



The Pakistan Credit Rating Agency Limited

## Rating Report

### Pakistan Mobile Communications Limited - PPSTS-II - PKR 15bln - Oct-24

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
20-Nov-2024	AA	A1	Stable	Initial	-
11-Oct-2024	AA	A1	Stable	Preliminary	-

#### Rating Rationale and Key Rating Drivers

Pakistan Mobile Communications Ltd (“PMCL”/ “Jazz” or the Company”) ratings benefit from its strong ownership and governance structure, which is further bolstered by its sustainable and prominent business profile. VEON Limited (VEON) is the ultimate parent Company of Jazz, which provides essential communication and digital services to ~160mln customers worldwide. VEON is operating in six countries including Pakistan, Ukraine, Bangladesh, Kazakhstan, Uzbekistan, and Kyrgyzstan. Jazz is the market leader, holding a ~37% share of the cellular market, with total subscribers reaching ~193mln. The Company is diversifying its revenue streams by exploring new ventures, including digital financial services and cloud platforms for advanced data hosting in Pakistan. The Company also aims to capitalize on various products by establishing distinct verticals for its digital offerings. In 2024, Pakistan's telecom sector has shown significant growth, primarily driven by the expansion of 3G and 4G services. This growth has been further fueled by price inflation, which has positively impacted the average revenue per user (ARPU). However, macroeconomic challenges have increased the cost of doing business, affecting the sector's overall financial performance. In IH CY24, PMCL posted a ~ 26% revenue growth, largely due to improved pricing strategies, though gross and operating margins declined due to inflationary pressures. The Company's financial risk profile remains adequate, with EBITDA expected to rise, thereby supporting coverages ratios. Additionally, the decline in interest rates will further aid in improving the financial profile of Jazz. The capital structure is leveraged, consisting mainly of long-term borrowings for capital expenditures and short-term loans for working capital management.

The ratings are contingent upon maintaining a leading market position, robust revenue growth & profitability, and a sound financial matrix. As the capital structure becomes more leveraged, it is imperative to uphold sound financial discipline.

#### Disclosure

<b>Name of Rated Entity</b>	Pakistan Mobile Communications Limited - PPSTS-II - PKR 15bln - Oct-24
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Debt Instrument Rating
<b>Applicable Criteria</b>	Methodology   Rating Modifiers(Apr-24),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-24),Methodology   Corporate Rating(Jul-24),Methodology   Debt Instrument Rating(Oct-24)
<b>Related Research</b>	Sector Study   Telecommunication(Jun-24)
<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 Ltd. (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 ~160mln customers in 6 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. VEON provides a range of digital services and connectivity solutions under various brands, including Banglalink in Bangladesh, Jazz in Pakistan, Kyivstar in Ukraine, and Beeline in Kazakhstan, Kyrgyzstan, and Uzbekistan. The ownership structure of the Company is considered stable as VEON has demonstrated resilience and stability by maintaining strong financial performance and liquidity. VEON showcases strong business acumen through strategic decisions and market adaptability to innovation and digital inclusion.

**Governance** PMCL's Board of Directors comprises nine members including Chief Executive Officer. All are seasoned professional with vast experiences. Mr. Muhterem Kaan Terzioglu is the Chairman of the board. Prior to joining VEON, Kaan was Turkcell's CEO from April 2015 until March 2019. In that role, he led the Company's successful digital transformation. Before joining Turkcell, Kaan held global managerial roles at Cisco and Arthur Andersen, working across Europe and the United States. 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, the CEO, brings over two decades of experience from leading stellar companies across various countries and industries, with a significant emphasis on the telecom sector. The Company has appointed Mr. Farrukh Khan, former CEO of the Pakistan Stock Exchange, as its new Chief Financial Officer (CFO), effective September 15, 2024. Mr. Khan brings over three decades of leadership experience in prominent financial institutions. His notable roles include serving as the CEO of Acumen Fund, co-founding and leading BMA Capital Management as CEO, and holding the position of CFO at American Express. 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** In 2024, Pakistan's telecom sector has shown significant growth, primarily driven by the expansion of 3G and 4G services. The sector has shown robust growth, with revenues reaching PKR ~850bn in CY23, marking a ~17% increase from the previous year. The sector has also seen significant investments in infrastructure, with cellular mobile services now accessible to ~90% of the population. Despite its growth, the telecom sector faces several challenges including high taxation, infrastructure cost, political and economical instability and energy cost. All these factors have increased the cost of doing business and affecting the sector's overall financial performance. The country's total number of cellular subscribers reached to ~193 million users by September 24 (penetration of ~79.4% of the total market) while 3G/4G subscribers reached to ~139 million users (penetration of ~57%). 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 ~26% market share, Telenor with a ~23% market share, and Ufone has a ~14% of market share respectively. Jazz also leads the market in terms of 3G/4G subscribers, Jazz 4G subscribers stood at ~49mln by the end of September-24. During IHCY24, PMCL's revenue surged by ~26% to PKR ~182,598mln on YOY basis, IHCY23: PKR ~144,829mln (CY23: PKR~308,175mln), driven by higher prices and increased sales. The Company's net margin improved to ~6.6% during IHCY24, up from negative -4.6% in IHCY23. Company reported a net profit of PKR ~12bln during IHCY24 (CY23: PKR ~1.1bln), a significant turnaround from a net loss of PKR -6.7bln in IHCY23. In terms of ARPUs, the average voice ARPU was recorded at PKR ~67 per user in IHCY24 (CY23 PKR ~66), average data ARPUs recorded at PKR ~241 per user in IHCY24 (CY23: ~200).

