The Pakistan Credit Rating Agency Limited

Rating Report

Airlink Communication

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Nov-2022	A	A1	Stable	Maintain	-
22-Nov-2021	A	A1	Stable	Upgrade	-
24-Dec-2020	A-	A1	Stable	Maintain	-
27-Dec-2019	A-	A1	Stable	Maintain	-
28-Jun-2019	A-	A1	Stable	Maintain	Yes
31-Dec-2018	A-	A1	Stable	Upgrade	-
10-Jul-2018	BBB+	A2	Stable	Maintain	-
29-Dec-2017	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Air Link Communication Limited (“Airlink” or “the Company”) is principally engaged in the distribution and retail business followed by assembling of mobile devices and allied items in Pakistan. The ratings reflect Airlink’s sustainable business fundamentals underpinned by its solid market position. The Company is the official partner of multiple leading global brands to ensure diversified earnings from its core business line. Pakistan’s telecom industry is one of the fastest growing segments of the economy. With successful execution of DIRBS, the local assembly industry has evolved from infancy to well growing stage. Government of Pakistan introduced a comprehensive Mobile Manufacturing Policy to attract manufactures to Pakistan and establish their plants. PTA has issued MDM authorizations to 30+ foreign & local companies to create more jobs in technical sector and enable consumers to buy locally. During first nine months (Jan-Sep) of 2022, the local plants manufactured/assembled ~16.7mln handsets as compared to ~1.24mln commercially imported ones. Favorable policies, trade & investment liberalization, and healthy competition promoting shared industry prosperity. Following, the Company captures market share of around ~22% in mobile phone distribution. On an accumulated basis, topline of the Company continued to witness reasonable growth on a Year-on-Year basis primarily on back of higher prices, followed by more volume. During FY22, Airlink joined hands with Xiaomi, a global electronics & smartphones brand, to manufacture/assemble Xiaomi mobile phones in Pakistan through its wholly owned subsidiary “Select Technologies (Pvt) Limited” for which the commercial production was initiated in Mar-22. Further, the Company retained its profitability matrix despite tough macroeconomic conditions and high cost of doing business. Funds received through IPO ramped up Company’s equity base; keeping capital structure moderately leveraged mainly comprised of STBs. With its legal status converted into a Public Listed Entity, several improvements in the governance structure were witnessed including induction of independent directors. Financial risk profile of the Company is reflected by slightly stretched working capital cycle, comfortable coverages, and healthy cash flows.

The ratings are dependent on the Company’s ability to sustain its relative position amidst changing industry environment. As business grows, prudent financial discipline - particularly in working capital structure, is essential to uphold the ratings.

Disclosure

Name of Rated Entity	Airlink Communication
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 | Mobile Phone and Allied Products(Dec-21)
Rating Analysts	Sohail Ahmed Qureshi | sohail.ahmed@pacra.com | +92-42-35869504

Profile

Legal Structure Air Link Communication Limited ('Airlink' or 'the Company') is a public listed entity with a free float of ~25% shares as to date Oct'22. The Company got listed on PSX during September, 2021.

Background In 2010, Airlink was formed as a partnership firm for the import & distribution of IT products, particularly mobile phones, & related services. In 2014, a new private company was incorporated to take over the business of the partnership firm running as a family business. Following July 2018, the entire business transferred to the Company's books. Airlink converted its status to Public Unlisted in Apr'19. Later, the Company got listed on PSX during Sep'21.

Operations Airlink is principally involved in the distribution of mobile phones and allied products of the leading brands in the mobile industry; Samsung, Huawei, Techno, Iphone, Itel, Xiaomi, TCL, Realme, and Q-Mobile. The Company signed agreement with different globally renowned mobile phone brands for distribution services. Additionally, Airlink partnered with Xiaomi to manufacture and distribute Xiaomi mobile phones & accessories in Pakistan through its wholly-owned subsidiary "Select Technologies (Pvt) Limited".

Ownership

Ownership Structure The Company is owned by the sponsoring family; formerly by the brothers - Mr. Muazzam Hayat Piracha (Late) & Muzaffar Hayat Piracha (24.97%). After the death of Mr. Muazzam Hayat, his shares transferred to his wife, Ms. Saliha Basit (3.67%) and his four daughters (5.14% each). Mr. Shaukat Hayat Piracha, paternal uncle of the two owners, has lately transferred his stake to his son, Mr. Yasir Hayat Piracha, who now owns 24.23% shares in the Company. Other shareholders include Insurance Companies (5.45%), General Public (6.75%) and remaining is held by Banks, DFIs, NBFIs & others.

Stability The ownership structure of the Company is seen stable as no major changes are expected in near future. Prime stake is held with CEO of Airlink and his family.

Business Acumen Mr. Muzzaffar Hayat - the main sponsor, is leading the Company since its inception. He is a seasoned professional possessing strong understanding of the industry. Business acumen is, thus, considered good.

