The Pakistan Credit Rating Agency Limited

Rating Report

ARY Communications Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
12-Mar-2024	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

ARY Communications Limited ('ARY' or the 'Company') is part of the ARY group, holds a robust market position, broadcasting different channels across Pakistan. The Company has subsidiaries namely; ARY Films & TV Productions Private Ltd., which produces the television content for all the channels and ARY Films Private Ltd., which is indulge in films production and distribution business. Leveraging content acquisition strategies, ARY maintains the prominence of its star channels namely, i) ARY Digital and ii) ARY News, which have retained their position according to their genre for long. ARY Digital ranks no.1 and has 30% viewership share in Entertainment channels whereas, ARY News ranks no.2 and has 17% viewership share in News channels , source; Aurora Nov-Dec 23 edition. ARY has also launched a sports channel namely ASports, first HD sports channel in Pakistan, currently holds exclusive broadcasting rights of PSL for 2 years, season 9 & 10. The ratings derive comfort from experienced sponsors and relatively high market share over the years. The Media industry in Pakistan has seen a substantial increase in number of advertising platforms. TV channels and other platforms require engaging content to attract viewership and secure advertisements. During FY23, total advertising spent stood at PKR 100bln (FY22: 88.73bln) and has been increasing steadily over the years. The TV advertisement has scooped up the major portion standing at PKR 43.41bln capturing 43.34% (FY22: PKR 38.64bln | 43.55%) of the total advertising spend. As at FY23, there are 140 active TV channels (FY22: 132) however, few channels have made themselves renowned and gained impressive viewership leading to securing more and high paying advertisements. Top 5 Pakistani channels are i) ARY Digital, ii) Geo Entertainment, iii) Hum TV, iv) Geo News, and v) ARY News. The Company derives revenue from only Advertisements and holds ~26% market share in terms of revenue to total advertisement spend on T.V. During FY23, the Company revenues has sustained its growth pattern and stood at PKR 11bln (FY22: PKR 9.9bln). Moreover, the margins have showed significant increase and gross margins increased to 25% (FY22: 11%) and net margins increased to 12% (FY22: 5%). Working capital management is anchored by the prolonged receivables however, significant room to borrow gives cushion to the ratings. The Coverages have showed exponential growth at end Jun-23 and interest coverage stood strongly at 30.7x (FY22: 2.9x). Capital structure has remained on the lower side over the years and at Jun-23 stood strongly at 4.9% (FY22: 1.4%). Sponsors invested efforts in blooming and willingness to ensure the Company's exponential growth gives comfort to the ratings.

The ratings are dependent on the management's ability to sustain the market position amidst considerable competition and changing business environment. Moreover, diversity in topline along with investment book supporting the bottom line will be beneficial for the ratings.

Disclosure

Name of Rated Entity	ARY Communications 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-23)
Related Research	Sector Study | Media(Mar-24)
Rating Analysts	Shujat Ehsanullah Wasim | Shujat.Ehsan@pacra.com | +92-42-35869504

Profile

Legal Structure ARY Communications limited (the 'Company' or 'ARY') was incorporated in Pakistan in October, 2001 as Private Limited Company under Companies Ordinance 1984 (now Companies Act, 2017). Later on, in September, 2008 the Company changed its status to Public Unlisted Company.

Background ARY began business with trade of Pakistani products such as Textile, Rice, Pickles and many other things in middle east, along with the trading gold for third parties in Pakistan and other countries. In 1974 ARY group was formally made and after a decade, ARY group created gold bars with branding of "ARY Gold 999, Dubai". Later on, ARY group took over 'Pakistani channel' based in UK in late 1999 and rebranded it as 'ARY Digital' in midyear of 2000. ARY started its operations in Pakistan in Sep 2001 making it the second Pakistani satellite television channel to be launched after PTV, the state broadcaster.

Operations ARY is one of the largest satellite television network of Pakistan, beaming through its channels into the length & breadth of the Country, covering all type of content available among the television viewers. The Company has obtained Encrypted Satellite TV Channel license from Pakistan Electronic Media Regulatory Authority ('PEMRA'). The Company has seven channels, i) ARY News, ii) ARY Digital, iii) ARY QTV, iv) ARY Zindagi, v) ASports, vi) Nickelodeon, & vii) ARY Musik. To support the operations the Company has formed two subsidiaries namely, i) ARY Films & TV Productions (Pvt.) Limited, ii) ARY Films (Pvt.) Ltd.

Ownership

Ownership Structure The Company is a family-owned venture with ~99% shareholding under grasp. Major shareholding resides with ARY Digital FZ-LLC at ~46%, a company registered in UAE which in turn is owned by Mr. Salman Iqbal, accumulating to ~65% of the total shareholding. Rest of the shareholding resides within the family and ~1% is outside the family.

Stability The sponsor family has a long-term association with the Company and the structure is seen stable as the second generation has been successfully integrated into the family business. Formal succession planning is not documented.

Business Acumen The sponsoring family has successfully penetrated into different streams of businesses including Gold, real estate, media, and consultancy for over 7 decades. The current sponsors are in the media industry for over 2 decades and have led to the prominence of the Company.

