



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
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

Airlink Communication Limited (hereafter referred as ‘Airlink’ or ‘the Company’) is primarily engaged in the distribution business followed by retailing and assembling of smartphone devices in Pakistan. The ratings reflect Airlink’s sustained fundamentals underpinned by its solid market position and diversified earnings from its core business lines. Telecom is one of the fastest growing sectors of Pakistan’s economy. The government has given industrial status to the telecom sector in the federal budget for fiscal year 2021-22. Telecom industry in Pakistan has shown growth over the period on account of trade & investment liberalization, favorable policies, and healthy competition. Regulatory duty on mobile phone imports has been increased to promote local import substitutes and attract foreign investment. Consequently, the Company now captures market share of around ~21% in mobile distribution. Topline continued to witness reasonable growth on a Year-on-Year basis owing to the formidable local demand of mobile handsets. Airlink has been successful to effectively manage business risks by partnering up with multiple global mobile phone brands including Samsung, ITEL, Techno, Iphone, Xiaomi, Alcatel, & Huawei. The Company conducted the largest IPO in Pakistan worth PKR 6.43bln during Aug’21. Proceeds from IPO are to finance working capital requirements and expand the Company’s distribution & retail network. Funds received from issuing stocks has ramped up company’s equity. Thus, making the capital structure moderately leveraged mainly comprising of short-term borrowings. With its legal status converted into a Public Listed Entity in Sep’21, several improvements in the governance structure are witnessed including induction of three independent directors. Lately, Airlink joined hands with Xiaomi, a global electronics & smartphones brand, to manufacture Xiaomi mobile phones in Pakistan through its wholly owned subsidiary “Select Technologies (Pvt) Limited”. Financial Profile of the Company is considered adequate with comfortable coverages, upright working capital management and healthy cash flows.

The ratings are dependent on the company’s ability to sustain its relative position and positive performance indicators amidst growth. As business volumes grow, prudent financial discipline - particularly in 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-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Mobile Phone and Allied Products(Jun-21)
Rating Analysts	Sohail Ahmed Qureshi sohail.ahmed@pacra.com +92-42-35869504

Profile

Legal Structure Airlink Communication Limited (herein referred to as "Airlink" or "the company") is a public listed entity with a free float of ~27.91% shares, as to date Nov'21. It got listed on "Pakistan Stock Exchange" in September, 2021.

Background In 2010, Airlink was formed as a partnership firm for the import & distribution of IT products, particularly mobile phones, and 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. 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, and TCL. The company has signed an agreement with Tecno, Alcatel and Mi for distribution services. Additionally, the Company partners with Xiaomi to manufacture Xiaomi mobile phones 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) and Muzaffar Hayat Piracha (~24.97%). After the death of Mr. Muazzam Hayat Piracha, his shares have been 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 (~4.19%), general public (~8.31%) and remaining is held by Banks, DFIs, NBFIs and others.

Stability The ownership structure has changed since last rating review of the company, in light of the listing of the Airlink, on the PSX. The share of the sponsors contracted proportionally.

Business Acumen Mr. Muzaffar 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 owns residential properties. Financial strength is, therefore, considered adequate.

Governance

Board Structure Airlink 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 the independent directors, 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 Piracha, carrying extensive experience in the relevant field, is the Chairman of the Board.

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

Financial Transparency An Internal Audit Department, reporting independently to the Audit Committee, is in place. 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 FY21 and 1QFY22.

Management

Organizational Structure Airlink has a well-defined organizational structure and various types of activities are properly segregated and managed through different departments. The department heads 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 company.

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 operational efficacy.

MIS Airlink 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 and corporate limits.

Business Risk

Industry Dynamics The country's teledensity ramped up from 6% in FY04 to a high of 85% in FY21. Smartphone penetration in the total mobile phone market is growing, with further potential for growth, particularly in the low-cost segment. During post-pandemic months, 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, therefore 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 Communication 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. It is working with the world's top brands of mobile phones. Samsung (41%) and Tecno (25%) contribute the highest to the company's revenue, followed by Xiaomi (14%), ITEL (11%), Huawei (4.1%), Apple (3.7%), TCL (0.6%) and Alcatel (0.2%). Recent award of distribution rights of Alcatel and Mi phones will further aid in sustaining the market share of the company, by penetration in diverse customer segments.

Revenues During FY21, the company recorded a topline of PKR~47,373mln (FY20: PKR~43,008mln), depicting a growth of 10.1%, volume & rising prices have played a role in expanding the topline. On account of android issue in the past, Huawei's quantum share declined during the last periods (FY21: 2%, FY20: 14%, FY19: 51%). Diversity with distribution of Tecno, ITEL, Xiaomi, Alcatel and iPhone were initiated to keep the business volumes intact.

