RATING REPORT

EMCO Industries Limited (EMCO)

REPORT DATE:
October 27, 2020

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	*27th October'20*	

COMPANY INFORMATION	
Incorporated in 1954	External auditors: Crowe Hussain Chaudhury & Co. Chartered Accountants
Public Limited Company	MD/ CEO: Mr. Tariq Rehman
Key Shareholders (with stake 5% or more):	
The Imperial Electric Co. (pvt) Limited – 8.4%	
Javaid Shafiq Siddiqi – 6.9%	
Pervaiz Shafiq Siddiqi – 6.9%	
Suhail Mannan – 6.2%	
Associated Engineers – 5.7%	
Ahsan Suhail Mannan – 5.6%	
Munaf Ibrahim – 5.3%	
Usman Haq– 5.2%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (May 2019) https://www.vis.com.pk/kc-meth.aspx

EMCO Industries Limited

OVERVIEW OF THE INSTITUTION

EMCO Industries was established 1954 and is involved in production and sale of porcelain based insulators, and substation products used in power sector

Profile of the CEO

Mr. Tariq Rehman holds a Bachelor's degree in Electrical Engineering and Master's degree in Ceramic engineering. He has an experience in the relevant industry for over 5 decades.

Financial Snapshot

Total Equity: FY20: Rs. 1.5b; end-FY19: Rs. 1.2b; end-FY18: Rs. 1.0b

Assets: end-FY20: Rs. 2.7b; end-FY19: Rs. 2.5b; end-FY18: Rs. 2.3b

Profit After Tax: FY20: Rs. 118m; FY19: Rs. 145m; FY18: Rs. 36m

RATING RATIONALE

The ratings assigned to EMCO Industries Limited (EMCO) take into account the company's strategic market positioning entailing a highly dominant nature of the sector coupled with provision of highly specialized products; high voltage porcelain insulators, solely produced by the company nationwide. The ratings derive strength from reliance of the power sector on the company's products used during transmission, at grid stations and for distribution of electricity. The ratings incorporate steady growth in sales emanating from securing contracts from government, semi-government and premium private sector electricity generation companies in Pakistan, as well as with a handful of large scale energy sector contractors and transformer manufacturers. The ratings derive strength from sound financial risk profile on account of sizable margins, strong liquidity profile and adequate debt coverages. Moreover, the ratings also factor in ongoing capex for capacity enhancement and value addition in manufacturing operations, projected improvement in financial profile post capex completion and positive demand prospects of insulators as their demand is directly correlated with per capita consumption of electricity. Investment in the power generation capacity of the country has depicted positive momentum in the past and is projected to continue during the rating horizon.

The ongoing geopolitical scenario and slowdown in domestic economic activity amidst the COVID-19 pandemic has not posed any considerable threat to the financial risk profile of the company given its presence in relatively inelastic specialized segment catering to power sector requirements. The company received special approvals from the government to restart the factory during lockdown to deliver the orders as per the contracts terms to avoid load shedding during summer and Ramadan. Nevertheless, ratings remain dependent on maintaining sound cash flow coverages and prudent leverage indicators.

Business and industry risk factors: EMCO has an unchallenged presence in the high voltage insulator sector locally given there is no other company in the organized sector having manufacturing and technical expertise to produce insulators used in the power sector in Pakistan. The company is not only catering to the entire local demand indigenously but also exporting to other countries globally. The company faces limited threat of competition from within the country; moreover exported insulators have sizeable price variation on a higher side, therefore the price based market risk is largely curtailed. Moreover, demand risk is also mitigated given the demand of insulators is directly proportional to electricity consumption and generation. The demand of power/electricity consumption and generation has exhibited a positive trajectory in the last decade and the same is expected to replicate in the medium to long-term future owing to growth in population, positive momentum in Gross Domestic Product (GDP), new power projects in the pipeline including Thar Coal, Karot Hydropower, Matiari to Lahore transmission line project etc and increased per capita consumption owing to improved lifestyles & higher technological penetration. A secondary market demand exists on the basis of rehabilitation of older substations and transmission lines that requires replacement of insulators.