Financial Strength The sponsors hold adequate financial strength to support the Company in times of distress.

Governance

Board Structure The Board is dominated by the shareholders of the Company. The Board constitutes 2 Executive Directors, 5 Non-executive Directors. Mr. Salman Iqbal Chairs the board as well as spear heads the Company as the CEO.

Members' Profile Mr. Salman Iqbal, from the sponsoring family and nephew of Abdul Razzak Yaqoob leads the Company as the BOD Chairman/ CEO. He is a graduate of Finance from University of Houston. In early 2022, he has received Sitara-e-Imtiaz, and Young Global Leader award for 2007 by the World Economic Forum.

Board Effectiveness The Board is assisted by three sub-committees namely, i) Audit Committee (meets on quarterly basis & as required) ii) HR Committee (meets on semi-annual basis & as required) and iii) Risk Committee (Quarterly & as required). Minutes of the BOD and committee meetings are adequately documented.

Financial Transparency The external auditors of the Company, RSM Avais Hyder Liaquat Nauman Chartered Accountants, have expressed an unqualified opinion on the financial statements of the Company for the year ended Jun-23. The firm is QCR rated placed in category 'A' of the SBP's panel of auditors.

Management

Organizational Structure The Company has a well-defined organizational structure and segregation of duties. All the departmental heads report to the Head of Media Business, who then reports to the CEO along with CFO. The CEO then briefs the Board. Head of Internal Audit reports to the Audit Committee.

Management Team Mr. Salman Iqbal, from the sponsoring family and nephew of Abdul Razzak Yaqoob leads the Company as the BOD Chairman/ CEO. He is a graduate of Finance from University of Houston. In early 2022, he has received Sitara-e-Imtiaz, and Young Global Leader award for 2007 by the World Economic Forum. Mr. Jerjees Seja, a renowned producer in the media industry is the Head of Media Business. Mr. Minhas Muhammad Hassan acts as the CFO & Company Secretary.

Effectiveness The Company has no formal management committees. The senior management meets on need basis, however, regularly.

MIS The Company has implemented in-house developed ERP system back in 2007 and has received continuous upgrades and additions according to the needs. Main modules of the ERP are, i) Financial Solutions, ii) Media Management System, and iii) Inflow. Moreover, the Company has also implemented Time Trax, an HR module to help the payroll process.

Control Environment The Company has an inhouse internal audit department reporting to the BOD committee. The meetings are held on quarterly basis with adequately documented internal audit reports.

Business Risk

Industry Dynamics The Media industry in Pakistan has seen a substantial increase in number of platforms where different Businesses can advertise themselves to reach out more to the consumers. TV channels and other platforms require fruitful content to capture the viewership which in turn support the platform to gain and retain the advertisements broadcasted. During FY23, total advertising spent stood at PKR 100bln (FY22: 88.73bln) and has been increasing steadily over the years. The TV advertisement has scooped up the major portion standing at PKR 43.41bln capturing 43.34% (FY22: PKR 38.64bln | 43.55%) of the total advertising spend. As at FY23, there are 140 active TV channels (FY22: 132) however, few channels have made themselves renowned and gained impressive viewership leading to securing more and high paying advertisements. Top 5 Pakistani channels are i) ARY Digital, ii) Geo Entertainment, iii) Hum TV, iv) Geo News, and v) ARY News.

Relative Position ARY Communications is a prominent leader in the industry with ~26% Market share in terms of revenue.

Revenues The topline of the Company comprises of advertisement revenue. The topline of the Company has shown consistent growth over the years. During FY23, the net revenue of the Company stood at PKR 11bln (FY22: PKR 9.9bln). During 6MFY24, the Company's topline stood at PKR 6.8bln.

Margins During FY23, the Company's margin surged and gross margin stood at ~25% (FY22: 11%) on the back of efficient cost control. Similarly, operating margins showed an upward trend and booked at ~18% (FY22: 5.4%). At net level, the Company's net income witnessed significant increase and stood at PKR 1,335mln (FY22: 473mln) on the back of better revenue. Resultantly, net margins improved to 12% (FY22: 4.7%). During 6MFY24, the Company's gross and net margin stood at 30.7% and 16.6% respectively.

Sustainability Media Channel sustainability depends to gain a competitive advantage over their competitors. ARY's proven ability to increase their viewing times over a period along with experienced promoters with the long track record in broadcasting industry showcases sustainability.

Financial Risk

Working Capital The Company's working capital is managed through its own cashflows with minimal reliance on borrowings. At June-23, STB stood at PKR 297mln (FY22: PKR 0). The Company has prolonged receivable days whereas the payable days are kept to the minimum. At June-23, receivable days stood at 211 days (FY22: 198 days) and payable days were kept at 7 days (FY22: 4 days). Resultantly, net working capital days showed a very weak position and stood at 204 days (FY22: 195 days). With prolonged receivables, consequently accumulating trade assets along with minimal borrowings over the years showcased excellent borrowing limits. Resultantly, short term trade and total leverage stood at 90% and 71% respectively (FY22: 95% & 77%), providing cushion to the overall working capital management. At Dec23, the receivable days stood at 199 days and net working capital days stood at 192 days.

