



The Pakistan Credit Rating Agency Limited

## Rating Report

### Airlink Communication

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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

The ratings denote Air Link's adequate operational sustainability underpinned by its solid market position, balanced earnings contributions from its mobile business, as well as its strong financial profile. Association with strong brands, Huawei & Samsung, enables Air Link to propel the growth wheel forward.

Over the last few years, the Company has improved its business profile. The company's topline is witnessing ample growth mainly because of increase in sale of Huawei and Samsung. FCFO of the company witnessed decent improvement owing to higher EBITDA. All the operations of the group are now formally transferred to Airlink Communication (Private) Limited. Improvement in governance structure is being witnessed as the company is inducting three independent directors on the board. The company's import driven business model is secured against cash margin with insurance for the in-transit. The company's financial risk profile is adequately covered. The company has enduring emphasis on control environment, as endorsed by the sponsors. A reflection of this is transition towards corporate structure and audit quality. Move is on the horizon for public listing. Ratings incorporate that Air Link operates in a fast moving market where timely introduction and sale of products is crucial. The growth in revenue is expected to increase further with the implementation of DIRBS system.

The ratings are dependent on the company's ability to strengthen its market position, gain in terms of EBITDA and profitability margins. Continuous improvement in governance structure is essential for the ratings. Seamless financial discipline is important.

#### Disclosure

<b>Name of Rated Entity</b>	Airlink Communication
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Ratings(Jun-18),Methodology   Criteria   Rating Modifier(Jun-18),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
<b>Related Research</b>	Sector Study   Communication(Apr-18)
<b>Rating Analysts</b>	Nadeem Sheikh   nadeem.sheikh@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Airlink Communication (Private) Limited, is a private limited company incorporated in 2014 with the SECP under Companies Ordinance, 1984 (now "Companies Act, 2017").

**Background** Airlink Communication (the AOP) was formed in 2010 and were involved in import and distribution of IT related products and services. Airlink Communication (Private) Limited was incorporated in 2014 to take over the business of AOP.

**Operations** Air Link is principally involved in distributing mobile phones of two leading brands in industry; Huawei and Samsung and recently signed Xiaomi. AirLink is associated with Huawei and Samsung since 2012 and 2016 respectively. The company is operating with network of ~700 dealers nationwide.

## Ownership

**Ownership Structure** The Company is owned by the sponsoring family. Formerly by two brothers, Mr. Muazzam Hayat Piracha (Late) and Muzaffar Hayat Piracha. After death of Mr. Muazzam Hayat Piracha (Late) his shares transferred to his wife, Ms. Saliha Basit and his four daughters, Mrs. Mishaal, Mrs. Naila, Mrs. Roshanay and Mrs. Samia. Mr. Shaukat Hayat Piracha holding ~25% shares is uncle of Mr. Muzaffar Hayat Piracha.

**Stability** As mentioned earlier, after the demise of Mr. Muazzam Hayat Paracha (Late) his shares was transferred to its relatives. Going forward, the ownership structure of the company is expected to remain same.

**Business Acumen** Mr. Muzaffar is leading the company since its inception. He is seasoned professional and have strong understanding of the industry.

**Financial Strength** Owners of the company don't have any strategic stake in other companies. Financial strength of the sponsors is deemed adequate.

## Governance

**Board Structure** Airlink is transforming its governance structure to match the compliance of code of corporate governance regulations.

**Members' Profile** Board member's business acumen is considered good.

**Board Effectiveness** The board has two committees Audit and HR, which enables the board to monitor the controls of the company more closely. The Audit committee is comprises of Mrs. Saleha Basit & Mr. Shaukat Hayat Piracha and HR Committee is comprises of Mrs. Saleha Basit and Mr. Muzaffar Hayat Piracha. With reference to board meetings, attendance of directors is considered good. Minutes of meeting are adequately maintained.

**Financial Transparency** Internal audit department communicating to the audit committee is in place. EY Ford Rhodes. Chartered Accountants is the external auditor of the company, category 'A' rated firm of SBP, has given unqualified opinion on the company's financial statements for the year ended Jun-18.

## Management

**Organizational Structure** Air Link has a well-defined organizational structure and different types of activities are properly segregated and managed through different departments. The department heads report to the CEO & respective heads.

**Management Team** Mr. Muzaffar Hayat Piracha, CEO of the company, is an MBA and has been associated with the company since its inception. Mr. Muzaffar sits in Lahore Head Office and is involved in all strategic and key decisions.

**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.

**MIS** The company has dedicated department to MIS reporting. The company is using SAP-an ERP solution. This system generates reports on real time basis.

**Control Environment** MIS reports for senior management are generated frequently and are detailed in nature. Reports pertaining to following information are generated frequently of each business unit: 1) Region wise business partner report including adjustments, 2) daily stock report for all warehouses 3) product wise report of region and corporate limits.

## Business Risk

**Industry Dynamics** Pakistan has been one of the fastest growing cellular markets. The country's teledensity increased from 6.3% in FY04 to a high of 73.23% in Oct-2018. Smartphone penetration in total mobile phone market is growing but still low which is an opportunity for smart phone distributors. The implementation of Device Identification Registration and Blocking System (DIRBS) will restrict the sale of mobile phones imported through grey channel and will results in increased sales for existing distributors.

**Relative Position** Airlink is one of the 4 big distributors of the country. The company is working with big brands of mobile phones; Huawei and Samsung.