Financial Strength Owners of the Company do not have any strategic stake in other companies. Mr. Muzaffar Hayat owns residential properties. Financial strength is, therefore, considered adequate.

Governance

Board Structure The Company has transformed its governance structure to comply with the Code of Corporate Governance for which appointment of three independent directors had been made. Other than that, there are four members on the Board.

Members' Profile Board member's business acumen is considered good as they have vast experience of the relevant industry. Mr. Aslam Hayat is carrying extensive experience in the relevant field. He is the Chairman of Board.

Board Effectiveness The board has two sub-committees; Audit and HR & Remuneration Committee, enabling the Board to keep an oversight of the business more closely.

Financial Transparency An internal audit department is in place, reporting independently to the Audit Committee. M/s EY Ford Rhodes - Chartered Accountants are the external auditors of the Company, categorized as an 'A' rated firm by SBP. They have expressed an unqualified opinion on the Company's financial statements for the period ended June 30, 2022.

Management

Organizational Structure The Company has a well-defined organizational structure. Various types of activities are properly segregated and managed through different departments. The HODs report to the CEO.

Management Team Mr. Muzaffar Hayat Piracha, CEO of the Company, is an MBA and has been associated with the company since its inception. He is involved in all strategic and key decisions of the business.

Effectiveness There are six management committees operating namely as; i) Credit Committee, ii) Risk Management Committee, iii) Sale Control Committee, iv) Cash Management Committee, v) Operational Control Committee and vi) Business Plan Committee, which help in ensuring overall operational efficacy.

MIS The Company has installed SAP - an ERP solution as its information system, which provides adherence to a sound reporting system within the Company.

Control Environment MIS reports for senior management are generated frequently and are detailed in nature. Many reports, including the following, are generated frequently of each business unit: i) region-wise business partner report including adjustments, ii) daily stock report for all warehouses, iii) product-wise report of region & corporate limits.

Business Risk

Industry Dynamics Pakistan has been one of the fastest growing cellular markets. The country's teledensity increased from 6% in FY04 to a high of 88% in FY22. The number of 3G & 4G users in Pakistan reached 120 million by end-Sep 2022. During FY22, short-term demand painted a positive picture. However, at the same time, the devaluation of currency against USD and the rise in duty structure amplified the prices of imported phones, hence putting pressure on the demand of high end range mobile phones. The global manufacturers/principles sell their mobile phones through networks of their authorized distributors. Currently, there are 4 top distributor chains in the country (Airlink ranks number one on list & owns 21% of market share) with other small distributors for lower volumes. Further, imposition of DIRBS reduced the proportion of grey channel import market in Pakistan, which is another added benefit to the legal authorized importers.

Relative Position Airlink is one of the 4 mobile phone distributors of the country. The company is working with the world's top brands of mobile phones. Techno (38.5%) and Samsung (34.77%) contribute the highest to the company's revenue, followed by Itel (11.29%), Xiaomi (9.30%), Apple (2.53%). TCL (0.14%), Alcatel (0.08%), and Huawei (0.04%) contributed very less in company's revenue during period under review.

Revenues During FY22, the company recorded a topline of PKR~49,166mln (FY21: PKR~47,373mln), depicting a growth of 3.8%, Rising prices have played a role in expanding the topline along with set up of wholly-owned subsidiary company with the name of 'Select Technologies (Pvt.) Limited" for the assembling and distribution of Xiaomi phones. The Company's diversity with distribution of multiple renowned mobile phone brands are ensured to keep the business volumes intact and safeguard against any uncertain conditions.

Margins A slight increase in the margins was noted during the period. In FY22, gross profit margins increased to 10.6% in FY22 from 10.1% last year, mainly as a result of the effect of higher pricing of the products. A similar trend wasn't translated in the net profit margins (FY22: 3.1%, FY21: 3.2%, FY20: 3.4%). A rise of admin, selling, distribution and other expenses of the company contributed to low earnings before tax.

Sustainability During FY22, Airlink joined hands with Xiaomi Global for assembling and distribution of globally renowned mobile phones. Signing continuous agreements with international brands ensure sustainability of the Company.

Financial Risk

Working Capital The Company's working capital requirement emanates from financing inventory and trade receivables. Airlink's average gross working capital days, albeit high, have stayed consistent in the recent years (FY22: 81 days, FY21: 70 days, FY20: 66 days). Average net working capital days of the company have increased when compared with last year owing to decline in average days of payables (FY22: 77 days, FY21: 43 days, FY20: 29 days).

Coverages Free cash flow from operations (FCFO) increased by PKR~630mln in FY22 clocking at PKR ~3,231mln (FY21: PKR ~2,601mln) on account of increase in profitability before tax. Core operating coverages of the company have been improved (FY22: 2.3x, FY21: 2.0x, FY20: 1.6x). Debt payment capacity, currently remains comfortable.