Further, credit risk is lower given the company has a business to business model catering mainly to public sector entities therefore the payment is more or less guaranteed; however on the other side the company may face liquidity stress as payments in power sector are frequently delayed. In addition, on account of having a limited consumer base owing to highly specialized nature of products offered, the client concentration risk is significant. The supply side risks are on a higher side owing to dependence on availability of natural gas; the manufacturing facility needs to be run at high temperatures of over 1000 degrees Centigrade

to be operational. Moreover, the supply needs to be continuous to maintain the stipulated temperatures and any delay or shut down causes a complete halt to production operations not only resulting in decline in output produce but also an exponential increase in the cost as re-heating needs to be initiated from bare minimal temperatures. The company has mitigated this risk by importing and installing a Synthetic Natural Gas (SNG) plant utilizing LPG as a backup for natural gas outages. This plant was installed in 2007 and is capable of seamlessly running the entire production facility within 2 minutes of encountering a natural gas shortage. Moreover, LPG is freely available round the year.
EMCO is also exposed to foreign exchange risk as a significant portion of raw material is imported; there by any adverse forex movements lead to increase in production cost causing a dip in margins However, this risk is mitigated as the raw material stocks are procured atleast 3 to 5 months prior to production. Porcelain insulators are a very high value added product owing to nature of the processes. Raw Materials constitute less than 20% of the cost of production, of which less than 40% of total raw materials are imported. This aspect is therefore mitigated and the final effect of devaluation is minimised. The increase in cost is passed on for new tenders, as increase in dollar reflects on higher price of imported insulators also. Furthermore, the company aims to mitigate this risk by enhancing its capacity to cater to the export market.

Integrated manufacturing facility: EMCO is the largest porcelain insulators manufacturer in Pakistan. The parent company, The Imperial Electric Company (Pvt.) Limited (IEC) was incorporated in 1931 and has been involved in trading of electrical goods. They are also engaged in the indenting and sale of power generation, transmission and distribution equipment and other industrial materials. IEC is also involved in turn-key projects for Civil Aviation Authority in Pakistan. In line with market gap identified, full-fledged manufacturing for specific-type insulators was established in Lahore in 1954 under the name of Electrical Equipment Manufacturing Co. Limited (EMCO) with the help of a formal technical assistance and machinery imported from Japan and France. Later, to cater to the growing and diversified demand of insulators for national utilities, the management decided to expand the facility to produce all types of insulators including the ones required for extra high tension lines. The new plant located at Lahore-Sheikhupura Road was commissioned in 1968. Later the company was converted into a public limited company and listed on the stock exchange in 1983, subsequently the name was changed to EMCO Industries Limited.

Given the company is involved in a highly technical and specialized skill based industry, EMCO signed a technical collaboration agreement for fifteen years in 1965 with NGK Insulator, Japan who are the world's largest manufacturers of insulators. The company has a present installed annual capacity for the production up to 5,000 tons. EMCO in 1995, signed a licensing agreement with Siemens, Germany to manufacture Metal Oxide based Surge Arresters from 66KV to 420KV. Later in 2005, the company inked an agreement with Hapam B.V, Netherlands for the manufacturing of disconnecting switches up to 245kV. However, in line with business experience and technical know-how received from strategic partners over the years, the knowledge transfer has been completed and EMCO now offers these products under its own brand. EMCO remains the only unit producing high tension insulators in Pakistan; the company caters to the entire national demand along with export globally.

Product Mix: EMCO offers a variety of porcelain insulators including low voltage (LV)/ medium voltage (MV)/ high voltage (HV) insulators and various substation equipment detailed below:

- Disc/Suspension type insulators: Normal, fog and aeroform type, strength upto 160kN
- Line post insulators: Tie and clamp top type, strength upto 12.5kN

- Pin type insulators: Strength upto 15kN
- Spool type insulators: Strength upto 20kN
- Strain/Guy type insulators: Strength upto 110kN
- Low Tension Bushings (250-3000A) and High Tension Bushings (11-33kW) with normal and extended creepage
- Station post insulators: Strength upto 20kN
- Hollow Insulators: For apparatus upto 245kV
- Switch/Bus insulators: center break up to 245kV
- Surge Arresters up to 420kV

EMCO has recently successfully completed type testing on all kinds of HV disc insulators used in transmission lines upto 220kV along with Lighting arrestors and Disconnect switches and the same is credited by National Transmission and distribution Company Pakistan (NTDCL) inspectors. Going forward, the import-based demand of aforementioned type of insulators is going to be further substituted by indigenous production by EMCO; the same is likely to boost revenue momentum for the company in line with added depth in the product mix. In addition, two major types of HV substation post insulators are being exported to Turkey on regular basis along with 33kV pin insulators. As per the management, going forward the company wants to maintain a healthy export mix comprising 10% of total sales. Prior to FY20, around 10% of the sales pertained to Turkey; however in line with onslaught of COVID-19 and change in financial regime with imposition of heavy import duties the sale to Turkey has subsided. However, new export markets have opened up on account of potential clients employing risk mitigation strategies to diversify away from China being a single source.

