The Pakistan Credit Rating Agency Limited

Rating Report

New Horizon Computer

Report Contents

Rating History

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

Rating Rationale and Key Rating Drivers

Pakistan’s tech industry contributes ~1% to national GDP through local and export sales. Export of IT services is estimated to generate a revenue of ~$2.1bln. This is expected to grow to ~$ 3.5bln by FY22. While the target is to generate ~$5bln from IT services export by FY23. 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. Lately, the Government and regulatory bodies have taken 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') developing business profile as an information technology (IT) services and solutions provider. The product slate of the business comprises IT based solutions, including 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. The business derives revenue from the local market only. With a relatively small market share, the business has experienced an improving top line over the years. Margins, and in turn profitability have shown a fluctuating trend over the years. The financial risk profile is characterized by strong coverages, however, holds an elongated working capital cycle. Leveraged capital structure is supplemented by borrowings from the Sponsors. Sound business acumen of the Sponsors bode well for the ratings.

The ratings are dependent on the management's ability to stabilize margins and profitability, while improving financial profile of the business. 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(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Technology(May-21)
Rating Analysts	Shayan Farooq | shayan.farooq@pacra.com | +92-42-35869504

Profile

Legal Structure New Horizon Computer ('New Horizon' or 'the Business') is an Association of Persons, registered in 2003.

Background The Business was founded by Mr. Hanif Akbar Ali, Mr. Rahim Iqbal and Mr. Muhammad Farooq in 2003, 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 Business also began IT based solutions, including cloud computing, data protection, backup & recovery, networking hardware & software, and ERP systems management, for corporates, including multinational companies and commercial banks. In 2014, the Business switched fully to IT based solutions and services.

Operations The primary business activity of the Business includes importing, assembling, and supplying servers and their accessories. Currently, the Business has ~120 employees and has presence in Karachi, Lahore, and Islamabad. The head office is located in Karachi, on Clifton.

Ownership

Ownership Structure Ownership resides between Mr. Hanif Akbar Ali (51%) and Mr. Rahim Iqbal (49%). Previously, the ownership vested with Mr. Hanif (50%), Mr. Muhammad Farooq (25%) and Mr. Rahim Iqbal (25%). However, Mr. Muhammad Farooq retired from the partnership deed in 2005.

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

Business Acumen Mr. Hanif, the Chairman and co-founder of the Business, has more than 23 years of experience in technology-based solutions and system integration. He co-founded the Business in 2003, and is responsible for building partnerships and synergies with renowned technology manufacturers. Mr. Rahim Iqbal has more than 23 years of experience in technology-based solutions and system integration.

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 The Business, being an AoP, lacks formal governance framework.

Members' Profile Mr. Rahim Iqbal, the CEO, has more than 23 years of experience in technology-based solutions and system integration.

Board Effectiveness Being an AoP, formal Board structure is not present in New Horizon.

Financial Transparency The Business's external auditors, Salahudin & Co. have expressed an unqualified opinion on the financial statements for the year ended Jun-21. The firm is neither QCR rated nor is on SBP's panel of auditors.

Management

Organizational Structure The Business'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 respective heads, who reports to the CEO.

Management Team The management comprises experienced and qualified individuals. Mr. Qaiser Sarwar, the COO, holds an overall experience of above 2 decades. He has been associated with the Business since 2010. Mr. Akhtar Shirazi, the CFO and Company Secretary, has an overall experience of more than 3 decades. He is associated with the Business since 2008.

Effectiveness The Business 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 New Horizon has deployed GP (of Microsoft) as its MIS.

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

Business Risk

Industry Dynamics Pakistan's tech industry contributes ~1% to national GDP through local and export sales. Export of IT services is estimated to generate a revenue of ~$2.1bln. This is expected to grow to ~$ 3.5bln by FY22. While the target is to generate ~$5bln from IT services export by FY23. 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. Lately, the Government and regulatory bodies have taken 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 Business has maintained a positive trend in revenue for the past 3 years. Total revenue during FY21 stood at ~PKR 1.98bln (FY20: PKR 1.94bln), posting a surge of ~2%. Over 50% of the sales are EMC based, a vendor known for manufacturing data storage products.

Margins New Horizon has maintained a positive trend in margins for the last 3 years. Cost of sales majorly comprises materials and components (servers and spare parts), which are imported. The Business experienced a minor surge in gross margins (FY21: 25%, FY20: 24%) on the back of better negotiations with the vendors. Gross profit stood at PKR 496mln during FY21 (FY20: PKR 471mln). Similarly, operating margin posted a minor surge (FY21: 17%, FY20: 16%) due to a trickledown effect, despite higher admin and selling expenses (FY21: PKR 164mln, FY20: PKR 157mln). Finance cost decreased significantly to PKR 106mln in FY21 (FY20: PKR 205mln) due to lower policy rate. Hence, New Horizon posted net income of PKR 272mln (FY20: PKR 141mln), translating into an improved net margin (FY21: 14%, FY20: 7%).

