The Pakistan Credit Rating Agency Limited

Rating Report

Multinet Pakistan (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
02-Aug-2022	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect Multinet Pakistan (Pvt.) Limited ('Multinet' or 'the Company') strong business profile as a telecommunications infrastructure & services provider. This is depicted by long term contracts achieved with major licensed telecom operators for the Indefeasible Right of Use of its cross-country optical fiber network, along with tower fiberization contracts. The product slate of the Company comprises provision of broadband & data connectivity related services to corporates, long-haul and metro optical fiber infrastructure requirements for telecom operators, international voice termination, fixed line telephony, and partnering with global carriers to provide broadband and data connectivity solutions to their customers operating in Pakistan. With an optical fiber network footprint of ~13,000 KM, the Company has experienced a rising top line over the years. Margins, and in turn profitability have remained adequate. Financial risk profile is characterized by improved coverage ratios with low leveraged capital structure. While working capital remains stretched in terms of trade leverage. The management is aiming to avail a long-term loan of PKR 2.1bln in order to expand its fiber footprint, procure more tower fiberization contracts and enhance its existing data centers capacities. Ratings draw comfort from partial credit guarantee of 75% of the principal amount of this loan (i.e. ~ PKR 1.6bln) to be provided by InfraZamin Pakistan Limited ('InfraZamin'). Moreover, the Company commits to enhance the governance & management frameworks, within a stipulated timeframe. On the governance front, the Board will be enhanced by minimum three (3) members, and a formal internal control mechanism will be established. In addition, Multinet will limit its exposure in associate concerns, in order to supplement its working capital cycle. And lastly, the Sponsor is committed to procure an equity injection of PKR 1bln in the Company in the next 24 months.

The ratings are dependent on the management's ability to realize the projected margins and profitability. Prudent management of working capital cycle and coverage ratios remains imperative. The ratings take comfort in the credit guarantee provided by InfraZamin. However, any significant delay in realizing the projected cashflows would have a negative impact on ratings.

Disclosure

Name of Rated Entity	Multinet Pakistan (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Mehtodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Technology(May-22)
Rating Analysts	Shayan Farooq | shayan.farooq@pacra.com | +92-42-35869504

Profile

Legal Structure Multinet Pakistan Pvt. Limited ('Multinet' or 'the Company') was incorporated in 1996, as a private limited company.

Background The Company was incorporated in 1996, and began as the branded reseller of broadband and data connectivity services. Later in 2005, the majority shareholding was acquired by TM International Limited (now called Axiata) of Telekom Malaysia. In Nov-18, Axiata fully exited from Multinet, transferring all of the shareholding to Mr. Adnan Asdar Ali. Multinet is currently engaged in providing telecommunications infrastructure and services to corporates, financial institutions, SMEs and domestic & international telecom operators.

Operations Primary business activity of the Company are to provide telecommunication, electronic media and connectivity infrastructure and solutions, including broadband services. Moreover, value added services include voice services, data center, cloud computing, audio and video conferencing, hosting applications and servers.

Ownership

Ownership Structure Mr. Adnan Asdar Ali owns 99.99% shareholding of the Company.

Stability Ownership of the Company seems stable. The Sponsor has been engaged with the business since the commencement of its operations.

Business Acumen Mr. Adnan Asdar Ali, has more than 35 years of professional experience, with a sound understanding of domestic and international telecommunications and technology landscape. He is driving force behind the Company's growth and provides strategic guidance to the Company's senior management.

Financial Strength Financial strength of the Sponsor is considered adequate. Moreover, the Sponsor is engaged in software houses, telemedicine, water filtration and mobile application development, health, housing and education sectors through multiple profit and non-profit based legal entities.

Governance

Board Structure Board of Directors comprises of 2 members only. One member is a Non-Executive Director, while the other is an Executive Director.

Members' Profile Mr. Adnan Asdar Ali, the CEO and co-founder, has more than 35 years of professional experience.

Board Effectiveness Currently, the Company does not have any Board committee. Being a private limited concern, the Company lacks independent oversight, however, formal preparation of meeting minutes takes place.

Financial Transparency The Company's external auditors, Baker Tilly Mehmood Idrees Qamar have expressed an unqualified opinion on the financial statements of the Company for the year ended Dec-21. The firm is QCR rated and is in SBP's category 'A' panel of auditors.

