The Pakistan Credit Rating Agency Limited

Rating Report

Inbox Business Technologies Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Nov-2023	A-	A2	Stable	Maintain	-
23-Nov-2022	A-	A2	Stable	Upgrade	-
23-Nov-2021	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

IT industry contributes 1% in Pakistan’s GDP through local sales and exports. Export of IT services are estimated to contribute ~$ 2.6bln to the GDP. The largest contributor remains IT consultancy (~35%). Followed by the growth rate of export of software (14%), other services (13%), and software consultancy (8%). By keeping in view the massive demand of IT skills, the government took the initiative and established incubators and IT parts. This initiative aimed at fostering industry growth and cultivating a conducive ecosystem for enterprises and startups.
The ratings are indicative of Inbox Business Technologies Ltd.'s ('Inbox' or 'the Company') affiliation with a robust corporate entity, namely the Dawood Hercules Group. The product line of the company includes Enterprise Management Service (EMS) with the revenue of PKR: 353mln in 3QCY23, Digital Security and Intelligence (DSI) with the revenue of PKR: 562mln in 3QCY23 and Citizen Services and Customer Experience (CSX) with the revenue of PKR: 1.5bln in 3QCY23 in both, public and private sectors. EMS encompasses providing customer support, IT outsourcing, warranty, remote assistance, and maintenance services. DSI includes Web Management Services (WMS), which is technical facility deployed on internet gateways in Pakistan, to detect and block illegal international voice calls and manage internet traffic. Apart from this, CSX involves the provision of IT related services to the public sector. Inbox business technologies enjoys a competitive edge as it solely provides IT solutions. The renewal of future local and international projects will bring significant growth to the company, especially the renewal of contract with the Excise and Taxation department, for the provision vehicle registration cards. The financial risk of the company is associated with the coverages and working capital cycle of business expressing the interest coverage ratio 3x in 3QCY23 (3QCY22: 11x) and working capital cycle days of 106 days in 3QCY23 (3QCY22: 56 days) While a reduction in coverages and an extended working capital cycle present a cause for concern, the company anticipates that these challenges will be mitigated through future contracts. The Subordinate loan represents support from the sponsors and is considered as added support for company’s rating.

The company's ratings rely on its capability to uphold margins, achieve robust coverages, and sustain essential cushions while exercising discipline in working capital management. Continuous sponsors support remains indispensable for ratings. Any decay in the cashflows and coverages will be having a negative impact of the company’s ratings.

Disclosure

Name of Rated Entity	Inbox Business Technologies Limited
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 Inbox Business Technologies Limited ('Inbox' or 'the Company') is a public unlisted company, incorporated in 2001.

Background In 2001, Inbox started as a local assembler of computers in Pakistan by Mr. Ghias Khan (CEO of Engro Corporation) along with his friends, Mr. Mir. Nasir and Mr. M. Ali. In 2004, ~ 51% stake was acquired through companies with common directorship and ownership of Mr. Hussain Dawood & family. The Company transitioned from assemblers to system integrators in 2007. In 2009, the Company started providing managed services. Digital services were introduced in 2014, offering customized processes, managed services infrastructure, and technology alliances. During 2019, 100% of the stake was acquired by Mr. Hussain Dawood & family

Operations Primary business activity of the Company is to provide essential IT services, software development, and technology-oriented solutions such as IT service management, IT operations management, remote management and digital content management. It also provides digital solutions from cyber security to asset management. The Company has two Security Operating Centers, one in Islamabad and the other in Karachi

Ownership

Ownership Structure ~99.9% shares of the Company reside with Dawood Investments Pvt. Limited (formerly known as Patek Pvt. Limited),a holding company with investments in technology sector. Dawood Investments Pvt. Limited is a part of Dawood Hercules Group (Dawood Family and Associates). Dawood Hercules Group has investments in various sectors of the economy; Food, Fertilizers, Petrochemicals, Energy, Information Technology, Terminal Services and Telecommunication Infrastructure.

Stability Ownership of the Company seems stable. The sponsoring Group, Dawood Hercules, has a strong and diversified standing in various segments of the economy.

Business Acumen Dawood Group is a conglomerate with over three generations of experience in commercial and social enterprises. Currently, the Group has interests in various sectors of the economy. Strong affiliation and technical track record with international JVs have added to the success of the companies within the Group.

Financial Strength The Company drives strength from strong footings of the sponsoring Group. Dawood Investments Pvt. Limited, holds interests in technology-based businesses.

Governance

Board Structure The Board of Directors comprises 7 members including the Chairman. All BoD members are Non-Executive Directors, representing the sponsoring Group.

Members' Profile Mr. Arif Janjua, Chairman of the Board and a non-executive member, has an overall experience of more than 35 years in operational management and consulting in the software, mobile, and internet services industry. He is also the senior advisor to the DH Corporation's Board, leading their technology initiatives.

Board Effectiveness During 3QCY23 two Board meeting is held. Full attendance was observed in BoD meetings. The meeting was held to discuss the annual audit affairs. The meeting related to corporate affairs is yet to be held in Dec-23.

