



## Rating Action

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## Analyst

Samiya Mukhtar  
(+92-42-35869504)  
samiya@pacra.com  
www.pacra.com

## PACRA MAINTAINS RATINGS OF WORLDCALL TELECOM LIMITED; REMAINS UNDER RATING WATCH

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term entity ratings of Worldcall Telecom Limited (WTL) at "A-" (Single A Minus) and "A2" (A Two), respectively. The ratings of the secured TFC issues of PKR 350mln and PKR 4,000mln have also been maintained at "A" (Single A). These ratings denote a low expectation of credit risk while the capacity for timely payment of financial commitments is considered strong.

The ratings reflect WTL's strong association with Oman Telecommunications (Omantel) - state owned telecom operator in Oman. However, on a standalone basis, the company's profitability remained weak owing to competitive pricing pressure, in turn, reduced margins that has 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 financial 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. Meanwhile, the ratings remain under **Rating Watch** pending the flow of expected funds.

**About the Company:** 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. WTL's seven member board comprises five nominees from Omantel. The board is actively involved in providing strategic guidance to the company.

**About the TFC Issues:** WTL issued secured and listed TFCs of PKR 350mln (Nov 06) and PKR 4,000mln (Oct 08). The tenor of both the instruments is 5 years carrying profit at the rate of 6month KIBOR plus 275bps and 6month KIBOR plus 160bps, respectively, without any floor and cap. Principal redemption of PKR350mln TFCs is in six equal semi-annual installments beginning November 2008 (outstanding principal: PKR 58mln). The second TFC is to be redeemed in seven equal semi-annual installments starting from October 2010 (outstanding principal: PKR 2,739mln).

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