



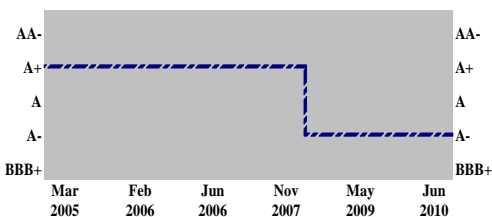
**RATINGS (JULY 2010)**

**WORLDCALL TELECOM LIMITED**

	NEW*	PREVIOUS
<b>ENTITY</b>		
Long Term	A-	A-
Short Term	A2	A2
<b>TFCs (Secured and Listed)</b>		
PKR 350mln	A	A
PKR 4,000mln	A	A

\* The Ratings have been placed on **Rating Watch**

**LT RATING HISTORY**



**FINANCIAL DATA**

PKR (mln)

	31-Mar-10*	31-Dec-09	30-Dec-08
Total Assets	23,151	22,816	21,004
Equity	11,283	11,379	11,710
Net Turnover	2,399	8,408	5,196
Net Income	(121)	(491)	(583)
EBITDA	375	1,016	415
ROA %	n.m	n.m	n.m
ROE %	n.m	n.m	n.m
Net Debt / EBITDA (x)	3.2	4.8	10.8
EBITDA Net Interest Cover (x)	2.2	2.9	1.9
Net Debt/Equity (%)	42.1	42.6	25.5

\* Based on unaudited accounts for 3months.

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**PROFILE**

- WTL, a 57% owned subsidiary of Oman Telecom (OT), is a fully integrated communication service provider offering telecom services nationwide while broadband services are operational in Karachi and Lahore. The company is listed on Karachi and Lahore stock exchanges.
- OT, majority owned by Government of the Sultanate of Oman, is the sole licensed operator of fixed phone and internet services in the Sultanate of Oman. The company also offers mobile telecom services. OT is listed on Muscat Securities Market. OT has acquired effective control of WTL since Jun09.

**RATING RATIONALE AND KEY RATING DRIVERS**

- The ratings reflect WTL's association with Oman Telecommunications (OT) – state owned telecom operator in Oman. The ratings recognize strengthening governance structure of WTL emanating from strong oversight of its board and improving internal control framework. However, the company's business profile has weakened owing to continuous losses, which in turn has highlighted the financial risk. The management, cognizant of the situation, is making efforts to strengthen business and financial profile of WTL. However, timely materialization of its efforts is yet to be seen.
- The company's ability to achieve sustainable core profitability in a timely manner, while upgrading its technology infrastructure to withstand its position in fast changing sector dynamics are critical for the ratings. Meanwhile, pressure on cash flows may constrain company's ability to meet its planned capex and upcoming debt maturities in the absence of parent support and/or financial restructuring. However, Omantel has shown its willingness to provide requisite resources. The ratings are placed on Rating Watch pending the flow of funds from Omantel, which is expected within 3Q10. Any material delay would trigger a negative rating action.

**ASSESSMENT**

- The telecom sector in Pakistan has been experiencing healthy growth over recent years. The growth potential has led to intense competition amongst operators in terms of prices and quality of services. In order to survive competition, companies need to continuously expand and upgrade their technological infrastructure. Therefore, the companies with strong financial muscle and proactive strategy would have the ability to capitalize on emerging opportunities.
- During 2009, WTL witnessed an increase of ~62% in its top-line as compared to 2008. Long Distance International (LDI) revenues, benefiting from high volumes posted significant growth, while Wireless Local Loop (WLL) telephony and broadband showed modest improvement. However, gross margins continued a declining trend mainly owing to substantial rise in direct costs of LDI, a result of higher APC charge (09: US\$ 0.075, 08: US\$ 0.055) with settlement rates witnessing a decline of ~9%. Besides, intensified competition impacted the margins. Nonetheless, the company managed to achieve break-even from its core business operations benefiting from lower operating expenses on YoY basis. However, an impairment charge of PKR 167mln on investments coupled with higher financial charges kept the bottom-line in red. The performance of the company operations improved nominally in 1Q10.
- Going forward, WTL has aggressive business plans. While LDI segment is expected to grow moderately, data and broadband would remain the key focus in future. The company has expanded its Hybrid Fiber Coaxial cable network to 7 cities to give a boost to its broadband multimedia operations – cable TV, internet over cable and other related services. Meanwhile, newly launched Evolution-Data Optimized (EVDO) service is expected to strengthen the company's market positioning in data segment while supporting the revenues. However, achieving of overall revenue targets seems challenging. Meanwhile, WTL's association with Omantel is expected to generate synergies that would prove to be beneficial, going forward.
- WTL is in the process of up-gradation of its technological infrastructure to bring further efficiency in overall operations. Meanwhile, various developments have taken place to align WTL operations with OT. A revenue assurance department has been set-up to ensure accuracy and transparency in accounting records with certain improvements in the control framework. On management side, three key positions - Chief Internal Auditor, CFO, and Company Secretary - are held by Omantel appointed personnel that reflect strong vigilance stance from the parent. WTL is also planning Oracle ERP implementation by mid-2011.
- During 2009, though EBITDA strengthened on account of lower operating expenses, the cash flows of WTL deteriorated slightly on account of higher financial charges. However, the company, enjoying favorable relationships with its suppliers, managed to avail long-term supplier credit that helped in sustaining overall cash flows.
- The capital structure of the company has remained low-leveraged over the years. At end-Mar10, the debt-equity of WTL stood at 30% (end-Dec09: 31%, end-Dec08: 30%). However, the company's business profile has weakened owing to continuous losses, which in turn has highlighted the financial risk. At the same time, the company has to make TFC payments of PKR 606mln in the current year (Nov10: PKR 58mln, Oct10: PKR 548mln), for which internal cash generation may not be sufficient, necessitating fresh borrowing or equity. The management is cognizant of the situation and is under discussion with Omantel, the parent, to inject fresh equity in the company. Timely materialization of the management's efforts is imperative.

**TFC ISSUES**

- WTL issued two secured and listed TFCs of PKR 350mln (TFC-I) in Nov2006 and PKR4,000 (TFC-II) in Nov2008 for a tenor of 5 years. The first instrument carries profit based on 6month KIBOR plus 275bps and the profit rate for the second issue is based on six month KIBOR plus 160bps. Principal redemption of TFC-I has started from May 2009. The redemption is in six equal semi-annual instalments. TFC-II would be redeemed in seven equal semi-annual instalments starting from Oct2010. Both the TFCs are secured. The issuer has call option exercisable after November 2008 for TFC-I and after October 2010 for TFC-II.