Financial Transparency The Company's external auditors, Mazars Chartered Accountants, have expressed an unqualified opinion on the financial statements of the Company for the year ended Dec-22. The firm is QCR rated and is in SBP's category 'C' panel of auditors.

Management

Organizational Structure The Company's organizational structure reflects clear reporting lines and is split between operations, specialized projects, finance, HR, legal, and business development. Each function is monitored by the respective head of department, who reports to the CEO. However, Head of Internal Audit department functionally reports to the BoD Audit Committee, and administratively to the CEO

Management Team The Company's management comprises experienced and qualified individuals. Mr. Mohsin Ali, the Chief Executive Officer, the CEO, has more than 20 years of experience in the technology industry and has been a part of Inbox since 2004. Mr. Kamran Hanif, the CFO, is associated with the Company since Aug-20. He is associated with Dawood Hercules as CFO.

Effectiveness The Company has one management committee in place comprised of senior management. Policies, procedures and key performance parameters are discussed among senior management regularly to review activity. Monthly reports are shared with the BoD regarding the projects' status.

MIS The Company has deployed Oracle R-12 as its Enterprise Resource Planning (ERP) system.

Control Environment Oversight and effective management is maintained through the internal audit department. The department monitors various functions and internal controls of the Company, and reports to the Board's Audit Committee. The department is headed by Mr. Muhammad Faraz, who is a an FCA and joined Inbox in April 2021.

Business Risk

Industry Dynamics With a compound annual growth rate (CAGR) of 8.2%, the global tech industry grew from $8179.4bln in 2022 to $8852.4bln in 2023Pakistan's tech industry contributes ~1% to the national GDP through local and export sales. During 3QFY23, exports stood at PKR~231bln, exhibiting an increase of ~40% YoY. . The largest contributor to exports (at ~33%) was software consultancy followed by the export of computer software, which contributed ~25% to total computer service exports. 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-up.

Relative Position According to total revenue generated by the tech industry, Inbox has a market share of a little more than 1%.

Revenues Inbox sources its revenue from three different streams: Digital Security and Intelligence (DSI), Citizen Services and Customer Experience (CSX) and Enterprise Management Services (EMS).The sales of the company decrease during 3QCY23. Sales revenue during 3QCY23 stood at PKR 2.4bln (3QCY22: PKR5.9bln). This was due to completion of the projects , delay in the renewal of previous projects and delay in the local projects.

Margins The Company has experienced a slight decline in margins during 3QCY23. Gross profit margin stood at 18% during 3QCY23 as compared to last year (3QCY22: 19%). This could be attributable to inflation and exchange rate movements as much of the Company's hardware is imported. The main contributor to increased cost of sales is DSI, under which the WMS contract is booked. The project required an import of hardware worth ~US$18mln. On the other hand, operating margin has decreased as compared to last year (3QCY23: 9.5%; 3QCY22: 15.9%).Finance cost over the year stood at 6.4%).

Sustainability The Company is focusing on exports majorly with two contracts already booked and delivered and more in process. The Company has also ventured into resource recruiting as demand for skilled resources is on the rise. Furthermore, the Company does not have any plans to increase exposure to debt in the long run.

Financial Risk

Working Capital The Company's working capital cycle increased and stood at106 days during 3QCY23 as compared to 56 days in 3QCY22. This can be attributed to increase in the receivable days and debtors inventory days increased and stood at 10 days during 3QCY23 (3QCY22: 2 days).Receivable days increased and stood at 140 days during 3QCY23 (3QCY22: 73 days).Payable days increased and stood at 44 days during 3QCY23 (3QCY22:20 days). Short term total leverage stood at 59% during 3QCY23 (3QCY22: 47%).

Coverages FCFO of the Company stood at 0.3bln in 3QCY23 (9MCY22: 3.5bln). Sales growth of 3 periods stood at 19% during 3QCY23 (3QCY22: 30). The finance cost of the Company has decreased and stood at to PKR164mln during 3QCY23 (3QCY22: PKR 338mln). The interest coverage ratio decreased and stood at 2.5x during 3QCY23 (3QCY22: 10.8x). Debt payback showed improvements and stood at 2.2x during 3QCY23 (3QCY22: 0.2x).

Capitalization The Company has a low leveraged capital structure with the leverage ratio at 41% during 3QCY23 (3QCY22: 44%) due to increase in equity. Total debt stands at PKR 106mln as at 3QCY23 (3QCY22: 808mln).To minimize debt, the injected loan of 1.670bln by Dawood Investments in CY20 has paid by the company up to 110mln till 3QCY23 (CY22: 40mln ; CY23: 70mln). Long term borrowings stands at PKR 22mln during 3QCY23 (3QCY22: PKR 17mln). The Company's short-term borrowings, consisting of running finance and Murabaha arrangements, on the other hand have decreased and now stand at PKR 58mln in 3QCY23 as compared to PKR 126mln during 3QCY22.

