



## The Pakistan Credit Rating Agency Limited

### Rating Report

**Pakistan Mobile Communications Limited | PPSTS | PKR 15bln | Apr-24**

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-May-2024	AA	A1	Stable	Initial	-
29-Feb-2024	AA	A1	Stable	Preliminary	-
29-Aug-2023	AA	A1	Stable	Preliminary	-

#### Rating Rationale and Key Rating Drivers

The ratings incorporate the vigorous business profile of Pakistan Mobile Communications Ltd (“PMCL or the Company”) represented by its leading market share of ~37% with ~72 million cellular subscribers as of April 24. Company is expanding its revenue streams with the establishment of a new data center, aimed at delivering state-of-the-art data hosting services in Pakistan. The Telecom sector posted revenue growth during CY23 which is mainly due to price inflation, however, financial performance remained subdued due to macroeconomic challenges resulting in a high cost of doing business. During CY23 the topline of the company posted ~19.9% growth, due to a better pricing strategy which helped to improve average revenue per user (ARPU). However, margins posted a decline, mainly due to cost-push inflation, foreign exchange loss, and soaring borrowing costs. During the period under review, PMCL has expanded its 4G network with 1000 new 4G sites. Currently, there are 133 million 3G/4G subscribers and PMCL holds its position as a market leader in this segment as well. The Company's financial risk profile showed dilution, with modest cashflows and coverages. Capital structure is leveraged and comprises long-term borrowings. The parent company reportedly has ample cashflows and therefore there are no significant risks leading to its continued operations or any tickle-down effect on PMCL.

The ratings are dependent upon the sustenance of a leading market position, robust revenue growth and profitability, and a sound financial matrix. As capital structure becomes leveraged, maintenance of sound financial discipline is imperative to hold.

#### Disclosure

<b>Name of Rated Entity</b>	Pakistan Mobile Communications Limited   PPSTS   PKR 15bln   Apr-24
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Debt Instrument Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jul-23),Methodology   Debt Instrument Rating(Dec-23),Methodology   Rating Modifiers(Apr-24)
<b>Related Research</b>	Sector Study   Communication(May-23)
<b>Rating Analysts</b>	Kanwal Ejaz   kanwal.ejaz@pacra.com   +92-42-35869504

## Issuer Profile

**Profile** Pakistan Mobile Communications Limited ("PMCL" or "the Company") was incorporated in December 1990 as private limited entity, and commenced operations in August, 1994. In February 2005, the Company changed its status from a private limited company to a public limited company. PMCL was initially also rated by international rating agencies due to its foreign debt exposure. The Company is the largest cellular telecommunication service provider in the country engaged in the installation, operation and maintenance of a countrywide GSM cellular network under the brand name Jazz.

**Ownership** VEON owns 100% shareholding of the company, 85% through wholly owned subsidiary International Wireless Communications Pakistan Ltd and 15% stake through another wholly owned subsidiary VEON Pakistan Holdings B.V. VEON offers a wide range of wireless, fixed, and broadband services to over ~158.7mln customers in 7 countries. The group (formerly Vimplecom) has rebranded to VEON by revitalizing its business operations from telecom to wider technology platforms in order to penetrate diversified streams.

**Governance** PMCL's Board of Directors comprises eight members including Chief Executive Officer. All are seasoned professional with vast experiences. PMCL's Auditors, KPMG Taseer Hadi & Co. has expressed an unqualified opinion on the Company's financial statements for the year ended December 31, 2023.

**Management** PMCL has a well-defined organizational structure and different operational activities are properly segregated and managed through different departments. The department heads report to the CEO & respective heads at Veon. Mr. Aamir Ibrahim (CEO) has over two decades experience in blue chip companies across various countries and industries, but majority of telecom sector. The Company has established strong systems and controls & continuously improving under the guidance of Veon. As Veon is listed on New York Stock Exchange (NYSE) and companies listed on the New York Stock Exchange (NYSE) are generally required to comply with the Sarbanes-Oxley Act (SOX) and must establish and maintain effective internal controls over financial reporting, have independent audit committees, and comply with various reporting and disclosure requirements outlined by SOX. Report generation has been optimized to bring efficiency. Furthermore, the group has been directed to bring PMCL under the global reporting system (GRS) which will be centralized at Veon. The management of PMCL reports at the Group level on a monthly basis via presentations on performance and key KPIs.