Slow paced Growth in Topline: The company's topline improved to Rs. 1.6b (FY19: Rs. 1.4b) during FY20 in line with increase in the average prices of the final products coupled with tilt in the product mix towards HV Switchgear used at origination and termination points of grid stations. The sale of high value insulators contributed positively to the revenues; however on the other hand, quantum sales were recorded lower at 4,193 (FY19: 4,388) during FY20 on account of COVID-19 related national level lockdowns. On the production end, EMCO manufactured 4,198 tons of insulating equipment during FY20 as compared to 4,556 tons during the previous year. The decline in production was also attributable to closure of plant for 15 days due to lockdown imposed by government to reduce the spread of COVID-19. Although the plant was restarted on April 6, 2020, production was started by Mid-April'20 due to heating up of kilns to the desired temperatures. In addition, as per the management the capacity utilization is linked to the type of insulators being produced, if the quantity produced of grid-based HV Switchgear increases, capacity utilization decreases on account of highly specialized nature of products requiring increased time for production. Meanwhile, increased proportion of retail-based insulators used on electricity poles for domestic distribution of power, magnifies the utilization indicators given the products are standardized and are produced in bulk quantities.

The gross margins of the company declined to 23.8% (FY19: 25.1%) during the outgoing year primarily as a result of increased power & gas expense incurred. The production process requires continuous gas supply for heating kilns. According to the new Government policy, the industrial gas tariff has been changed from combination of natural gas and RLNG tariff to only RLNG tariff which is pegged to crude oil an $US resulting in considerable appreciation to the input cost of gas. Although part of the burden has been passed on to clients, the full impact of cost escalation has not been transferred yet therefore the same has exerted downward pressure on margins. In addition, one-fifth of the raw material constitutes imported items therefore in line with deprecation of Pak rupee the same has also contributed to a decline in margins.

The selling and distribution cost has increased slightly in line with increase in company's scale of operations; meanwhile, the increase in administration expenses to Rs. 78.7m (FY19: Rs. 69.4m) during FY20 was largely in sync with sales growth with increase manifested in compensation benefits. The other operating expenses were recorded lower at Rs. 14.9m (FY19: Rs. 80.0m) during FY20, on account of sizable impairment loss amounting to Rs. 57.9m booked on disposal of assets of the discontinued operations of the tile division during FY19; adjusting for one off event there was no sizable variation in other expenses booked. Moreover, other income was recorded lower during FY20 at Rs. 5.4m (FY19: Rs. 50.2m) during FY20; other income was substantially higher during the preceding year on account of gain on disposal of sale of non-current assets amounting to Rs. 45.1m. In the backdrop of increasing average benchmark interest rates coupled with higher average short-term borrowings, finance cost of the company increased during FY20. However, the decline in margins and increase in operating expenses and finance cost was offset by growth in sales revenues therefore EMCO's before tax profit was recorded higher during FY20 as compared to preceding year. However, accounting for tax expense incurred amounting to Rs. 45.2m during the outgoing year in retrospect of tax asset of Rs. 5.8m booked in FY19, the company's bottom line was reported lower at Rs. 117.8m (FY19: Rs. 144.5m) during FY20.

Going forward, with complete transfer of input price increase, function of unfavorable forex movements, to final products along with Balancing, Modernization and Replacement (BMR) undertaken to streamline production and improve efficiencies, the margins are expected to gain positive momentum. As per the management, for FY21, the gross margins are predicted to be greater than 25%. Moreover, the company has already secured orders of Rs. 1.0b for 1HFY21, meanwhile further orders of Rs. 1.0b are in the bidding phase; as per the management EMCO has the lowest bid hence the probability of securing the aforementioned orders is on the higher side. within the current financial year ending June 2021.