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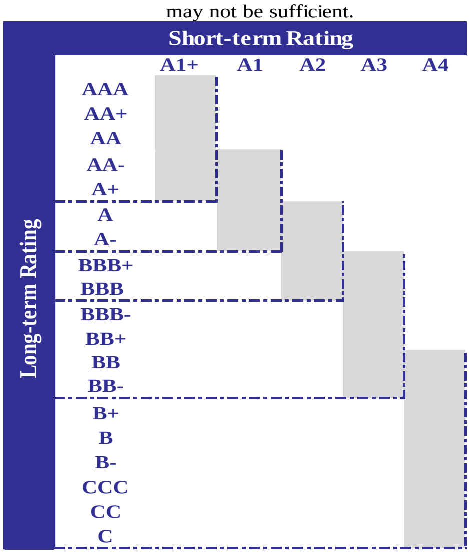
Inbox Business Technologies Limited	Sep-23	Mar-23	Dec-22	Sep-22	Jun-22	Dec-21
Technology	9M	3M	12M	9M	6M	12M
A BALANCE SHEET						
1 Non-Current Assets	214	226	152	184	231	2,055
2 Investments	-	-	-	-	-	-
3 Related Party Exposure	-	-	-	-	-	-
4 Current Assets	2,525	2,628	2,711	3,221	3,699	3,366
a Inventories	*70*	*73*	*109*	*50*	*77*	*57*
b Trade Receivables	*1,407*	*1,120*	*1,087*	*1,965*	*2,106*	*1,206*
5 Total Assets	2,739	2,854	2,863	3,405	3,930	5,421
6 Current Liabilities	978	1,203	730	1,574	1,648	3,323
a Trade Payables	*474*	*499*	*307*	*381*	*478*	*474*
7 Borrowings	106	67	547	808	1,251	1,439
8 Related Party Exposure	628	556	490	-	-	-
9 Non-Current Liabilities	-	-	-	5	5	5
10 Net Assets	1,027	1,029	1,097	1,018	1,026	654
11 Shareholders' Equity	1,027	1,029	1,097	1,018	1,026	654
B INCOME STATEMENT						
1 Sales	2,442	1,048	6,408	5,919	5,351	4,497
a Cost of Good Sold	*(2,003)*	*(880)*	*(4,982)*	*(4,796)*	*(4,364)*	*(3,444)*
2 Gross Profit	439	168	1,426	1,122	987	1,053
a Operating Expenses	(207)	(63)	(268)	(179)	(109)	(248)
3 Operating Profit	232	105	1,157	943	879	805
a Non Operating Income or (Expense)	*5*	*(1)*	*(28)*	*(21)*	*(8)*	*9*
4 Profit or (Loss) before Interest and Tax	237	105	1,130	922	871	815
a Total Finance Cost	*(164)*	*(79)*	*(433)*	*(338)*	*(263)*	*(325)*
b Taxation	*(73)*	*(24)*	*(215)*	*(220)*	*(236)*	*(117)*
6 Net Income Or (Loss)	1	2	482	363	372	373
C CASH FLOW STATEMENT						
a Free Cash Flows from Operations (FCFO)	*392*	*104*	*2,846*	*3,566*	*3,482*	*1,814*
b Net Cash from Operating Activities before Working Capital Changes	*356*	*80*	*2,618*	*3,369*	*3,318*	*1,614*
c Changes in Working Capital	*168*	*583*	*(1,887)*	*(2,272)*	*(2,378)*	*1,283*
1 Net Cash provided by Operating Activities	524	663	731	1,098	940	2,897
2 Net Cash (Used in) or Available From Investing Activities	(63)	(49)	(34)	(927)	(916)	(2,028)
3 Net Cash (Used in) or Available From Financing Activities	(362)	(343)	(946)	(566)	(45)	(234)
4 Net Cash generated or (Used) during the period	99	271	(249)	(395)	(21)	636
D RATIO ANALYSIS						
1 Performance						
a Sales Growth (for the period)	-49.2%	-34.6%	42.5%	75.5%	138.0%	56.6%
b Gross Profit Margin	18.0%	16.1%	22.2%	19.0%	18.5%	23.4%
c Net Profit Margin	0.0%	0.2%	7.5%	6.1%	6.9%	8.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	22.9%	65.6%	15.0%	21.9%	20.6%	68.9%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	0.1%	0.8%	55.1%	58.0%	88.5%	79.7%
2 Working Capital Management						
a Gross Working Capital (Average Days)	150	104	70	76	59	85
b Net Working Capital (Average Days)	106	69	48	56	43	48
c Current Ratio (Current Assets / Current Liabilities)	2.6	2.2	3.7	2.0	2.2	1.0
3 Coverages						
a EBITDA / Finance Cost	2.0	1.9	7.3	11.3	14.2	7.0
b FCFO / Finance Cost+CMLTB+Excess STB	2.2	1.2	3.8	4.3	4.5	1.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.2	5.4	0.3	0.2	0.2	0.9
4 Capital Structure						
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	41.7%	37.7%	48.6%	44.3%	54.9%	68.7%
b Interest or Markup Payable (Days)	0.0	6.5	14.7	368.1	286.3	345.5
c Entity Average Borrowing Rate	26.0%	28.2%	34.5%	32.5%	36.4%	23.4%

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):

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

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 | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 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)

Proprietary Information