



The Pakistan Credit Rating Agency Limited

Rating Report

Trans World Enterprise Services (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Jun-2022	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Trans World Enterprise Services (Private) Limited (“the Company” or “TES”) ratings reflect an emerging business profile and strapping presence in the telecommunication industry. The core function of TES is to provide reliable internet connectivity services through a scalable FTTH (fiber to the home) network, True IPTV & Voice. TES is backed by Pakistan’s TIER-1 network operator Trans World Associate Limited (“TWA”) which is the parent company and possesses exclusive & consortium ownership of the submarine fiber optic cable networks system and is the leading connectivity provider for Pakistan and Afghanistan. Numerous companies exist in the FTTH market segment where strength is primarily derived by owned and self-laid length of fiber optic cable network. The service period is also a prerequisite for geographical penetration in the market which results in capturing market share in its respective niche. Assigned ratings take comfort from TES association with its parent company TWA. Currently, TES is expanding its operations in all three major cities of Pakistan, namely Lahore, Karachi & Islamabad. The Company has successfully laid almost 4,000 Kms fiber optic and additional 2,000 Kms are in progress. The Company expects sizeable growth in revenues through (FTTH) by leveraging its enhanced area coverage for the acquisition of new customers. Currently, Company has modest losses and expects to achieve break-even during the calendar year 2022. The board of Directors of the company are overseeing the business and besides the quarterly board meetings, BoD members take monthly briefing on the financial performance and network expansion progress. The operations of the Company are augmented by a team of professionals and industry specialists. The company has implemented a robust internal control system across the organization which is complemented by top-notch IT, business insight & intelligence, and financial reporting solutions. The financial risk profile of the Company is characterized by moderate coverages and cashflows. Capital structure is leveraged; encompassed by long-term borrowings and modest equity, however, by 30 June 2022, the parent company has increased its paid-up capital by 44%. Moreover, the holding company intends to further strengthen TES’ equity through a structured mechanism.

The ratings are dependent upon improvements in revenue and profitability while retaining sufficient cashflows and coverages. However, adherence to maintaining its debt matrices at an adequate level is a precondition.

Disclosure

Name of Rated Entity	Trans World Enterprise Services (Pvt.) Limited
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 Communication(May-22)
Rating Analysts	Muhammad Harris Ghaffar harris.ghaffar@pacra.com +92-42-35869504



Profile

Legal Structure Trans world Enterprise Services (Private) Limited (hereinafter referred to as "the Company", "TES") was incorporated in Pakistan as a private limited Company on 28 February 2011 under the Companies Ordinance, 1984.

Background Trans World Enterprise Services (Pvt) Limited (TES) is a wholly-owned subsidiary of Trans World Associates (Private) Limited (TWA). TES was incorporated in 2011, however, it commercially launched FTTH services in 2018. It is the only Company backed by a Tier-1 international network operator in Pakistan, TES is supporting the business-critical communication needs of the industry.

Operations The principal activity of the Company is to provide telecommunication services under the licenses for data Class Value-added services (CVAS) and Fixed Local Loop (LL) in different telecom regions (Karachi, Lahore & Islamabad) issued by Pakistan Telecommunication Authority (PTA).

Ownership

Ownership Structure Trans World Associates (Private) Limited holds 99.99% shareholding in Trans World Enterprise Services (Private) Limited.

Stability The ultimate beneficial ownership of TES is with Saif Group (National Conglomerate). Saif Group was one of the pioneers to introduce GSM technology in Pakistan. Saif group has also made significant investments in various other sectors namely power, health care, textiles, real estate and the oil and gas sector.

Business Acumen Mr. Kamran Malik, the President of the company, has a strong profile relating to the telecom industry. He is a seasoned professional with almost three decades of professional experience. Mr. Malik was instrumental in the Planning and Development of the Trans World international submarine fiber optic network. He has been associated with Transworld since its inception and currently also serves as its President.

