



The Pakistan Credit Rating Agency Limited

Rating Report

Trans World Associates (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
01-Sep-2023	A	A1	Stable	Maintain	-
02-Sep-2022	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Trans World Associates (Pvt.) Limited (“the Company” or “TWA”) is principally engaged in establishing, maintaining and operating a private fiber optic submarine cable system, and landing station and provide telecommunication services under the license issued by the Pakistan Telecommunication Authority (PTA). The Company is a subsidiary of Orastar Limited, who increased its shareholding to 90% during January 2022 after the purchase of 51% shareholding from Orascom Investment Holding. Primarily, there are only two companies in Pakistan having direct access to the submarine fiber optic cable network, PTCL and TWA. TWA is the only private telecom Tier-I operator (which is backed by owned and self- laid submarine cable network) in Pakistan which owns a 1,300 KM submarine cable system TW1 and they are also a consortium member of the 20,000 KM fiber optic cable system SEA-ME-WE 5 with branch landing in Karachi. All internet traffic in Pakistan largely comes through PTCL and TWA. TWA has built its reputation by providing reliable backhaul connectivity services to Pakistan’s leading ISPs and telecom operators. During CY22, the topline clocked in at ~PKR 8,744mln, reflecting a growth of ~32.4%. The company’s revenue which are invoiced in USD, have contributed to the steady growth of its topline growth. This growth is also attributed to the increased utilization of bandwidth. Pakistan Telecommunication Authority (PTA) latest data related to internet maximum utilization revealed that, in April-23 Pakistan witnessed a remarkable surge in internet usage, reaching a peak utilization of approximately 4.8 Terabits per second (Tbps), compared to the previous year’s April figure of around 3.8Tbps. The elevated trend of online media streaming can be attributed to the increased usage of the internet. The board of TWA is more of an advisory nature as all members are well-experienced and possess technical expertise along with strapping industry- specific experience. BoD members take monthly briefings on the financial performance and 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. IPT (Internet Protocol Transit) lease is TWA’s prime product and the core strength of the Company lies in its after-sales support and quality service assurance. The Company is achieving diversification through their wholly owned subsidiary TES by providing (FTTH) and integrating vertically close-to-end consumers. TWA is also a consortium member in SEA-ME-WE 6 (under construction) which is set forth for sustainable future growth. It’s anticipated that the project will reach its completion by the end of CY25. The Company’s financial risk profile is considered adequate with comfortable coverages, cashflows and working capital cycle. Capital structure is moderately leveraged where borrowings are mainly comprised of long-term borrowings to support network and capacity expansion.

The ratings are dependent upon sustainability in Company’s revenue, margins, profitability and vigorous financial matrix. As the capital structure becomes leveraged, maintenance of sound financial discipline is imperative to hold.

Disclosure

Name of Rated Entity	Trans World Associates (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),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Communication(May-23)
Rating Analysts	Sohail Ahmed Qureshi sohail.ahmed@pacra.com +92-42-35869504

Profile

Legal Structure Trans World Associates (Private) Limited ("the Company"/ "Transworld"/ "TWA") was incorporated in Pakistan as a Private Limited Company on October 01, 1980, under the Companies Act, 1913 (now Companies Act, 2017).

Background The Company was a subsidiary of Orascom Investment Holding S.A.E (OIH), Egypt with 51% holding. In January 2022 OIH divested its shareholding to Orastar Limited, an existing shareholder of the Company. TWA commenced operations in 2006 and is the only operator in Pakistan that owns its 1,300 KM submarine cable system TW1. It is also the consortium member of the 20,000 KM fiber optic cable system SEA-ME-WE 5 with a branch landing in Karachi.

Operations The Company's principal activity is to establish, operate and maintain a private fiber optic submarine cable system, and landing station and provide telecommunication services under the license issued by Pakistan Telecommunication Authority (PTA).

Ownership

Ownership Structure The Orastar Limited holds 90.0% shareholding in the Company and the remaining 10% by Dr. Omar Bin Abdul Muniem Al Zawawi (Late) heirs. Orastar is a B.V.I Company owned by a trust, which is listed on the London stock exchange.

