The Pakistan Credit Rating Agency Limited

Rating Report

Trans World Enterprise Services (Pvt.) Limited

Report Contents

Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Jun-2024	BBB	A2	Stable	Maintain	-
27-Jun-2023	BBB	A2	Stable	Maintain	-
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 robust presence in the telecommunication industry. TES specializes in providing reliable internet connectivity through a scalable Fiber-to-the-home (FTTH) network. Additionally, the Company offers comprehensive Tru TV™ and Voice services, solidifying its reputation for reliability and innovation in the sector. TES is backed by its parent company, Trans World Associate Limited (TWA), Pakistan's TIER-1 network operator. TWA possesses exclusive and consortium ownership of the submarine fiber optic cable network system and is the leading connectivity provider for Pakistan. The company has emerged as a dynamic player in the telecommunications sector, driven by a strategic vision and an unwavering commitment to customer satisfaction. In a technology-driven world, reliable connectivity and quality assurance are pivotal for customer retention. Over time, the company has established a solid reputation in its niche. Currently, the Company is expanding its presence in Lahore, Karachi, and Islamabad, where it enjoys unparalleled dominance in numerous areas. The ratings reflect confidence in the strategic initiatives implemented by management, aimed at achieving sustainable long-term growth. According to the latest data from the Pakistan Telecommunication Authority (PTA) regarding the FTTH segment, as of May 2024, TES holds the 5th position in terms of active subscribers, commanding a market share of 3.8%. The company maintains a robust presence in Lahore and is expanding into new surrounding areas including the new phases of DHA, Cantt, and Paragon City. Assigned ratings also take comfort from association with its parent company TWA. During CY23, the company's topline clocked in at ~PKR 3,639mln, reflecting a growth of ~36.5% (CY22: ~PKR 2,665mln). The growth is primarily attributed to two factors (i) increase in customer base & (ii) increased prices of ~25.9%. The Company expects to sustain its growth trajectory in the (FTTH) by leveraging its enhanced area coverage for the acquisition of new customers. The Company manages 100% of its internet bandwidth requirement from TWA and bandwidth charges are directly pegged in USD which ultimately creates a gap in Sales and Cost of Sales as the selling price is PKR-denominated. The BOD of the holding company oversees the business and besides the quarterly board meetings, BOD members take monthly briefings on the financial performance and network expansion progress. A team of professionals and industry specialists augments the operations of the company. The company has implemented a robust internal control system across the organization, complemented by top-notch IT, business insight & intelligence, and financial reporting solutions. The financial risk profile of the Company is characterized by adequate coverages and cashflows. Capital structure is leveraged; encompassed by long-term borrowings and modest equity, however, during CY23, the parent company injected PKR 706mln in equity through a share deposit to shore up depleted equity levels resulting from accumulated losses.

The ratings are dependent upon improvements in revenue, profitability, and market share 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(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-24)
Related Research	Sector Study | Telecommunication(Jun-24)
Rating Analysts	Sohail Ahmed Qureshi | sohail.ahmed@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. Saad Waraich is the CEO and executive director of the Company and Mr. Aasif Inam is the COO of the company. Both are a seasoned telecom professional with many years of experience in the field of telecom, ICT, software, and services.

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 a revenue of PKR 7.7bln during September 2023.

Governance

Board Structure The TES Board consists of four directors, all well-qualified with extensive experience in the telecommunications sector. Each director brings valuable expertise and insights, ensuring strong leadership and strategic guidance for the company. Their combined knowledge and skills help drive the company's success and growth in the industry.

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 A.F Fergusons & Co., categorized under the 'A' category on the list of SBP list of auditors, issued an unqualified audit opinion on annual financial statements for CY23.

Management

Organizational Structure TES 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 Mr. Aasif Inam has been appointed as the COO of the company, while Mr. Saad Muzzaffar Wraich has taken on the role of President. Both individuals are highly professional and bring diverse experience across various market segments within the IT and telecommunications sectors.

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 enforces stringent controls with third-party audits to assess Power BI dashboard effectiveness. TES's Cyber Security Framework addresses organizational cyber risks. The company also has an Internal Audit Department that ensures effective risk management, governance, and internal controls, recommending improvements and ensuring policy compliance.

Business Risk

Industry Dynamics During CY23, overall revenues for the sector increased by ~17.2% YoY and clocked in at PKR~850bln (CY22: PKR~725bln). 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 (Trans World Associates (Pvt) Ltd. 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 include mainly local cable operators. Total internet maximum bandwidth utilization in Pakistan on April-23 was ~4.8 Tbps. The Chinese firm Sunwalk (Pvt) Limited starts to lay 16,000km long optic cable in a bid to speed up the process of digitalisation and networking in Pakistan

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 The company generated revenue of PKR 3,639mln during CY23 (CY22: PKR 2,665mln), registering a growth of ~35.5%. The surge in sales is mainly on account of increase in prices and more coverage and geographical expansion. 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 39.0% GP margin during CY23 (CY22: 45.7%). 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 80mln during CY23, in CY22 it was PKR 204mln mainly due to the impact of unrealized exchange losses and high interest rates.

