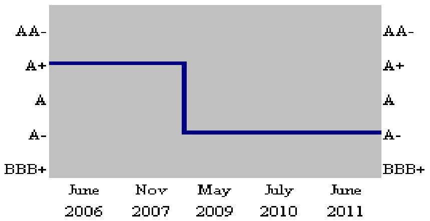
RATINGS (JUNE 2011)
WORLDCALL TELECOM LIMITED

	NEW	PREVIOUS
ENTITY		
Long Term	A-	A-
Short Term	A2	A2
TFCs (Secured and Listed)		
PKR 350mln	A	A
PKR 4,000mln	A	A
Rating Watch		

LT RATING HISTORY



FINANCIAL DATA

PKR (mln)

	31-Mar-11*	31-Dec-10	31-Dec-09
Total Assets	22,939	22,006	22,816
Pure Equity	9,780	9,964	11,118
Adj. Equity**	9,905	10,230	11,379
Turnover	1,627	7,464	8,408
Net Income/ (Loss)	(182)	(1,147)	(491)
Total Debt/ Total Debt + Equity (%)	38.89	31.83	31.31
Gross Margin (%)	12.63	11.58	16.31
RoE (%)	-7.52^	-10.94	-4.49

**Based on unaudited accounts for three months*
***Including revaluation surplus on fixed assets & investments*
^Annualized

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PROFILE

- WTL, a 57% owned subsidiary of Oman Telecom (Omantel), is a fully integrated telecommunication 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.
- Omantel, majority owned by Government of the Sultanate of Oman, is the leading fixed phone and internet service provider in the Sultanate of Oman. The company also offers mobile telecom services. Omantel is listed on Muscat Securities Market. It acquired effective control of WTL in Jun09.

RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect WTL's association with Oman Telecommunications (Omantel) – state owned telecom operator in Oman. The company's business profile has weakened owing to limited market share, competitive pricing pressure, in turn, and reduced margins that resulted in continuous bottom-line losses. Although the company maintains a low-leveraged capital structure, thin debt servicing coverages put pressure on the financial profile. Nevertheless, demonstrated strong support from the parent, Omantel, provides comfort to the ratings. The company received a bank loan worth US$35mln against Omantel's corporate guarantee. WTL is expected to obtain another US$35 mln from Omantel in the form of convertible debt in the near future. These inflows are imperative to soften the company's debt structure and to provide necessary funds to expand the sphere of its business.
- The company's ability to achieve sustainable core profitability in a timely manner, while upgrading its technology infrastructure to withstand its position in the fast changing sector dynamics are critical for the ratings. Furthermore, timely injection of expected funds from the parent would remain important to meet upcoming debt repayments besides providing cash for capital expenditure.

ASSESSMENT

- Fixed line and wireless industry in Pakistan has experienced stagnation in the last few years. This can be attributed to the market share being captured by the cellular technology, which is gaining strength. Most of the industry players also offer long-distance and international service, which, in recent time, has become the major source of revenue. Nevertheless, the sector is featured by intense competition amongst operators in terms of pricing and service quality, necessitating continuous investment in network expansion and technological upgradations. Therefore, the companies with strong financial muscle and proactive strategy would have the ability to withstand the competition, going forward.
- During 2010, WTL witnessed a decrease of ~11% in its top-line as compared to 2009. This was mainly attributed to price driven decline in the Long Distance & International (LDI) segment revenues – the major contributor (61%) towards gross revenues – by 23%. This has been partially compensated by augmenting turnover in WLL (~16%) and Broadband mainly EVDO (~21%).The downturn in LDI revenues was on account of tough competition amongst players. Lately, major LDI players are working to form a consortium, known as the International Clearing House (ICH) Agreement, to avail the synergies of collaboration. The agreement, expected to be finalized by 3Q11, would support LDI margins. Furthermore, an impairment charge of PKR 66mln on investments coupled with higher financial charges kept the bottom-line under pressure. Nevertheless, the company is striving to improve its performance and has entered into various business contracts, which are likely to be reflected in WTL's bottom-line in the coming quarters.
- WTL intends to follow a multipronged strategy to establish a profitable business; (a) reduction in debt cost (b) focused capital expenditure to add capacity and improve quality and efficiency of its products and services and (c) cost rationalization. It is implementing an organization–wide restructuring plan, which is expected to keep operating cost under check. For debt cost reduction and CAPEX, it is entirely dependent on Omantel. A US$70 mln revival plan has been developed. A major portion of this (~ $ 43 mln) would be utilized to contain debt and commercial obligations, while the rest would be CAPEX funding. Although, new funds would be interest bearing, these are structured in a manner to keep the impact on WTL manageable. US$35 mln (already received) have 2 years grace period with interest cost lower than existing borrowing. The other $35 mln are expected to be received in the form of convertible debt, wherein, while interest cost would be relatively low, principal redemption would not be a cash drag. The business plan, if timely and successfully implemented, is expected to revive WTL's profile, going forward.
- WTL recently revamped its organogram, advocating clear reporting lines. The company completed a Business Process Re-Engineering Project (BPR) in different areas of its operations. Meanwhile, the company is in the process of up-gradation of its technological infrastructure to bring further efficiency in overall operations.
- WTL's capital structure has remained relatively low-leveraged (Debt: Equity at end-Mar11: 39%, end-Dec10: 32%). The recent increase was mainly on account of receipt of US$35mln loan. Omantel and WTL exchange services, wherein, WTL in net, has to pay Omantel. The parent, by deferring this receivable (PKR 1145 mln at end Dec-10) lends further financial support to its subsidiary.
- During 2010, despite strong cash conversion efficiency, WTL witnessed pressure on its coverages due to high debt maturity and interest payments. Furthermore, WTL had unfavorable short-term asset-liability mismatch. This posed serious concerns to the company's working capital management. Timely support from the parent enabled the company to payoff its recent debt maturities. The company has to make TFC payments of PKR 606mln in the current year (Nov11: PKR 58mln, Oct11: PKR 548mln), for which internal cash generation may not be sufficient. This necessitates timely injection of the remaining US$35 mln to meet its commercial and financial obligations and to finance its CAPEX requirements.

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 installments. TFC-II is scheduled to be redeemed in seven equal semi-annual installments that started 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.