Financial Strength Trans World Associates provides strong group support as it holds a 99.99% stake in the TES. TWA has built its reputation by providing reliable backhaul connectivity services to Pakistan's leading ISPs and telecom operators. TWA has revenue of PKR 6bln during Dec-2021.

Governance

Board Structure Board consists of two directors and both are executive directors. None of the higher management members from TES is part of BOD.

Members' Profile All board members have a strong professional background. On average they have more than 25 years of experience.

Board Effectiveness The board has no formal committees. All board members are well professional and have diversified experience in the different market segments related to IT and telecommunication.

Financial Transparency The auditors of the company are KPMG Taseer Hadi & Co, categorized under the 'A' category on the list of SBP list of auditors, issued an unqualified audit opinion on annual financial statements for CY21.

Management

Organizational Structure Trans world has a lean organizational structure with an experienced management team. The majority of the senior management is associated with the company for a long time. The organizational structure of the Company is divided into five functional departments, namely: (i) Finance, (ii) Engineering (iii) Commercial (iv) Hr & Admin & (v) IT.

Management Team The management team of Trans World Enterprise Services (Pvt) Limited are well experienced. Mr. Faisal Abbasi CEO of the Company has more than 30 years of experience and is associated with Transworld Group since 2014.

Effectiveness Currently, TES has no management committees in place. However, they have a well-established dashboard system on power BI to assess the real-time performance and address any shortfall in their performance. The departmental heads have joint sessions every month to discuss the business strategy.

MIS An in-house real-time information/dashboard system exists for TES. TES is perfectly synchronized to the global Internet peering ecosystem via direct connectivity to content providers such as Google, Facebook, Akamai, Netflix, Amazon, and several others. IT infrastructure is divided into six major categories: Infrastructure and network, IT Operation & support, IT governance and business insights, Application development, SAP-ERP & Compliance and Audits.

Control Environment The Company has a stringent control environment, including third-party system audits. They assess the effectiveness and efficiency of the Power BI-based dashboards. TES has established the Cyber Security Framework to effectively identify and address the risks related to Cyber Security within the organization.

Business Risk

Industry Dynamics In Pakistan, an internet provider in the industry mainly consists of Tier-I, Tier-II and Tier-III providers. There are only two companies in Pakistan having their submarine cable, one is PTCL and another one is TWA. These two companies are included in the Tier-I category. After that Tier-II companies, don't have their submarine cables, so they depend upon PTCL and TWA for their internet supply like storm fiber, Multinet, Nayatel, OPTIX & Wateen and Tier-III includes mainly local cable operators. Total internet maximum utilization in Pakistan during March-22 was ~3.77 Tbps, followed by April-22 at 3.16Tbps.

Relative Position Numerous players exist in the FTTH segment. TES has a presence in all three major cities (LHR, KHI & ISB) and its market share is gradually pacing up.

Revenues Company has generated revenue of PKR 2.038bln during CY21 (CY20: PKR 1.504bln) and in 3MCY22 it was PKR 607mln. The surge in sales is mainly on account of an increase in coverage and geographical expansion of the Company. Companies' sales are mainly dominated by internet sales (~95%) and the remaining share is of IPTV sales & Voice.

Margins The segment in which TES operates is a comparatively high gross margin-based service industry. TES has 46.6% GP margin during CY21 (CY20: 42.5%, CY19: 40.5%). This shows a consistent upward trajectory in GP margins from the last three years. The Company has negative NP margins, as Company is in the expansionary phase of the business cycle. TES has a loss after tax of PKR 33mln during CY 21, in CY20 it was PKR 74mln.

Sustainability The Company has prepared financial projections, proper budgeting plans and forecast procurement requirements to set up their annual and long-term targets. They had applied for an LDI license, this will further help them to penetrate the Urban market of Pakistan. They are also a consortium partner and lead arranger in SEA-ME-WE 6 which will further beef up their growth levels. This enables TES to expand as much as they want in accordance with their appetite.

