



The Pakistan Credit Rating Agency Limited

Rating Report

New Horizon Computer

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
20-Apr-2024	BB+	A3	Stable	Maintain	-
20-Apr-2023	BB+	A3	Stable	Maintain	-
22-Apr-2022	BB+	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan's technology sector contributes ~1% to the national GDP and stood at approximately PKR~647bln in FY22 (FY21: PKR~485bln), with the domestic market size for technology products and services estimated to be PKR~273bln in FY22 (FY21: PKR~218bln). Meanwhile, during 9MFY23, exports of the total technology industry increased to PKR~377bln (FY22: PKR~374bln). The sectors are expected to continue growing at an CAGR of ~36%. Pakistan's IT exports have grown exponentially over the last 5 years with a growth of 137%. The largest contributor remains IT consultancy (~33%), followed by software exports (~25%). The industry comprises ~ 7000 companies providing customized software development services and Business Process Outsourcing (BPO) services. In recent past, the Government and regulatory bodies have started to take initiatives such as the establishment of IT Parks and incubators to promote the industry and provide an enabling ecosystem for businesses and start-ups.

The ratings reflect New Horizon Computer's ('the Business') evolving business profile as an information technology (IT) services and solutions provider. The business offers a range of IT-based solutions, encompassing cloud computing, data protection, backup & recovery, networking hardware & software, and ERP systems management. The Business also provides Service Legal Agreements (SLAs) for repair, maintenance, and refurbishment services. With a small market share, revenue is generated from the local market only and posts considerable growth during FY23, The Business posted revenue of 2,808mln (FY22: 2,315mln). Effective cost management and operational efficiency have contributed to increase in margins (NP margin, FY23; 13%, FY22; 10%) and consequently enhancing the profitability of the Business. The financial risk profile exhibits strong coverages, although it carries an extended working capital cycle (FY23; 169days, FY22; 142days). Additionally, the capital structure is moderately leveraged (FY23: 60%, FY22: 59%). If supplemented by borrowings from the Sponsors, this would provide support. However, Sponsors' sound business acumen positively contributes to the overall rating outlook.

The ratings are dependent on the management's ability to diversify the revenue stream by global outreach along with stabilizing margins and profitability. However, improving financial profile of the Business remains crucial. Meanwhile, strengthening governance practices will have a positive impact on the ratings. Any deterioration in debt coverages leading to higher financial risk or substantial losses will have a negative impact on ratings.

Disclosure

Name of Rated Entity	New Horizon Computer
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jul-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Technology(May-23)
Rating Analysts	Muhammad Zain Ayaz zain.ayaz@pacra.com +92-42-35869504

Profile

Legal Structure New Horizon Computer ('New Horizon' or 'the Firm') is an Association of Persons, registered in 1999, and is engaged in providing IT based solutions.

Background The Firm was founded by Mr. Hanif Akbar Ali and Mr. Farooq Abdullah in 1999, and began with the sale and after-sale service of Laptops, Desktop Computers, Printers and Uninterruptible Power Supply (UPS), by becoming official dealers in Pakistan of manufacturers. Later in 2013, the Firm also began the sale and maintenance of storage servers and their spare parts for corporates, including multinational companies and commercial banks. In 2014, the Firm switched fully to supply and maintenance of servers.

Operations Primary business activity of the Firm is of importers, assemblers, suppliers, of servers and their accessories. Currently, the Firm has ~120 employees, and has presence in Karachi, Lahore and Islamabad. The head office is located in Karachi, on Clifton.

Ownership

Ownership Structure Share of ownership resides between the Mr. Hanif Akbar Ali (51%) and Mr. Rahim Iqbal (49%). Previously, the ownership vested with Mr. Farooq Abdullah and Mr. Hanif Akbar equally. However, the Mr. Farooq retired from the partnership deed in 2011, and was replaced by Mr. Rahim Iqbal.

Stability Ownership of the Firm seems stable. The Sponsors have a respectable standing in the technology segment

Business Acumen Mr. Hanif Akbar Ali, the Chairman and co-founder of the Firm, has more than 23 years of experience in technology-based solutions and system integration. He co-founded the Firm in 1999, and is responsible for building partnerships and synergies with renowned technology manufacturers.

Financial Strength Financial strength of the Sponsors is considered adequate. Moreover, the Sponsors are engaged in the real estate business, through investment in co-working spaces.

Governance

Board Structure New Horizon, being a partnership business, does not have a formal Board structure. The oversight function – which is normally the function of the Board – is being exercised by the Sponsors.

Members' Profile Mr. Rahim Iqbal, the CEO, has more than 24 years of experience in technology-based solutions and system integration. He joined New Horizon in 2011, helped expanding the Firm's clientele.