Adequate liquidity supported by healthy cash flows in relation to outstanding obligations: Funds from Operations (FFO) improved to Rs. 229.3m (FY19: Rs.242.9m; FY18: Rs.64.5m) during FY20 primarily as a result of improvement in scale of operations margins; however FFO for FY20 was lower than the preceding year in line with decline in margins and higher finance cost paid. Further, liquidity profile of the company has largely remained intact given FFO to long term debt was sizeable as a result of timely repayment of period contractual obligations. Moreover, with reduced short-term borrowings, FFO to total debt slightly improved at end-FY20 despite decline in FFO. Stock in trade was recorded higher by end-FY20, as the company has higher raw material inventory, the same has been procured in accordance with orders booked in advance, and to mitigate further potential disruption on account of the COVID-19 secondary waves. The current orders in hand are of more than 2500 tons; meanwhile the company is expecting further orders of 2000 tons by end-Dec'20. On the contrary, stocks and spares also stood lower at end-FY20 in respect to sale revenues.

Advances, prepayments and other receivables almost remained at prior year's level and primarily include advances extended to suppliers. Trade debts were recorded lower relative to quantum of sales during the period under review; however the profile of receivables was satisfactory with 78% of the receivables falling due within 1 to 3 months. Given the company's primarily business dealing is with public sector entities involving DISCOs and private companies including Independent power Producers (IPPs), the client concentration is substantial with top 10 customers representing 91% (FY19: 91%) of the total sales revenue during FY20.

EMCO has access to Rs. 670m of working capital lines available through various banks. Going forward, after capacity expansion the limit will be increased by Rs. 300m; meanwhile the total availability will increase to approximately Rs. 1.0b. During FY20, capex amounting to Rs. 88.6m was made which majorly encompasses buying plant and machinery as a part of regular BMR requirement. As per management, the company has planned to make an additional manufacturing related investment of Rs. 500m during FY21, which entails enhancing the existing production capacity by around 40% to meet the growing domestic and export demand. The aforementioned capex will be financed through a mix of borrowing and equity; 80% long term financing (Rs. 400m) and 20% sponsor funds (Rs. 100m). Furthermore, the company has planned an investment of Rs.80M towards a Net Metered based Solar Power facility to realize associated savings, and contribute towards a positive environmental impact. Debt service coverage ratio, albeit declined, has remained adequate at 1.82x (FY19: 2.01x; FY18: 0.84x) at the end-FY20. Given increase in scale of operations through new product development and demand-based market expansion, liquidity position is projected to improve further, going forward.

Augmentation in equity on back of profit retention: The equity position of the company has strengthened in line with internal capital generation. Debt profile of the company majorly comprises short-term borrowings, with relatively low dependence on long term financing, comprising around two-thirds of the total debt mix. Furthermore, to meet higher working capital requirements emanating from higher receivables, short-term borrowings peaked to Rs. 614.4m (FY18: Rs. 547.2m) by end-FY19; the same however declined to Rs.537.4m during FY20. These facilities are secured against first pari passu charge on present and future current assets, ranking change on company' present fixed assets, lien on sale documents, properties of certain directors & subordination of director's loans and mortgage over commercial properties owned by associate company. Moreover, these facilities are subject to markup of 1-3 month KIBOR+ (0% to 3%) per annum.

The company has a history of restructuring; short-term facility was converted into long-term financing in March'17. As per the covenants of the agreement, Rs.17.6m was paid upfront towards the principal liabilities, meanwhile the balance of Rs.98.6m was converted into demand finance (DF) payable in six years including one-year grace period; the facility carries a markup charge at 1M-KIBOR. In July' 18, Repayment schedule was revised on account of early retirement of partial loan and, remaining loan is being repaid in 48 equal monthly installment of Rs. 1.4m for DF-I and Rs. 0.4m for DF-II. These loans are secured by joint parri passu charge on fixed assets of the company worth Rs.112m and is to be fully repaid by end-FY22. Another loan, currently amounting to Rs. 60.8m, was restructured first in June'13 and then in May'15. Under the restructuring agreement, the outstanding principal of Rs. 109.0m is repayable in quarterly staggered installments over a period of five years. The facility carries a markup at 3M-KIBOR and is to be fully repaid by March'23. This loan is secured by joint pari passu charge on fixed assets of Rs. 110m and current assets of Rs. 50.0m of the company. The company has been not only adhering to its repayment obligations since restructuring, but also made early repayments of partial loans.