Margins A slight decline in the margins was noted, gross profit margins fell to 10.1% in FY21 (FY20: 11.1%), mainly as a result of a decrease in the tax structure, nullifying the effect of higher pricing of the products. Further, reason of lower margin was change in product mix. A similar trend was noted in the net profit margins (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 Global Supply Chains improved in a post-pandemic world eventually provided relief to the company, in this regard. Agreements for distribution of Apple and Tecno products, along with the distribution agreement of Alcatel and Mi, played a role in mitigating the concentration risk during FY21. The company also partners up with Xiaomi to manufacture Xiaomi mobile phones in Pakistan through its wholly-owned subsidiary 'Select Technologies (Pvt) Limited'.

Financial Risk

Working Capital Working capital requirement emanates from financing trade receivables and inventory. Since the imposition of SBP's directive to maintain 100% margin for Line of Credit (LC), working capital needs have elevated. Yet, the company has managed its short-term borrowings (STBs) on the scale. Thereby, the company's short term trade leverage has improved leaving cushion of trade assets available against STBs. The average gross working capital days stayed consistent over past few years (FY21: 70 days, FY20: 66 days, FY19: 75 days). Average net working capital days of the company have slightly increased when compared with preceding years (FY21: 43 days, FY20: 29 days, FY19: 42 days).

Coverages Interest coverage ratio improved (FY21: 3.4x, FY20: 2.2x) on account of lowered interest cost. Debt payment capacity, currently remains stagnant and comfortable at 2.0x (FY20: 1.6x).

Capitalization Total debt of the company decreased during period under review. At end-FY21, it clocked in at PKR~7,381mln (FY20: PKR~9,382mln). The company has a leveraged capital structure. At end-FY21, leveraging stood at 53.3% (FY20: 67.1%, FY19: 72.1%). 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

Airlink Communication Limited Communication	Jun-21 12M	Jun-20 12M	Jun-19 12M
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A BALANCE SHEET

1 Non-Current Assets	1,272	567	323
2 Investments	510	726	2,508
3 Related Party Exposure	-	-	-
4 Current Assets	13,967	19,682	12,137
<i>a Inventories</i>	3,534	4,610	1,118
<i>b Trade Receivables</i>	5,391	4,655	5,125
5 Total Assets	15,748	20,975	14,968
6 Current Liabilities	1,838	6,967	3,930
<i>a Trade Payables</i>	1,050	6,096	2,611
7 Borrowings	7,381	9,382	7,873
8 Related Party Exposure	-	-	72
9 Non-Current Liabilities	50	29	23
10 Net Assets	6,479	4,597	3,069
11 Shareholders' Equity	6,479	4,597	3,069

B INCOME STATEMENT

1 Sales	47,373	43,008	29,786
<i>a Cost of Good Sold</i>	(42,571)	(38,238)	(25,799)
2 Gross Profit	4,802	4,770	3,986
<i>a Operating Expenses</i>	(1,306)	(996)	(740)
3 Operating Profit	3,496	3,774	3,246
<i>a Non Operating Income or (Expense)</i>	11	168	176
4 Profit or (Loss) before Interest and Tax	3,506	3,942	3,422
<i>a Total Finance Cost</i>	(1,102)	(1,398)	(827)
<i>b Taxation</i>	(899)	(1,080)	(1,115)
6 Net Income Or (Loss)	1,505	1,464	1,480

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	2,601	2,656	2,248
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	1,929	1,542	1,851
<i>c Changes in Working Capital</i>	608	(3,820)	(4,660)
1 Net Cash provided by Operating Activities	2,537	(2,278)	(2,810)
2 Net Cash (Used in) or Available From Investing Activities	(595)	(29)	(11)
3 Net Cash (Used in) or Available From Financing Activities	(1,924)	2,839	2,712
4 Net Cash generated or (Used) during the period	18	532	(109)

D RATIO ANALYSIS

1 Performance			
<i>a Sales Growth (for the period)</i>	10.1%	44.4%	23.3%
<i>b Gross Profit Margin</i>	10.1%	11.1%	13.4%
<i>c Net Profit Margin</i>	3.2%	3.4%	5.0%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	6.8%	-2.7%	-8.1%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	19.9%	37.2%	57.4%
2 Working Capital Management			
<i>a Gross Working Capital (Average Days)</i>	70	66	75
<i>b Net Working Capital (Average Days)</i>	43	29	42
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	7.6	2.8	3.1
3 Coverages			
<i>a EBITDA / Finance Cost</i>	4.4	3.0	4.5
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.0	1.6	3.0
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.7	0.8	0.6
4 Capital Structure			
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	53.3%	67.1%	72.1%
<i>b Interest or Markup Payable (Days)</i>	52.4	49.4	117.8
<i>c Entity Average Borrowing Rate</i>	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.

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+	
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-	
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+	
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-	
CCC	
CC	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.
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):

<p>Entities</p> <ul style="list-style-type: none"> 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 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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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

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- (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.
- (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)

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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)
- (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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