**Financial Risk** The Company's business is cash-centric, as witnessed by an EBITDA to Sales ratio of ~46% as at IHCY24 (CY23: 46%). During IHCY24, the Company's FCFO clocked at PKR ~64,095mln (CY23: PKR ~103,800mln). The debt book comprises a mix of short-term borrowings and long-term borrowings with a significant portion of long term borrowings as at IHCY24. PMCL obtained the largest long-term syndicated credit facility in the private sector, worth PKR ~75bn, to improve telecom and digital infrastructure across the country. The Company's capital structure (borrowings/borrowings plus equity) stands at ~ 66% as of IHCY24 (CY23:~53%).

## Instrument Rating Considerations

**About The Instrument** PMCL has issued the rated, unsecured, privately placed short-term Sukuk-II (PPSTS-II), (while previous PPSTS of PKR ~15bln has been redeemed from the market on October 24, 2024). The issue amount of PPSTS-II is PKR ~15bln and disbursed at a face value of PKR 1,000mln 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 expected to be set at 3MK - [10] bps p.a. 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.



The Pakistan Credit Rating Agency Limited

PAKISTAN MOBILE COMMUNICATIONS LIMITED COMMUNICATIONS	Jun-24 6M	Dec-23 12M	Dec-22 12M	Dec-21 12M
<b>A. CAPITAL STRUCTURE</b>				
1 Share Capital	48,019	48,019	48,019	48,019
2 Shareholder's Equity	110,019	129,105	152,931	148,778
a. Total Borrowings/(Total Borrowings + Equity)	66%	53%	49.5%	37.1%
<b>B. BUSINESS ANALYSIS</b>				
1 Sale	182,598	308,175	261,621	228,927
a. Sale Growth	26%	19.3%	14.3%	14.9%
b. Revenue to Equity	3.8	6.4	5.4	4.8
2 Profit or (loss) before interest and tax	53,715	82,847	81,084	60,680
3 Net Income or (Loss)	12,043	1,175	23,905	26,298
a. Net profit Margin	6.6%	0.4%	9.1%	11.5%
b. Return on Equity	10.9%	0.9%	16%	18%
c. Current ratio	0.30	0.28	0.33	0.28
<b>C. CASH FLOW POSITION</b>				
1 Earnings before Interest, Tax, Depreciation and Amortization (EBITDA)	83,894	140,680	134,047	104,567
a. Cash Conversion Efficiency(EBITDA/Sales)	46%	46%	51%	45.7%
2 Free Cash Flow from Operations (FCFO)	64,095	103,800	81,705	62,691
a. Cash Conversion Efficiency (FCFO/Sales)	35%	34%	31%	27.4%

### 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+	<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	
BBB-	
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	
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	<b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility.
CC	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)

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## Regulatory and Supplementary Disclosure

Nature of Instrument	Issue Amount (PKR)	Initial Issue Amount (PKR)	Tenor	Security	Lead Advisor	Investment Agent
Rated, Privately Placed, Short-Term Sukuk II	Aggregate of up to PKR 1,5000mln (inclusive of PKR 5,000mln green shoe option).	1,5000mln	6 months	NA	Askari Bank Ltd	Pak Oman Investment Company
<b>Name of Issuer</b>	Pakistan Mobile Communications Ltd					
<b>Issue Date</b>	21-Oct-24					
<b>Maturity</b>	21-Apr-25					
<b>Profir Rate</b>	3MK-10 bps p.a					