In additional to commercial funding, the sponsors have extended an interest free loan amounting to Rs. 115.7m back in FY10 and before, to meet the liquidity requirements of the company. The interest free facility is repayable at the convenience of the company and is subordinated to facilities obtained from financial institutions. Furthermore, EMCO has unfunded liabilities as well involving letters of credit (LC) and letters of guarantee (LG). The amount utilized at end-FY20 for LC and LG stood at Rs.55.6m (FY19: Rs. 39.2m) and Rs. 332.9m (FY19: Rs. 243.5m) respectively. The unutilized amounts in aggregate were recorded at Rs.190.0m at end-FY20 as compared to Rs. 96.0m in the previous year. The opening of LC and LG facilities are secured by present and future fixed assets of the company lien over import documents, properties of some directors and subordination of sponsor loans. As a combined impact of strengthening of equity base along with decline in debt levels on timeline basis, gearing and leverage indicators have improved to 1.66x and 2.22x (FY19: 2.44x and 3.12x); respectively, by end-FY20. Although the company plans to procure additional funding amounting of Rs. 450m for capex financing; the same is largely expected to be offset by decline in existing long-term lines, reduced utilization of short-term borrowings as an outcome of sponsor loan used as bridge financing and growth in internal capital generation. Subsequently, the gearing level is expected to increase slightly while remaining within manageable range.

Adequate Corporate Governance Practices: The Board of Directors comprise eleven members comprising five non-executive directors, three executive directors and three independent directors. As per the revised code of corporate governance 2017, the BoD should have at least two or one-third independent directors whichever is higher; EMCO meets the best practices. The term of existing members will expire at end-FY23. Based upon qualification and experience, four directors are exempted from directors training program certification. Three directors have already completed the training program and at least 75% directors on the Board will acquire prescribed certificate under Directors' Training Program of SECP by end-FY21. For effective oversight, the Board has formed Four committees including Board Audit Committee (BAC), Human Resource Committee (HRC), Risk Management Committee (RMC) and Nomination Committee. In line with best practices, BAC is chaired by an independent director. HRC and RMC comprise four members each and are headed by independent director.

EMCO INDUSTRIES Limited (EMCO) Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**June 30, 2018**	**June 30, 2019**	**June 30, 2020**
Non-Current Assets	1,185	1,233	1,416
Stock-in-Trade	377	450	610
Stores & Spares	85	80	81
Trade Debts	301	534	366
Advances, Prepayments and other Receivables	74	78	83
Cash & Bank Balances	10	5	44
Total Assets	2,349	2,457	2,691
Trade and Other Payables	241	272	272
Short Term Borrowings	537	614	547
Long-Term Borrowings *(Inc. current maturity)*	386	304	276
Paid Up Capital	350	350	350
Tier-1 Equity	125	408	547
Total Equity	1,016	1,166	1,474
INCOME STATEMENT	**June 30, 2018**	**June 30, 2019**	**June 30, 2020**
Net Sales	1,148	1,386	1,598
Gross Profit	157	348	380
Operating Profit	72	250	270
Profit Before Tax	(25)	139	163
Profit After Tax	36	145	118
FFO	81	243	229
RATIO ANALYSIS	**June 30, 2018**	**June 30, 2019**	**June 30, 2020**
Gross Margin (%)	13.7	25.1	23.8
Net Working Capital	(24)	166	273
Current Ratio (x)	0.97	1.17	1.30
FFO to Long-Term Debt(x)	0.21	0.80	0.81
FFO to Total Debt (x)	0.09	0.26	0.28
FFO to Total Debt (x)*	0.11	0.34	0.31
Debt Servicing Coverage Ratio (x)	0.84	1.82	2.01
ROAA (%)	1.5	6.0	4.6
ROAE (%)	36.4	54.2	24.7
Gearing (x)	7.37	2.25	1.52
Gearing (x)*	5.74	1.75	1.35
Debt Leverage (x)	15.06	3.12	2.22
(Stock in Trade+ Trade Debts) to Short-term Borrowings (x)	1.26	1.60	1.78

Adjusted for Short-term sponsor loan

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES					Appendix III
Name of Rated Entity	EMCO Industries Limited				
Sector	Electrical Equipment				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: ENTITY				
	October 27, 2020	A-	A-2	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
Probability of Default	VIS ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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Due Diligence Meetings Conducted		**Name**	**Designation**	**Date**	
	1	Mr. Riaz Ahmad	CFO	14-Sep-2020	