Management

Organizational Structure The Company's organizational structure reflects clear reporting lines and is split between Operations, Administrative, Legal, Human Resource and Business Development. Each function is monitored by head of department, who reports to the CEO.

Management Team The management comprises experienced and qualified individuals. Mr. Adnan Hayat Zaidi, the Chief Operating Officer, is an IT graduate. He has more than 19 years of experience in the technology industry, and has been a part of the Company since 2002. Other leadership team has 10 years plus association with the Company.

Effectiveness The Company has one management committee in place named Steering Committee. It includes all the departmental heads, along with the COO (Mr. Adnan Zaidi) who heads the Steering Committee. Policies, procedures, budgets and key performance parameters are discussed in the committee meetings regularly to review activity. Whereas, quarterly reports are shared with the CEO regarding the projects' status and his input.

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

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

Business Risk

Industry Dynamics Dynamics Pakistan has a developing telecommunications industry regulated by an independent regulator. Ministry of Information Technology & Telecommunications issues policies for telecommunications sector, and Pakistan Telecom Authority is mandated to implement the aforesaid policies. Telecommunication services in Pakistan is governed by licensing regime and key licenses are: a) Cellular mobile license; b) Long distance and international (LDI) license; c) Fixed Local Loop license; and d) Telecom infrastructure provider license. Currently two operators PTCL and TWA have the licenses to procure internet bandwidth through the provision of international submarine cables and subsequently sell to licensed telecom operators in Pakistan. Total internet bandwidth maximum utilization in Pakistan during March-22 is ~3.77 Tbps, followed by April-22 is 3.16Tbps.

Relative Position Up to 25% of cellular traffic and 50% of financial market voice and data traffic runs through Multinet Pakistan Pvt. Limited optic fiber network.

Revenues The Company has segregated revenue streams according to nature of clientele. Total revenue stood at PKR 4,417mln during CY21, surging by 15% from PKR 3,837mln in CY20. Enterprise business unit and international voice termination business units are the main contributor; together forming ~60% of the total revenue.

Margins The Company experienced a surge in gross margins during CY21 (CY21: 32%, CY20: 28%) on the back of better negotiations with the suppliers of telecommunications products and services. Gross profit stood at PKR 1,431mln during CY21, from PKR 1,070mln in CY20. Operating margin also posted a surge (CY21: 10%, CY20: 7%) due to a trickledown effect, despite higher admin and selling expenses (CY21: PKR 996mln, CY20: PKR 810mln). The Company avails borrowings from banks to undergo tower fiberization project, expanding metro network and to improve its working capital cycle. Finance cost increased to PKR 138mln in CY21, from PKR 108mln in CY20, due to higher borrowings. However, Multinet posted a net income of PKR 467mln (CY20: PKR 301mln), translating into a higher net margin (CY21: 11%, CY20: 8%).

Sustainability The Company plans to leverage its optical fiber and digital network infrastructure to add more revenue contracts in the domain of broadband & data connectivity, data center, cloud computing, tower fiberization. Multinet has long-term business relations with cellular mobile operators, FIs and corporates, and is now pursuing strong business opportunities in the domain of tower fiberization, broadband and cloud computing requirements of SME sector. For this purpose, the management plans to avail a long-term loan of PKR 2.1bln.

Financial Risk

Working Capital The working capital cycle is negative, signifying delayed payments to creditors and advance payments from customers. Net working capital days stood at -13 (CY20: -14 days), on the back of improved average receivable days (CY21: 49 days, CY20: 70 days). Inventory days stood at 10, from 7 days in CY21. Payable days reduced to 73 during CY21 (CY21: 90 days). Short term total and trade leverage ratio is consistently negative due to a mismatch present on the balance sheet. Total leverage stood at -34% in CY21 (CY20: -50%).

Coverages Multinet's coverages are a function of free cashflows and finance costs incurred. The Company has portrayed fluctuating profitability over the years. The FCFO increased to PKR 777mln during CY21 (CY20: 727mln), on the back of higher profitability. Finance cost rose to PKR 138mln during CY21 (CY20: PKR 108mln) due to high borrowings. As a result, interest coverage remained strong at 7.2x (CY20: 9x). Core and total coverage improved minutely to 0.7x (CY20: 0.5x).