Board Effectiveness Currently, the Firm does not have any formal committees. Being a partnership concern, the Firm lacks independent oversight and formal preparation of meeting minutes.

Financial Transparency The Firm's external auditors, Salahudin & Co. have expressed an unqualified opinion on the financial statements of the Firm for the year ended Jun-23. The firm is neither QCR rated, nor is in SBP's panel of auditors.

Management

Organizational Structure The Firm's organizational structure reflects clear reporting lines and is split between Sales & Implementation, Finance & Accounts, HR & Admin, Support Services and Supply Chain. Each function is monitored by head of department, who reports to the CEO.

Management Team The management comprises experienced and qualified individuals. Mr. Qaiser Sarwar, the COO, has Masters in Computer Sciences and Business Administration, having above 21 years of overall experience. He has been associated with the Firm since 2010. Mr. Akhtar Shirazi, the CFO and Company Secretary, is a C.A finalist and has an overall experience of 35 years. He is associated with the Firm since 2008

Effectiveness The Firm has no management committees in place. However, policies, procedures and key performance parameters are discussed among senior management regularly to review activity. Whereas, monthly reports are shared with the HoDs regarding the projects' status.

MIS The Firm has deployed GP (of Microsoft) as its MIS

Control Environment The Firm lacks a formal internal audit function. Regular reviews are undertaken internally to overlook the Firm's operational control.

Business Risk

Industry Dynamics Pakistan's technology sector contributes ~1% to the national GDP and stood at approximately PKR~647bln in FY22 (FY21: PKR~485bln), with the domestic market size for technology products and services estimated to be PKR~273bln in FY22 (FY21: PKR~218bln). Meanwhile, during 9MFY23, exports of the total technology industry increased to PKR~377bln (FY22: PKR~374bln). The sectors are expected to continue growing at an CAGR of ~36%. Pakistan's IT exports have grown exponentially over the last 5 years with a growth of 137%. The largest contributor remains IT consultancy (~33%), followed by software exports (~25%). The industry comprises ~ 7000 companies providing customized software development services and Business Process Outsourcing (BPO) services. In recent past, the Government and regulatory bodies have started to take initiatives such as the establishment of IT Parks and incubators to promote the industry and provide an enabling ecosystem for businesses and start-ups.

Relative Position According to total revenue generated by the tech industry, New Horizon has a market share of less than ~1%

Revenues The revenue stream involves IT based solutions, including cloud computing, data protection, backup & recovery, networking hardware & software and implementing ERP systems management. These services are provided through strategic level partnerships with international vendors and manufacturers of hardware and software. The Firm has maintained a positive trend in revenue since the past 3 years. Total revenue during FY23 stood at ~PKR 2.8bln (FY22: PKR 2.3bln), surging by ~21% over the preceding period. Over 50% of the sales are EMC based, a vendor known for manufacturing data storage products

Margins The Firm has maintained a positive trend in margins since the last 3 years. Cost of sales majorly comprise of materials and components (servers and spare parts), which are imported. The Firm imports servers and other parts from UAE, China and Thailand, depending on the vendor. The Firm experienced a minor surge in gross margins during FY23 stood at 32.5% (FY22: 26%, FY21: 25%) on the back of better negotiations with the vendors. Gross profit stood at PKR 925mln during FY23, from PKR 601mln in FY22

Sustainability The Firm has no major expansion activities planned, rather its main focus is to improve its clientele. For this purpose, the management plans to extend their short-term borrowing lines to supplement their working capital position.

Financial Risk

Working Capital The working capital cycle consist of stock in transit, including servers and their spare parts. Whereas, mostly the receivables are due from commercial banks. Both, the servers and their spare parts are imported from China, UAE and Thailand. During FY23, the Company's net working capital days deteriorate and stood at 169 (FY22: 141 days), on the back of lower work in process days (FY23: 40 days, FY22: 57 days). Trade receivables days stood at 180, from 117 days in FY22, despite imported inventory value rose from dollar appreciation. Payable days increased to 51 during FY23 (FY22: 57 days).

Coverages New Horizon's coverages are a function of free cashflows and finance costs incurred. The Firm has portrayed fluctuating profitability over the years. The FCFO increased to PKR 646mln during FY23 (FY22: 448mln), on the back of higher profitability. Finance cost increased to PKR 247mln during FY23 (FY22: PKR 183mln) due to higher policy rate. As a result, interest coverage ebbed to 2.6x (FY22: 2.5x). Core and total coverage also surged to 2.4x (FY22: 2.2x).