Stability The majority shareholding of TWA is with Orastar Limited. Orastar is an institutional investor focusing on Private Equity mostly in the unlisted tech, IT, and Power Generation space Orastar increased its ownership position in TWA to 90% in January 2022, showing its trust in Pakistan's telecoms and IT sector.

Business Acumen Mr. Junaid Iqbal Khan, the new CEO of the Company, has a strong profile relating to the telecom industry. He is a seasoned professional with almost three decades of experience with some of the largest cellular and fixed-line operators. He has extensive operational experience in the emerging market telecom industry.

Financial Strength TWA has built its reputation by providing reliable backhaul connectivity services to Pakistan's leading ISPs and telecom operators. On a consolidated basis, the Company has generated revenue of ~PKR 11.27bln in CY22 (CY21: ~PKR8.6bln).

Governance

Board Structure The Board consists of seven directors which include five non-executive and two executive directors. Mr. Junaid Iqbal is the CEO of the Company and acts as a nominee non-executive director.

Members' Profile All board members have a strong professional background. On average they have more than 45 years of professional experience.

Board Effectiveness The board currently has two committees i.e., Financial & Audit Committee and Technical Committee. All board members are well-professional and have diversified experience in the different market segments related to IT, telecommunication, and banking.

Financial Transparency The auditors of the Company are A. F. Ferguson & Co. categorized under the 'A' category on the list of SBP list of auditors. Previously auditors were KPMG Taseer Hadi & Co Chartered Accountants who issued an unqualified audit opinion on annual financial statements for CY22.

Management

Organizational Structure TWA 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 six functional departments, namely: (i) Finance, (ii) Engineering (iii) Commercial (iv) Hr & Admin (v) IT & (vi) Government Relations.

Management Team The management team of Transworld is well-experienced. Mr. Naveed Ahmed Malik, CFO of the Company, has 30 years of experience and has been associated with Transworld Group since 2010

Effectiveness Currently, TWA has a procurement committee in place. Besides, they have a well-established dashboard system on Power BI to assess 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 TWA. IT infrastructure is divided into six major categories: Infrastructure and network, IT Operation & support, IT governance and business insights, Application development, SAP-ERP & Cyber Security 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. TWA 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. Primarily, there are 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 Storm Fiber, Multinet, Nayatel, OPTIX & Wateen and Tier-III includes mainly local cable operators. Total internet maximum utilization in Pakistan during April-23 was ~4.8Tbps.

Relative Position In the carrier and international business segment, TWA and PTCL primarily exists. Pakistan's domestic bandwidth demand is largely met through these two players. TWA has a competitive advantage on low latency rates.

Revenues The Company generated revenue of PKR 8.744bln during CY22 (CY21: PKR 6.604bln). Revenue is driven from Karachi, Lahore, Islamabad and International customers. During CY22, Segment-wise revenue is mainly contributed by the international business of PKR 3bln, followed by the carrier segment of PKR 2.9bln and the Wholesale segment of PKR 1bln.

Margins TWA has a 52.4% gross profit margin during CY22 (CY21: 53.9%) and the Company has a net profit margin of 25.6% during CY22 (CY20: 20.4%) reflecting strong bottom-line profitability.

Sustainability The Company has prepared financial projections, proper budgeting plans, and forecast procurement requirements to set up their annual and long-term targets. TWA is constantly working on upgrading its domestic long haul and metro networks for which the LDI license has already been approved by PTA and is currently under the issuance process. This will further help them to penetrate the Urban markets of Pakistan. They are also a consortium member of SEA-ME-WE 6 (under construction) which will further beef up their growth levels. This enables TWA to expand as much as they want in accordance with their appetite.

Financial Risk

Working Capital TWA has efficiently managed its working capital requirements as the Company is in its expansion phase. Their main spare parts component is spare parts of generators, chillers at landing stations, Oil stock etc. and they keep a minimum of 21 days of oil stock on average. The Company has a net working capital day of 77 (146 trade receivables days, 70 trade payable days) during CY22. The major chunk of receivables and payables are mainly due from a single party, which is expected to be netted off in near future.