**Revenues** Revenue of the company is steadily growing. During the period ending on June-18 the company recorded the revenue of PKR ~24,151m (FY17: ~13,275m) with YOY growth of ~82%. The revenue's growth is expected to remain strong, revenue for the 1QFY19 stood at PKR ~7,442m.

**Margins** Gross profit margin of the company during FY18 was ~13% (FY17: ~14%). Operating margin of the company remain intact during FY18 was ~11% (FY17: ~11%). Gross margin for 1QFY19 stood at ~12%.

**Sustainability** The company is intending to improve its overall organisation structure to improve the sustenance of margins. Demand for the electronics is expected to remain strong. The company is well poised to increase its market share with expected increase in demand for legally imported phones after the implementation of DIRBS.

## Financial Risk

**Working Capital** Net working capital days of the company improved during 1QFY19 and stood at ~36 days (FY18: ~38 days). Improvement in working capital management is being led by the improvement in short-term trade leverage of the company.

**Coverages** Coverages of the company remain healthy during the period. Interest coverage ratio of the company improved to ~6.2 times in 1QFY19 (FY18: ~4.2 times). Coverages are improved on the back of strong generation of the cash flows.

**Capitalization** Total debt of the company stood at PKR 4,168m in 1QFY19 (FY18: ~4,303m). The company has leveraged capital structure comfort is drawn from presence of very nominal amount of non-current liabilities.



**AirLink Communication (Private) Limited**

<b>BALANCE SHEET</b>	<b>30-Sep-18</b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>
<b>Non-Current Assets</b>	<b>220</b>	<b>130</b>	<b>99</b>	<b>50</b>
<b>Investments (Others)</b>	<b>1,162</b>	<b>1,226</b>	-	-
<b>Current Assets</b>	<b>9,255</b>	<b>8,830</b>	<b>5,690</b>	<b>3,830</b>
Inventory (Finished Goods)	2,233	2,171	1,789	954
Trade Receivables	4,413	3,882	2,069	2,127
Other Current Assets	2,311	2,386	1,497	199
Cash & Bank Balances	298	391	335	550
<b>Total Assets</b>	<b>10,637</b>	<b>10,187</b>	<b>5,789</b>	<b>3,880</b>
<b>Debt</b>	<b>4,149</b>	<b>4,286</b>	<b>2,068</b>	<b>1,103</b>
Short-term	4,103	4,242	2,046	1,090
Long-term (Incl. Current Maturity of long-term debt)	46	45	22	12
<b>Trade Payables</b>	<b>3,124</b>	<b>3,089</b>	<b>1,378</b>	<b>1,299</b>
<b>Other Liabilities</b>	<b>792</b>	<b>155</b>	<b>218</b>	<b>345</b>
<b>Shareholder's Equity</b>	<b>2,572</b>	<b>2,656</b>	<b>2,124</b>	<b>1,133</b>
<b>Total Liabilities &amp; Equity</b>	<b>10,637</b>	<b>10,187</b>	<b>5,789</b>	<b>3,880</b>
<b>INCOME STATEMENT</b>				
<b>Turnover</b>	<b>7,442</b>	<b>24,151</b>	<b>13,275</b>	<b>10,013</b>
Gross Profit	876	3,147	1,842	1,322
Operating Profit	687	2,632	1,454	1,134
Financial Charges	111	388	146	48
Taxation	(270)	(1,056)	(633)	(506)
<b>Net Income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cashflow Statement</b>				
Free Cashflow from Operations (FCFO)	690	1,647	704	554
Net Cash changes in Working Capital	(2,360)	(1,524)	(2,110)	(458)
Net Cash from Operating Activities	(2,008)	(175)	(1,406)	95
Net Cash from Investing Activities	(71)	(55)	(66)	(44)
Net Cash from Financing Activities	2,241	1,513	1,257	458
Net Cash generated during the period	162	1,282	(215)	509
Closing Balance of Cash & Equivalents	1,460	1,617	(215)	509
<b>Ratio Analysis</b>				
<b>Performance</b>				
Turnover Growth	75%	82%	33%	70%
Gross Margin	12%	13%	14%	13%
EBITDA Margin	9%	11%	10%	11%
Net Margin	4.8%	5.1%	5.1%	5.8%
<b>Coverages</b>				
<b>Debt Service Coverage</b>				
1. (FCFO/Gross Interest+CMLTD) (X)	6	4	5	13
2. (FCFO/Gross Interest+CMLTD+Uncovered STB) (X)	30	4	5	13
<b>Interest Coverage</b>				
1. (FCFO/Gross Interest) (X)	6	4	5	11
2. (EBITDA/Gross Interest) (X)	6	7	9	23
<b>Liquidity and Cashflows</b>				
Current ratio excluding CMLTD (X)	1.2	1.2	1.6	1.4
Net Cash Cycle (Inventory Days + Receivable Days - Payable)	36	38	55	52
<b>Capital Structure (Total Debt/Total Debt+Equity)</b>	<b>62%</b>	<b>62%</b>	<b>49%</b>	<b>49%</b>

**AirLink Communication (Private) Limited**

Note: FY16, FY17 and FY18 are consolidated numbers of both Airlink Communication (AOP) and Airlink Communication (Private) Limited.

Dec-18

## Credit Rating Scale & Definitions

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 Ratings		Short Term Ratings	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> 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.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> 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.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> 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.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> 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>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> 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>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> 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.		
<b>D</b>	Obligations are currently in default.		



**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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) 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.

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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

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- (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.
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- (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)
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- (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)
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- (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)

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(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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