Short-term borrowings in CY22 constitute ~95.6% of the Company's total borrowings (CY21: ~88.8%) This suggests that a significant portion of the company's debt consists of short-term borrowings.



E-Vision Manufacturing Limited Polyester	Dec-22 12M	Dec-21 12M	Dec-20 12M
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A BALANCE SHEET

1 Non-Current Assets	437	388	357
2 Investments	-	-	-
3 Related Party Exposure	0	0	-
4 Current Assets	907	830	729
<i>a Inventories</i>	560	427	455
<i>b Trade Receivables</i>	92	188	91
5 Total Assets	1,344	1,219	1,086
6 Current Liabilities	152	184	154
<i>a Trade Payables</i>	50	74	68
7 Borrowings	563	487	429
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	41	23	23
10 Net Assets	588	524	480
11 Shareholders' Equity	588	524	480

B INCOME STATEMENT

1 Sales	2,086	1,514	829
<i>a Cost of Good Sold</i>	(1,692)	(1,171)	(724)
2 Gross Profit	394	343	105
<i>a Operating Expenses</i>	(201)	(174)	(55)
3 Operating Profit	193	169	50
<i>a Non Operating Income or (Expense)</i>	(16)	(16)	3
4 Profit or (Loss) before Interest and Tax	176	154	52
<i>a Total Finance Cost</i>	(88)	(48)	(43)
<i>b Taxation</i>	(24)	(26)	(4)
6 Net Income Or (Loss)	65	80	6

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	196	185	62
<i>b Net Cash from Operating Activities before Working Capital</i>	119	141	16
<i>c Changes in Working Capital</i>	(111)	(105)	(55)
1 Net Cash provided by Operating Activities	8	36	(39)
2 Net Cash (Used in) or Available From Investing Activities	(79)	(48)	(30)
3 Net Cash (Used in) or Available From Financing Activities	65	5	70
4 Net Cash generated or (Used) during the period	(6)	(6)	2

D RATIO ANALYSIS

1 Performance			
<i>a Sales Growth (for the period)</i>	37.7%	82.6%	-33.1%
<i>b Gross Profit Margin</i>	18.9%	22.7%	12.6%
<i>c Net Profit Margin</i>	3.1%	5.3%	0.7%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital / Net Profit Margin)</i>	4.1%	5.3%	0.9%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Equity / Total Assets)]</i>	11.6%	16.0%	1.2%
2 Working Capital Management			
<i>a Gross Working Capital (Average Days)</i>	111	140	206
<i>b Net Working Capital (Average Days)</i>	100	123	186
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	6.0	4.5	4.7
3 Coverages			
<i>a EBITDA / Finance Cost</i>	3.0	5.5	2.2
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.2	2.4	0.8
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.2	0.4	3.4
4 Capital Structure			
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	48.9%	48.2%	47.2%
<i>b Interest or Markup Payable (Days)</i>	85.2	89.2	72.9
<i>c Entity Average Borrowing Rate</i>	15.5%	8.8%	11.1%

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+	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	
BBB-	
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	
BB-	
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	
B-	
CCC	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.
CC	
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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(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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