**Business Risk** The country's total number of cellular subscribers reached to ~192 million users by April 24 (penetration of ~80% of the total market) while 3G/4G subscribers reached to 133 million users (penetration of 55%). The rate of growth in 3G/4G subscribers has been impressive in the last few years. The company relishes on a share of ~37% in market cellular subscribers followed by Zong which has a 25% market share, Telenor with a 24% market share, and Ufone has a 13% of market share respectively. Jazz also leads the market in terms of 3G/4G subscribers, Jazz 4G subscribers stood at ~47.5mln by the end of April-24. During CY23, PMCL's revenue clocked at PKR ~308,175mln (CY22: ~261,621mln). In terms of ARPUs, the average voice ARPU was recorded at PKR ~66 per user in CY23 (CY22 PKR ~58), average data ARPUs recorded at PKR ~200 per user in CY23 (CY22: ~170).

**Financial Risk** The Company's business is cash-centric, as witnessed by an EBITDA to Sales ratio of ~46% as at CY23 (CY22: 51%). During CY23, the company's FCFO clocked at PKR ~103,800mln (CY22: PKR ~81,705mln). The company's Total Borrowings/Borrowings plus Equity is ~ 53% as at CY23 (CY22:~50%).

## Instrument Rating Considerations

**About The Instrument** Pakistan Mobile Communications Limited ("PMCL" or "the Company") issued rated, unsecured, privately placed short term sukuk. The issue amount is PKR 15,000mln and disbursed at a face value of PKR 1,000,000 each or in multiple thereof. The funds will be utilized for general corporate purposes, including but not limited to capital expenditure and license related payments. The tenor shall be six (06) months from the Issue Date of each tranche. Similarly, principal to be redeemed as bullet payment six (06) months after the issue date. Profit rate is set at Base Rate + 25 bps p.a. with a Floor of 5% & a Cap of 30%. Profit will be payable at Maturity of the Issue and will be calculated on a 365/366 -day year basis.

**Relative Seniority/Subordination Of Instrument** The claims of the Sukuk holders is ranked superior to the claims of ordinary shareholders.

**Credit Enhancement** The Sukuk is rated, unsecured, and privately placed issued as redeemable capital under Section 66 of the Companies Act 2017



PAKISTAN MOBILE COMMUNICATIONS LIMITED COMMUNICATIONS	Dec-23 12M	Dec-22 12M	Dec-21 12M	Dec-20 12M
<b>A. CAPITAL STRUCTURE</b>				
1 Share Capital	48,019	48,019	48,019	48,019
2 Shareholder's Equity	129,105	152,931	148,778	145,488
a. Total Borrowings/(Total Borrowings + Equity)	53%	49.5%	37.1%	31.8%
<b>B. BUSINESS ANALYSIS</b>				
1 Sale	308,175	261,621	228,927	199,280
a. Sale Growth	19.3%	14.3%	14.9%	0.9%
b. Revenue to Equity	6.4	5.4	4.8	4.2
2 Profit or (loss) before interest and tax	82,847	81,084	60,680	64,357
3 Net Income or (Loss)	1,175	23,905	26,298	35,931
a. Net profit Margin	0.4%	9.1%	11.5%	18%
b. Return on Equity	0.9%	16%	18%	25%
c. Current ratio	0.28	0.33	0.28	0.17
<b>C. CASH FLOW POSITION</b>				
1 Earnings before Interest, Tax, Depreciation and Amortization (EBITDA)	140,680	134,047	104,567	99,188
a. Cash Conversion Efficiency(EBITDA/Sales)	46%	51%	45.7%	49.8%
2 Free Cash Flow from Operations (FCFO)	103,800	81,705	62,691	57,312
a. Cash Conversion Efficiency (FCFO/Sales)	34%	31%	27.4%	28.8%

### 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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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	<b>High credit quality.</b> 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	<b>Good credit quality.</b> 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	<b>Moderate risk.</b> 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	<b>High credit risk.</b> 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	<b>Very high credit risk.</b> 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

### **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**

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## Regulatory and Supplementary Disclosure

Name of Issuer	Pakistan Mobile Communications Ltd
Issue Date	24-Apr-24
Maturity	6 Months
Option	NA

Tentative Due Date Principal*	Opening Principal	Principal Repayment* (Inclusive of Profit AMT)	Due Date Markup/ Profit* (Tentative)	Markup/Profit rate (Tentative)	Base Kibor Rate Plus 25 bps	Markup/Profit Payment (Tentative)	Installment Payable	Principal Outstanding
	PKR in mln					PKR in mln		
24-Oct-24	15,000	16,653	24-Oct-24	22.04%	22.04%	1,653	16,653	-
<b>Total</b>		<b>16,653</b>				<b>1,653</b>	<b>16,653</b>	

*Above calculation is tentative and subject to quarterly revision of base rate (i.e. 3MK)*