Sustainability The Company has prepared financial projections, proper budgeting plans and forecast procurement requirements to set up their annual and long-term targets. Their parent Company 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. The Company's performance in terms of topline is aligned with their earlier shared financial projections

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 13 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 144 days and which is the main factor behind negative net working capital days (CY22: -73 days, CY21: -74 days).

Coverages The Company generates a free cash flow FCFO of PKR~795mln during CY23 (CY22: PKR~673mln). Considering the period of CY22 to CY23 TES has shown a growth of 18%, which is quite encouraging for a Company in an expansionary phase. EBITDA/Finance cost is 2.5x during CY23.

Capitalization The Company's capital structure is leveraged, 46.6% debt-to-capital ratio in CY23 (CY22: 68%). The Company has long-term borrowing of PKR 1,066mln during CY23 and current maturity of ,long-term debt of PKR 176mln. Currently, the Company has no short-term borrowing.

PKR mln

Trans World Enterprise Services (Pvt) Ltd Communication	Dec-23 12M	Dec-22 12M	Dec-21 12M
A BALANCE SHEET			
1 Non-Current Assets	3,868	3,342	2,603
2 Investments	-	-	-
3 Related Party Exposure	208	257	242
4 Current Assets	1,688	940	677
a Inventories	*154*	*111*	*119*
b Trade Receivables	*154*	*229*	*117*
5 Total Assets	5,765	4,539	3,522
6 Current Liabilities	2,873	1,768	1,427
a Trade Payables	*1,887*	*975*	*717*
7 Borrowings	1,242	1,096	847
8 Related Party Exposure	7	618	532
9 Non-Current Liabilities	213	251	107
10 Net Assets	1,430	806	608
11 Shareholders' Equity	1,430	806	608
B INCOME STATEMENT			
1 Sales	3,639	2,665	2,038
a Cost of Good Sold	*(2,219)*	*(1,446)*	*(1,089)*
2 Gross Profit	1,420	1,219	949
a Operating Expenses	(1,161)	(999)	(786)
3 Operating Profit	259	220	162
a Non Operating Income or (Expense)	*(46)*	*(160)*	*(38)*
4 Profit or (Loss) before Interest and Tax	213	60	125
a Total Finance Cost	*(377)*	*(256)*	*(135)*
b Taxation	*84*	*(7)*	*(22)*
6 Net Income Or (Loss)	(80)	(204)	(33)
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*795*	*673*	*550*
b Net Cash from Operating Activities before Working Capital	*696*	*565*	*488*
c Changes in Working Capital	*609*	*100*	*92*
1 Net Cash provided by Operating Activities	1,306	665	581
2 Net Cash (Used in) or Available From Investing Activities	(871)	(860)	(914)
3 Net Cash (Used in) or Available From Financing Activities	(77)	231	385
4 Net Cash generated or (Used) during the period	357	36	51
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	36.5%	30.8%	35.5%
b Gross Profit Margin	39.0%	45.7%	46.6%
c Net Profit Margin	-2.2%	-7.6%	-1.6%
d Cash Conversion Efficiency (FCFO adjusted for Working C	38.6%	29.0%	31.5%
*e Return on Equity [Net Profit Margin * Asset Turnover * (T*	-7.1%	-28.8%	-7.0%
2 Working Capital Management			
a Gross Working Capital (Average Days)	33	39	42
b Net Working Capital (Average Days)	-111	-76	-74
c Current Ratio (Current Assets / Current Liabilities)	0.6	0.5	0.5
3 Coverages			
a EBITDA / Finance Cost	2.5	3.1	4.4
b FCFO / Finance Cost+CMLTB+Excess STB	0.5	0.5	0.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	5.5	5.8	5.1
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equit	46.6%	68.0%	69.4%
b Interest or Markup Payable (Days)	0.0	0.0	38.7
c Entity Average Borrowing Rate	22.3%	16.2%	10.9%

Credit Rating

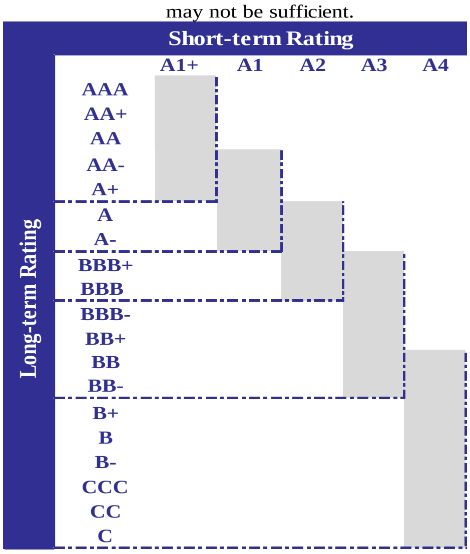
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

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

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