Coverages The Company's cash flows & coverages have remained mixed through the years and witnessed improvement, lately, owing to higher FCFO's and lower finance cost. At June-23, FCFO's surged to PKR 2,010mln (FY22: PKR 226mln) backed by high PBT and finance cost was recorded at PKR 66mln (FY22: PKR 77mln). As a result, interest coverage improved to 30.7x (FY22: 2.9x). The Company's core & total operating coverage witnessed similar improvement and stood at 16.1x (FY22: 2.1x). At Dec23 the Company's interest coverage stood at 35.3x.

Capitalization The Company reliance on borrowings is very low. Total borrowings at Jun-23 stood at PKR 412mln (FY22: PKR 89mln) out of which STB stood at PKR 297mln (FY22: PKR 0mln) comprising 72% of the total borrowings (FY22: PKR 0%). With an equity base of PKR 7,922mln (FY22: PKR 6,442mln) the leveraging over the period have showcased an excellent trend and stood at 4.9% at June-23 (FY22: 1.4%). At Dec-23, the leveraging of the Company stood at 10.1%.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

ARY Communications Limited Media	Dec-23 6M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	1,127	1,126	615	214
2 Investments	-	-	-	-
3 Related Party Exposure	2,865	2,182	1,848	2,728
4 Current Assets	9,790	8,943	7,358	6,665
a Inventories	-	-	-	-
b Trade Receivables	*7,822*	*7,189*	*5,673*	*5,170*
5 Total Assets	13,781	12,250	9,821	9,607
6 Current Liabilities	2,035	2,285	1,663	1,681
a Trade Payables	*253*	*253*	*154*	*38*
7 Borrowings	1,015	412	89	968
8 Related Party Exposure	175	199	667	128
9 Non-Current Liabilities	1,488	1,432	961	766
10 Net Assets	9,068	7,922	6,442	6,065
11 Shareholders' Equity	9,068	7,922	6,442	6,065
B INCOME STATEMENT				
1 Sales	6,885	11,124	9,981	7,758
a Cost of Good Sold	*(4,774)*	*(8,395)*	*(8,876)*	*(6,409)*
2 Gross Profit	2,111	2,729	1,105	1,349
a Operating Expenses	(383)	(761)	(565)	(541)
3 Operating Profit	1,728	1,969	540	808
a Non Operating Income or (Expense)	*20*	*67*	*53*	*11*
4 Profit or (Loss) before Interest and Tax	1,748	2,035	593	819
a Total Finance Cost	*(47)*	*(66)*	*(77)*	*(157)*
b Taxation	*(556)*	*(634)*	*(42)*	*(189)*
6 Net Income Or (Loss)	1,146	1,335	473	473
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,633*	*2,010*	*226*	*850*
b Net Cash from Operating Activities before Working Capital Changes	*1,586*	*1,944*	*149*	*772*
c Changes in Working Capital	*(1,643)*	*(2,423)*	*1,307*	*(493)*
1 Net Cash provided by Operating Activities	(56)	(479)	1,455	280
2 Net Cash (Used in) or Available From Investing Activities	(79)	(173)	(262)	(23)
3 Net Cash (Used in) or Available From Financing Activities	(0)	323	(889)	(43)
4 Net Cash generated or (Used) during the period	(135)	(329)	304	214
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	23.8%	11.5%	28.6%	N/A
b Gross Profit Margin	30.7%	24.5%	11.1%	17.4%
c Net Profit Margin	16.6%	12.0%	4.7%	6.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-0.1%	-3.7%	15.4%	4.6%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	27.0%	18.6%	7.6%	7.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	199	211	198	243
b Net Working Capital (Average Days)	192	204	195	241
c Current Ratio (Current Assets / Current Liabilities)	4.8	3.9	4.4	4.0
3 Coverages				
a EBITDA / Finance Cost	40.2	35.4	10.0	6.5
b FCFO / Finance Cost+CMLTB+Excess STB	21.4	16.1	2.1	4.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.0	0.1	0.6	0.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	10.1%	4.9%	1.4%	13.8%
b Interest or Markup Payable (Days)	460.8	652.2	553.9	272.2
c Entity Average Borrowing Rate	13.0%	26.1%	14.6%	16.2%

Credit Rating

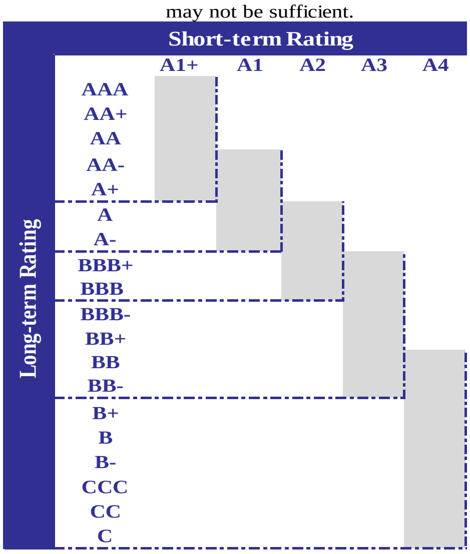
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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