Capitalization Total debt of the company increased in FY22. At end June-22, it clocked at PKR ~8,021mln (FY21: PKR ~7,381mln, FY20: PKR~9,382mln). The Company has a leveraged capital structure. During FY22, the leveraging stood at 40.8% (FY21: 53.3%, FY20: 67.1%). Most of the debt book is composed of short-term loans to manage working capital needs. Cautious management approach is necessitated.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Air Link Communication Limited Communication	Jun-22 12M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	6,172	1,272	567	323
2 Investments	1,010	510	726	2,508
3 Related Party Exposure	-	-	-	-
4 Current Assets	14,479	13,967	19,682	12,137
a Inventories	*5,334*	*3,534*	*4,610*	*1,118*
b Trade Receivables	*3,753*	*5,391*	*4,655*	*5,125*
5 Total Assets	21,660	15,748	20,975	14,968
6 Current Liabilities	1,725	1,838	6,967	3,930
a Trade Payables	*47*	*1,050*	*6,096*	*2,611*
7 Borrowings	8,021	7,381	9,382	7,873
8 Related Party Exposure	-	-	-	72
9 Non-Current Liabilities	258	50	29	23
10 Net Assets	11,656	6,479	4,597	3,069
11 Shareholders' Equity	11,656	6,479	4,597	3,069
B INCOME STATEMENT				
1 Sales	49,166	47,373	43,008	29,786
a Cost of Good Sold	*(43,968)*	*(42,571)*	*(38,238)*	*(25,799)*
2 Gross Profit	5,198	4,802	4,770	3,986
a Operating Expenses	(1,548)	(1,306)	(996)	(740)
3 Operating Profit	3,649	3,496	3,774	3,246
a Non Operating Income or (Expense)	*132*	*11*	*168*	*176*
4 Profit or (Loss) before Interest and Tax	3,781	3,506	3,942	3,422
a Total Finance Cost	*(1,175)*	*(1,102)*	*(1,398)*	*(827)*
b Taxation	*(1,076)*	*(899)*	*(1,080)*	*(1,115)*
6 Net Income Or (Loss)	1,530	1,505	1,464	1,480
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*3,231*	*2,601*	*2,656*	*2,248*
b Net Cash from Operating Activities before Working Capital Changes	*2,567*	*1,929*	*1,542*	*1,851*
c Changes in Working Capital	*(970)*	*608*	*(3,820)*	*(4,660)*
1 Net Cash provided by Operating Activities	1,597	2,537	(2,278)	(2,810)
2 Net Cash (Used in) or Available From Investing Activities	(5,947)	(595)	(29)	(11)
3 Net Cash (Used in) or Available From Financing Activities	4,620	(1,924)	2,839	2,712
4 Net Cash generated or (Used) during the period	269	18	532	(109)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	3.8%	10.1%	44.4%	23.3%
b Gross Profit Margin	10.6%	10.1%	11.1%	13.4%
c Net Profit Margin	3.1%	3.2%	3.4%	5.0%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	4.6%	6.8%	-2.7%	-8.1%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholde*	16.9%	27.2%	38.2%	51.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	81	70	66	75
b Net Working Capital (Average Days)	77	43	29	42
c Current Ratio (Current Assets / Current Liabilities)	8.4	7.6	2.8	3.1
3 Coverages				
a EBITDA / Finance Cost	4.3	4.4	3.0	4.5
b FCFO / Finance Cost+CMLTB+Excess STB	2.3	2.0	1.6	3.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.0	0.7	0.8	0.6
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	40.8%	53.3%	67.1%	72.1%
b Interest or Markup Payable (Days)	89.5	52.4	49.4	117.8
c Entity Average Borrowing Rate	12.7%	9.4%	14.5%	12.1%

Credit Rating

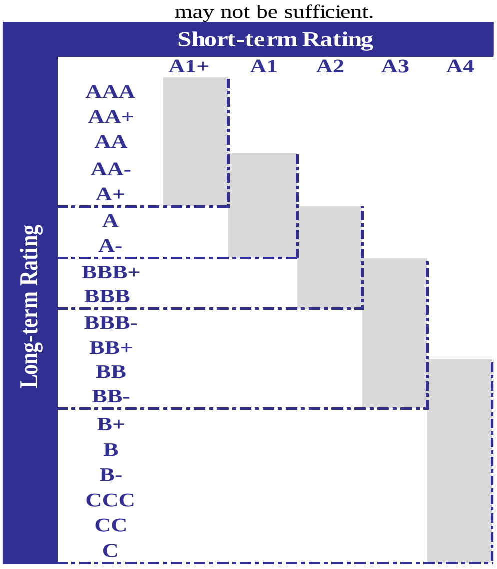
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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)
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