

**Trakker (Pvt.) Limited (TPL)****RATINGS (AUGUST 2006)**

Trakker (Pvt.) Limited

Entity	
Long Term	A-
Short Term	A2

Financial Data

PKR (mln)

	30-Jun-06*	30-Jun-05
Total Assets	531.4	352.5
Equity	46.8	36.1
Net Income	10.7	7.9
Net Profit		
Margin (%)	1.7	1.8
Current Ratio	1.0	1.0
Total Debt / Equity (%)	306.9	290.9

* Un-audited

ANALYSTS

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Rating Rationale**Assessment**

- The ratings reflect the company's leadership position in the vehicle-tracking service sector, emanating from its successful track record, superior technology platform, and quality of human resource and systems and processes. The performance of the company, though currently subdued, is expected to improve on the back of robust demand for vehicle tracking services and targeted reduction in operating costs. The financial leverage of the company is expected to remain fairly high in the near-term due to financing requirements for capital expenditure and company's recent strategic investments. However, it is expected to decline with augmentation in the equity base through improved profitability, going forward.
- TPL, with a wide geographical coverage, superior product quality, strong focus on client servicing, preferential arrangements with cellular service operators, impressive vehicle recovery record and strong relationship with auto dealers, is enjoying a robust market position by controlling more than two-third of the market share. The company also benefits from its association with Digicore, in terms of technology assistance and access to new research and development. Due to the relatively low initial costs in establishing a vehicle tracking business, there are a large number of small players in the sector. However, due to complexities involved in this business, the sporadic trend of new companies starting and exiting quickly is also apparent and only TPL has the distinction of successfully carrying out its operations for over six years.
- The demand for vehicle tracking services is growing rapidly in Pakistan, attributable to law and order situation, substantial growth in auto sales including imported cars, and increasing preference of banks, leasing as well as insurance companies for installing tracking devices for security of vehicles. Resultantly, the company recorded robust growth in sales volumes in the last three years, and the trend is likely to continue, going forward. However, being still in the gestation phase, the overall profitability of the company remained constrained, owing to high incidence of fixed costs on infrastructure and branch expansion.
- Despite an anticipated decline in market share due to increasing competition, the company is expected to maintain the strong position in the sector owing to its competitive strengths. Meanwhile, the profitability of the company is expected to improve on the back of continuing growth in sales volumes and targeted reduction in operating costs, together with low incremental costs to support increasing business volumes. For long-term sustenance of growth, the management is also focusing on fleet management services and is in the process of entering into bulk deals with leading financial institutions.
- TPL diversified its business in Jul 05 by launching *Trakker Direct Insurance Ltd.* – Pakistan's first exclusive motor insurance company. The company, in joint venture arrangements with two leading business groups of UAE, has also recently established a vehicle tracking and fleet management company – Trakker Middle East LLC – in Abu Dhabi for capturing the markets of UAE and other GCC countries. While the company is deriving synergetic benefits from these ventures, the dividend stream is not likely to accrue within the next two to three years.
- The company is highly leveraged, as it has incurred sizeable debt for financing the strategic investments, in addition to arranging funds for its ongoing capex. Meanwhile, the proportion of long-term assets financed through long-term funding is relatively low, exposing the company to a higher level of financial risk. Going forward, the management is in the process of raising long-term debt of PKR 200mln under the SPV structure. A part of the financing would be used in substituting the short-term debt, while the remaining portion would be utilized in financing the additional capex requirement for supporting the increasing business volumes. This is expected to help in reducing the tenor mis-match in assets and liabilities. Although debt levels are likely to rise further, the capital structure of the company is expected to improve, with augmentation in the equity base through improved profitability prospects.

Background

- Trakker (Pvt.) Limited (TPL) is Pakistan's first and the largest vehicle tracking and fleet management company, operational since 2000. With branches in six cities, the company has the widest nationwide network coverage extended to over 600 cities. Digicore Group, the company's international joint venture partner based in South Africa, is primarily into fleet management for the last 20 years and is also renowned for manufacturing quality telematics products. The group has an extensive international presence through partners in Europe, mainly UK, Brazil, Nigeria, The Middle East and Kenya. Digicore Group, owns 30% stake in TPL, while the remaining holding is equally held between Jameel family and Alibhai family.
- The company's Chief Executive, Mr. Ali Jameel, is an experienced professional, having diversified experience in managing various technology based business ventures.