Financial Risk

Working Capital TES has aptly managed its working capital requirements as the company is in its initial growth phase. Their main raw material component is optical fiber and they keep a maximum of 19 days of inventory on average. In future, as Company expands, they need to enhance its inventory levels to meet its upcoming demand. They have laxative terms with their suppliers to pay them around 104-116 days and which is the main factor behind negative net working capital days (CY21: -74 days, CY20: -60 days).

Coverages The Company generates a free cash flow FCFO of PKR~550mln during CY21 (CY20: PKR~376mln, CY19: PKR 181mln). Considering the period of CY20 to CY21 TES has shown a growth of 107%, which is quite encouraging for a Company in an expansionary phase. EBITDA/Finance cost increased from 3.3x to 4.4x during the period of CY20 to CY21.

Capitalization The Company's capital structure is leveraged, 69.4% debt-to-capital ratio in CY21 (CY20: 76.8%). The Company has long-term borrowing of PKR 616mln during CY21. Currently, Company has no short-term borrowing.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Trans World Enterprise Services (Pvt) Ltd Telecommunication	Mar-22 3M	Dec-21 12M	Dec-20 12M	Dec-19 12M
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A BALANCE SHEET

1 Non-Current Assets	2,708	2,603	1,819	1,151
2 Investments	-	-	-	-
3 Related Party Exposure	259	242	183	97
4 Current Assets	854	677	507	426
a Inventories	138	119	93	54
b Trade Receivables	144	117	142	74
5 Total Assets	3,821	3,522	2,509	1,674
6 Current Liabilities	1,698	1,427	934	523
a Trade Payables	878	717	576	283
7 Borrowings	847	847	629	590
8 Related Party Exposure	557	532	481	106
9 Non-Current Liabilities	116	107	129	45
10 Net Assets	602	608	336	409
11 Shareholders' Equity	602	608	336	409

B INCOME STATEMENT

1 Sales	607	2,038	1,504	1,114
a Cost of Good Sold	(313)	(1,089)	(865)	(663)
2 Gross Profit	294	949	639	451
a Operating Expenses	(222)	(786)	(551)	(433)
3 Operating Profit	72	162	89	18
a Non Operating Income or (Expense)	(24)	(38)	11	(4)
4 Profit or (Loss) before Interest and Tax	48	125	99	14
a Total Finance Cost	(40)	(135)	(129)	(92)
b Taxation	(15)	(22)	(44)	(20)
6 Net Income Or (Loss)	(6)	(33)	(74)	(98)

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	250	550	376	181
b Net Cash from Operating Activities before Working Capital Changes	205	488	257	88
c Changes in Working Capital	33	92	42	132
1 Net Cash provided by Operating Activities	238	581	298	221
2 Net Cash (Used in) or Available From Investing Activities	(344)	(914)	(801)	(360)
3 Net Cash (Used in) or Available From Financing Activities	183	385	344	40
4 Net Cash generated or (Used) during the period	77	51	(158)	(99)

D RATIO ANALYSIS

1 Performance				
a Sales Growth (for the period)	19.2%	35.5%	35.0%	89.8%
b Gross Profit Margin	48.4%	46.6%	42.5%	40.5%
c Net Profit Margin	-1.1%	-1.6%	-4.9%	-8.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	46.7%	31.5%	27.8%	28.1%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	-4.2%	-7.0%	-19.8%	-23.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	39	42	44	42
b Net Working Capital (Average Days)	-81	-74	-60	-51
c Current Ratio (Current Assets / Current Liabilities)	0.5	0.5	0.5	0.8
3 Coverages				
a EBITDA / Finance Cost	6.9	4.4	3.3	2.7
b FCFO / Finance Cost+CMLTB+Excess STB	0.8	0.5	0.5	0.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.7	5.1	6.2	8.9
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	70.0%	69.4%	76.8%	63.0%
b Interest or Markup Payable (Days)	68.8	38.7	55.9	41.7
c Entity Average Borrowing Rate	11.4%	10.9%	14.3%	13.2%

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+	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	
BBB-	
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	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.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

(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 | 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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