Capitalization The Firm has a moderately leveraged capital structure represented through a debt-to-equity ratio of ~60% as at FY23 (FY22: 58%). This is a result of marginally higher short-term borrowings (FY23: PKR 1,318mln, FY22: PKR 1,218mln). There was a increase in equity position (FY23:PKR 910mln, FY22: PKR 875mln). The Firm has a moderately leveraged capital structure represented through a debt-to-equity ratio of ~60% as at FY23 (FY22: 58%). This is a result of marginally higher short-term borrowings (FY23: PKR 1,318mln, FY22: PKR 1,218mln). There was a increase in equity position (FY23:PKR 910mln, FY22: PKR 875mln). The Company has only availed short term borrowings for working capital requirements. Going forward, the management does not intend to avail long term loan, rather it aims to increased its short-term borrowing limits in order to extend its working capital position to achieve the aggressive sale milestones



The Pakistan Credit Rating Agency Limited

New Horizon Computer
Technology

Jun-23
12M

Jun-22
12M

Jun-21
12M

A BALANCE SHEET

1 Non-Current Assets	197	207	167
2 Investments	-	-	329
3 Related Party Exposure	212	500	458
4 Current Assets	2,620	1,805	1,469
<i>a Inventories</i>	285	327	393
<i>b Trade Receivables</i>	1,940	834	648
5 Total Assets	3,030	2,511	2,424
6 Current Liabilities	756	358	217
<i>a Trade Payables</i>	532	247	171
7 Borrowings	1,364	1,278	837
8 Related Party Exposure	-	-	314
9 Non-Current Liabilities	-	-	-
10 Net Assets	910	876	1,056
11 Shareholders' Equity	910	876	1,056

B INCOME STATEMENT

1 Sales	2,808	2,316	1,985
<i>a Cost of Good Sold</i>	(1,883)	(1,714)	(1,489)
2 Gross Profit	925	601	496
<i>a Operating Expenses</i>	(498)	(281)	(164)
3 Operating Profit	427	321	332
<i>a Non Operating Income or (Expense)</i>	187	113	46
4 Profit or (Loss) before Interest and Tax	614	434	378
<i>a Total Finance Cost</i>	(247)	(183)	(106)
<i>b Taxation</i>	-	-	-
6 Net Income Or (Loss)	368	251	272

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	646	448	395
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	399	266	288
<i>c Changes in Working Capital</i>	(534)	(257)	(125)
1 Net Cash provided by Operating Activities	(135)	9	163
2 Net Cash (Used in) or Available From Investing Activities	299	(46)	142
3 Net Cash (Used in) or Available From Financing Activities	(247)	9	(143)
4 Net Cash generated or (Used) during the period	(84)	(29)	162

D RATIO ANALYSIS

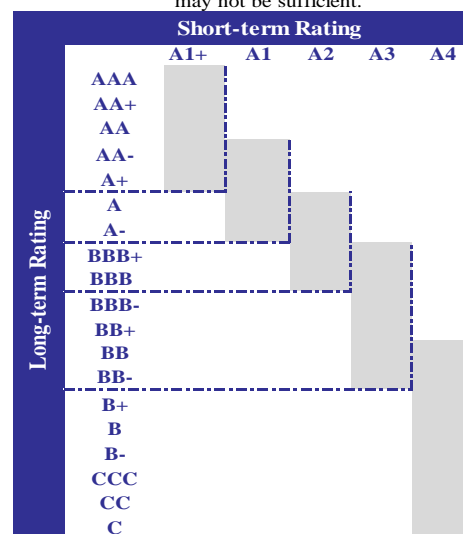
1 Performance			
<i>a Sales Growth (for the period)</i>	21.3%	16.7%	2.2%
<i>b Gross Profit Margin</i>	32.9%	26.0%	25.0%
<i>c Net Profit Margin</i>	13.1%	10.9%	13.7%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	4.0%	8.3%	13.6%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)</i>	41.2%	26.0%	26.6%
2 Working Capital Management			
<i>a Gross Working Capital (Average Days)</i>	220	174	191
<i>b Net Working Capital (Average Days)</i>	169	141	161
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	3.5	5.0	6.8
3 Coverages			
<i>a EBITDA / Finance Cost</i>	2.6	2.5	3.7
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.4	2.2	3.4
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.1	0.2	1.2
4 Capital Structure			
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	60.0%	59.3%	52.1%
<i>b Interest or Markup Payable (Days)</i>	111.4	73.0	62.8
<i>c Entity Average Borrowing Rate</i>	18.7%	15.0%	11.0%

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+	
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-	
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):
 a) Broker Entity Rating
 b) Corporate Rating
 c) Debt Instrument Rating
 d) Financial Institution Rating
 e) Holding Company Rating
 f) Independent Power Producer Rating
 g) Microfinance Institution Rating
 h) Non-Banking Finance Companies Rating

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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

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- (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)

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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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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