Sustainability New Horizon 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. New Horizon imports servers and other parts from UAE, China, and Thailand. During FY21, net working capital days remained stable at 161 (FY20: 162 days), on the back of lower average receivable days (FY21: 116 days, FY20: 131 days) and higher inventory days (FY21: 75 days, FY20: 69 days) in FY21, as imported inventory value rose from dollar appreciation. Payable days reduced to 29 during FY21 (FY21: 38 days). Short term total leverage also remained stable at 39% as at FY21 (FY20: 37%). The Business still has sufficient borrowing cushion available to satisfy its working capital needs.

Coverages New Horizon's coverages are a function of free cashflows and finance costs incurred. The Business has portrayed fluctuating profitability over the years. The FCFO increased to PKR 395mln during FY21 (FY20: 364mln), on the back of higher profitability. Finance cost dipped to PKR 106mln during FY21 (FY20: PKR 205mln) due to lower policy rate. As a result, interest coverage surged to 3.7x (FY20: 1.8x). Core and total coverage also improved to 3.4x (FY20: 1.8x).

Capitalization The Business has a leveraged capital structure represented through a debt-to-equity ratio of ~52% as at FY21 (FY20: 44%). This is a result of marginally higher short-term borrowings (FY21: PKR 811mln, FY20: PKR 767mln), and rise in equity position (FY21: PKR 1,056mln, FY20: PKR 988mln) due to accumulated profits. 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 increase 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

Financial Summary
PKR mln

New Horizon Computer Technology	Jun-21	Jun-20	Jun-19
	12M	12M	12M
A BALANCE SHEET			
1 Non-Current Assets	167	150	169
2 Investments	329	295	440
3 Related Party Exposure	458	210	-
4 Current Assets	1,469	1,304	1,494
a Inventories	*393*	*420*	*313*
b Trade Receivables	*648*	*616*	*779*
5 Total Assets	2,424	1,958	2,102
6 Current Liabilities	217	194	297
a Trade Payables	*171*	*149*	*255*
7 Borrowings	837	776	877
8 Related Party Exposure	314	-	-
9 Non-Current Liabilities	-	-	-
10 Net Assets	1,056	988	928
11 Shareholders' Equity	1,056	988	928
B INCOME STATEMENT			
1 Sales	1,985	1,943	1,567
a Cost of Good Sold	*(1,489)*	*(1,472)*	*(1,215)*
2 Gross Profit	496	471	352
a Operating Expenses	(164)	(157)	(131)
3 Operating Profit	332	314	221
a Non Operating Income or (Expense)	*46*	*33*	*15*
4 Profit or (Loss) before Interest and Tax	378	347	236
a Total Finance Cost	*(106)*	*(205)*	*(95)*
b Taxation	-	-	-
6 Net Income Or (Loss)	272	141	141
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*395*	*364*	*242*
b Net Cash from Operating Activities before Working Capital	*288*	*159*	*146*
c Changes in Working Capital	*(125)*	*(96)*	*51*
1 Net Cash provided by Operating Activities	163	63	197
2 Net Cash (Used in) or Available From Investing Activities	142	33	(18)
3 Net Cash (Used in) or Available From Financing Activities	(143)	(182)	(35)
4 Net Cash generated or (Used) during the period	162	(86)	145
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	2.2%	24.0%	--
b Gross Profit Margin	25.0%	24.3%	22.5%
c Net Profit Margin	13.7%	7.3%	9.0%
d Cash Conversion Efficiency (FCFO adjusted for Working C	13.6%	13.8%	18.7%
*e Return on Equity [Net Profit Margin * Asset Turnover * (T*	26.6%	14.8%	15.1%
2 Working Capital Management			
a Gross Working Capital (Average Days)	116	131	181
b Net Working Capital (Average Days)	87	93	122
c Current Ratio (Current Assets / Current Liabilities)	6.8	6.7	5.0
3 Coverages			
a EBITDA / Finance Cost	3.7	1.8	2.5
b FCFO / Finance Cost+CMLTB+Excess STB	3.4	1.8	2.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	1.2	0.1	0.1
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equit	52.1%	44.0%	48.6%
b Interest or Markup Payable (Days)	62.8	58.0	0.0
c Entity Average Borrowing Rate	11.0%	24.8%	10.9%

Credit Rating

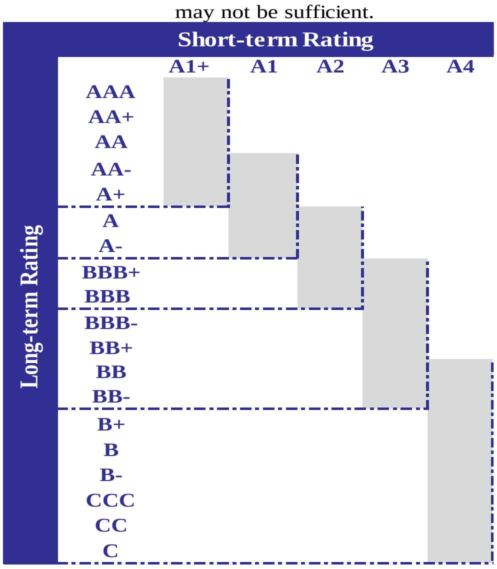
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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.
(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)

Proprietary Information