Coverages The Company generates a free cash flow FCFO of PKR~3.855bln during CY22 (CY21: PKR 3.031bln, CY20: PKR 2.4bln). Considering the period of CY19 to CY22 TWA has shown a consistent growth in its cash flows which is quite encouraging for a Company expanding its operations. EBITDA/Finance cost increased from 9.1x to 9.5x during the period of CY21 to CY22.

Capitalization The Company's capital structure is leveraged, 51.9% debt to-capital ratio in CY22 (CY21: 23.4%). The Company has long-term borrowing of PKR 7.6bln and has short-term borrowings of PKR 1.71bln during CY22.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Trans World Associates (Pvt) Limited Communication	Dec-22 12M	Dec-21 12M	Dec-20 12M
A BALANCE SHEET			
1 Non-Current Assets	17,527	9,997	10,099
2 Investments	1,813	-	132
3 Related Party Exposure	2,258	1,808	1,534
4 Current Assets	5,522	3,604	3,303
<i>a Inventories</i>	0	1	1
<i>b Trade Receivables</i>	4,211	2,789	2,063
5 Total Assets	27,120	15,409	15,069
6 Current Liabilities	4,417	2,864	2,315
<i>a Trade Payables</i>	2,038	1,295	1,040
7 Borrowings	10,335	2,393	3,719
8 Related Party Exposure	-	-	178
9 Non-Current Liabilities	2,804	2,325	2,379
10 Net Assets	9,564	7,828	6,478
11 Shareholders' Equity	9,564	7,828	6,478
B INCOME STATEMENT			
1 Sales	8,744	6,605	5,588
<i>a Cost of Good Sold</i>	(4,161)	(3,047)	(2,788)
2 Gross Profit	4,583	3,558	2,800
<i>a Operating Expenses</i>	(1,037)	(1,116)	(789)
3 Operating Profit	3,545	2,442	2,012
<i>a Non Operating Income or (Expense)</i>	132	(25)	(59)
4 Profit or (Loss) before Interest and Tax	3,677	2,416	1,953
<i>a Total Finance Cost</i>	(638)	(560)	(696)
<i>b Taxation</i>	(801)	(507)	(360)
6 Net Income Or (Loss)	2,238	1,350	897
C CASH FLOW STATEMENT			
<i>a Free Cash Flows from Operations (FCFO)</i>	3,855	3,031	2,400
<i>b Net Cash from Operating Activities before Working Capital</i>	3,845	2,714	1,937
<i>c Changes in Working Capital</i>	(97)	(502)	(675)
1 Net Cash provided by Operating Activities	3,748	2,212	1,262
2 Net Cash (Used in) or Available From Investing Activities	(8,143)	(607)	(699)
3 Net Cash (Used in) or Available From Financing Activities	6,583	(2,053)	(569)
4 Net Cash generated or (Used) during the period	2,187	(448)	(6)
D RATIO ANALYSIS			
1 Performance			
<i>a Sales Growth (for the period)</i>	32.4%	18.2%	-1.8%
<i>b Gross Profit Margin</i>	52.4%	53.9%	50.1%
<i>c Net Profit Margin</i>	25.6%	20.4%	16.0%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Ca</i>	43.0%	38.3%	30.9%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (To</i>	25.7%	18.9%	14.5%
2 Working Capital Management			
<i>a Gross Working Capital (Average Days)</i>	146	134	105
<i>b Net Working Capital (Average Days)</i>	77	70	43
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	1.3	1.3	1.4
3 Coverages			
<i>a EBITDA / Finance Cost</i>	9.5	9.1	5.1
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.7	2.0	1.4
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fin</i>	2.5	0.9	1.9
4 Capital Structure			
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity</i>	51.9%	23.4%	37.6%
<i>b Interest or Markup Payable (Days)</i>	262.3	42.4	40.5
<i>c Entity Average Borrowing Rate</i>	9.7%	10.4%	13.1%

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+	
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-	
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.
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	
CC	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.
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):
 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

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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

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(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)

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(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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