Capitalization The Company has a modestly leveraged capital structure represented through a debt-to-equity ratio of ~23% as at CY21 (CY20: 14%). This is a result of higher long-term borrowings (CY21: PKR 1,732mln, CY20: PKR 789mln), including refinance scheme for salaries and wages. The Company has only availed short term borrowings of PKR 48mln as at CY21.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Multinet Pakistan Pvt. Limited	Dec-21	Dec-20	Dec-19
Technology	12M	12M	12M
A BALANCE SHEET			
1 Non-Current Assets	10,032	9,827	9,865
2 Investments	-	-	-
3 Related Party Exposure	941	708	270
4 Current Assets	2,397	2,377	3,235
a Inventories	*177*	*76*	*61*
b Trade Receivables	*581*	*616*	*849*
5 Total Assets	13,370	12,913	13,370
6 Current Liabilities	3,156	3,510	4,330
a Trade Payables	*1,024*	*747*	*1,150*
7 Borrowings	1,780	837	720
8 Related Party Exposure	42	64	93
9 Non-Current Liabilities	2,180	2,756	2,782
10 Net Assets	6,212	5,745	5,445
11 Shareholders' Equity	6,212	5,745	5,445
B INCOME STATEMENT			
1 Sales	4,417	3,837	3,726
a Cost of Good Sold	*(2,986)*	*(2,767)*	*(2,742)*
2 Gross Profit	1,431	1,070	984
a Operating Expenses	(996)	(810)	(875)
3 Operating Profit	435	260	109
a Non Operating Income or (Expense)	*46*	*152*	*238*
4 Profit or (Loss) before Interest and Tax	481	412	348
a Total Finance Cost	*(138)*	*(108)*	*(141)*
b Taxation	*124*	*(3)*	*(6)*
6 Net Income Or (Loss)	467	301	201
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*777*	*727*	*682*
b Net Cash from Operating Activities before Working Capital	*771*	*616*	*575*
c Changes in Working Capital	*(687)*	*168*	*116*
1 Net Cash provided by Operating Activities	84	784	691
2 Net Cash (Used in) or Available From Investing Activities	(696)	(840)	(250)
3 Net Cash (Used in) or Available From Financing Activities	638	65	(95)
4 Net Cash generated or (Used) during the period	26	9	346
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	15.1%	3.0%	--
b Gross Profit Margin	32.4%	27.9%	26.4%
c Net Profit Margin	10.6%	7.8%	5.4%
d Cash Conversion Efficiency (FCFO adjusted for Working C	2.0%	23.3%	21.4%
*e Return on Equity [Net Profit Margin * Asset Turnover * (T*	7.8%	5.4%	3.7%
2 Working Capital Management			
a Gross Working Capital (Average Days)	60	76	89
b Net Working Capital (Average Days)	-13	-14	-23
c Current Ratio (Current Assets / Current Liabilities)	0.8	0.7	0.7
3 Coverages			
a EBITDA / Finance Cost	8.5	11.8	7.6
b FCFO / Finance Cost+CMLTB+Excess STB	0.6	0.5	0.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	3.9	3.1	3.4
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equit	22.7%	13.6%	13.0%
b Interest or Markup Payable (Days)	74.3	35.6	32.2
c Entity Average Borrowing Rate	8.0%	9.3%	14.7%

Credit Rating

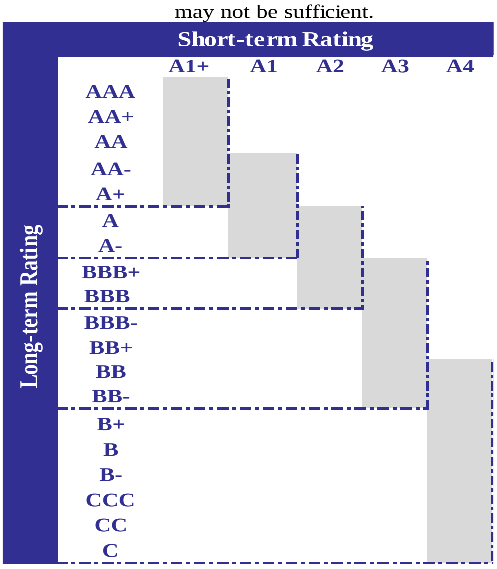
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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 | 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 | 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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