The Pakistan Credit Rating Agency Limited

Rating Report

Multinet Pakistan (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
01-Aug-2023	A-	A2	Stable	Maintain	-
02-Aug-2022	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan's technology sector contributes ~1% to the national GDP and stood at approximately PKR~647bln in FY22 (FY21: PKR~485bln), with the domestic market size for technology products and services estimated to be PKR~273bln in FY22 (FY21: PKR~218bln). Meanwhile, during FY22, exports of the total technology industry increased to PKR~374bln (FY21: PKR~267bln). In recent years, the Government has enhanced its focus on the tech industry and recognized the potential for growth and investment that exists. The Ministry of Information Technology & Telecommunication (MoITT), has taken various steps such as the establishment of IT Parks nationwide to promote the industry and provide an enabling ecosystem for businesses and start ups.
The ratings assigned to Multinet Pakistan (Pvt.) Limited reflects a good management profile with experienced individuals who have been a part of the company for many years. The Company has one management committee in place, which includes all the departmental heads, and policies, procedures, budgets and key performance parameters are discussed in the committee meetings regularly to review activity. With an optical fiber network footprint of ~13,500 KM, the Company has experienced a rising top line over the years. Margins, and in turn profitability have remained adequate. Financial risk profile is characterized with low leveraged capital structure represented through a debt-to-capital ratio of ~25.3% as at CY22 (3MCY23: 25%). The net profit margin have decreased to 1.4% in 1QCY23 (CY22: 6.3%). While working capital (CY22: ~52 days | 3MCY23: ~81 days) remains stretched in terms of gross working capital. In addition, 25% of cellular traffic and 50% of financial market traffic runs through Multinet Pakistan Pvt. Limited. Moreover, the company is committed to enhance the governance frameworks where the Board was enhanced to include 5 members from 2 members beforehand, including 2 Independent directors, and a formal internal control mechanism was established. The appointment of independent directors enhances the transparency of the company, contributing positively to its corporate governance practices. The company has strong financial transparency due to the appointment of EY and Baker Tilly as their internal and external auditors.

The ratings are dependent on the management's ability to realize the projected margins, and its strong capital structure. Prudent management of working capital cycle and coverage ratios remains imperative. However, any significant delay in realizing the projected cashflows would have a negative impact on ratings.

Disclosure

Name of Rated Entity	Multinet Pakistan (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Technology(May-23)
Rating Analysts	Muhammad Zain Ayaz | zain.ayaz@pacra.com | +92-42-35869504

Profile

Legal Structure Multinet Pakistan Pvt. Limited ('Multinet' or 'the Company') was incorporated in 1996, as a private limited company.

Background The Company was founded by Mr. Adnan Asdar Ali and Mr. Nasser Khan Ghazi in 1996, and began as the branded reseller of internet and data connectivity services. In 2006, 89% shares were acquired by TM International Limited (Axiata) of Telekom Malaysia. In Nov-18, Axiata fully exited from Multinet, transferring all of the shareholding to Mr. Adnan Asdar Ali. Multinet is currently engaged in providing connectivity infrastructure and solutions to Telecos, corporates, SMEs, and financial institutes.

Operations Primary business activity of the Company are to provide telecommunication, electronic media and connectivity infrastructure and solutions, including internet services, design, development, implementation of networks. Moreover, value added services include voice services, data center, audio and video conferencing, hosting applications and servers.

Ownership

Ownership Structure Majority of the ownership shares are held by Mr. Adnan Asdar Ali (~99.98%), whereas, Joozer Jiwakhan, Adnan Hayat Zaidi, Aziez Ul Aman Zuberi, and Mr. Sohail Pervez Ahmad, an Infrazamin representative, each own 2 shares.

Stability Ownership of the Company seems stable. The Sponsor has a respectable standing in the technology segment.

Business Acumen Mr. Adnan Asdar Ali, the Chairman and co-founder of the Company, has more than 37+ years of experience in connectivity-based solutions and network infrastructure.

Financial Strength Financial strength of the Sponsor is considered adequate. Moreover, the Sponsor is engaged in software houses, telemedicine, health, education, water filtration and mobile application development, through multiple associated companies.

Governance

Board Structure Board of Directors has increased from 2 members only to 5 members. Mr. Adnan Asdar Ali serves as an Executive Director, while Mr. Sohail Pervez Ahmad and Joozer Jiwakhan serve as Independent Director. The board members also includes Mr. Adnan Hayat Zaidi and Mr. Aziez Ul Aman Zuberi.

Members' Profile Mr. Adnan Asdar Ali, the co-founder, has more than 37+ years of experience in connectivity-based solutions and network infrastructure.

Board Effectiveness The Board has recently convened a Board audit committee for smooth functioning of the audit process. Two Board audit committee meetings have been held since then, chaired by Mr. Sohail Pervez Ahmad.

Financial Transparency The Company's external auditors, Baker Tilly Mehmood Idrees Qamar have expressed an unqualified opinion on the financial statements of the Company for the year ended Dec-22. Whereas, to maintain the highest level of independence, the Internal Audit has been outsourced to EY. Both these firms are QCR rated and in SBP's category 'A' panel of auditors.

Management

Organizational Structure The Company's organizational structure reflects clear reporting lines and is split between Operations, Administrative, Legal, Human Resource and Business Development. Each function is monitored by head of department, who reports to the CEO.

Management Team Each function is monitored by head of department, who reports to the CEO. The management comprises of experienced and qualified individuals. Mr. Adnan Hayat Zaidi, the newly appointed Chief Executive Officer, is an IT graduate. He has more than 20+ years of experience in the technology industry, and has been a part of the Company since 2002. Mr. Sajid Farooqi, the Head of Corporate Finance, is a Chartered Accountant and has an overall experience of 20+ years. He is associated with the Company since 2014.

Effectiveness The Company has one management committee in place named Steering Committee. It includes all the departmental heads, along with the CEO (Mr. Adnan Zaidi). Policies, procedures, budgets and key performance parameters are discussed in the committee meetings regularly to review activity. Whereas, weekly and monthly reports are shared with the CEO regarding the projects' status.

MIS The Company has deployed SAP as its Enterprise Resource Planning (ERP) system.

Control Environment Regular reviews are undertaken internally to maintain strong operational control.

Business Risk

Industry Dynamics Pakistan has a developing telecommunications industry regulated by an independent regulator. Ministry of Information Technology & Telecommunications issues policies for telecommunications sector, and Pakistan Telecom Authority is mandated to implement the aforesaid policies. Telecommunication services in Pakistan are governed by licensing regime and key licenses are: a) Cellular mobile license; b) Long distance and international (LDI) license; c) Fixed Local Loop license; and d) Telecom infrastructure Pakistan's technology sector contributes ~1% to the national GDP and stood at approximately PKR~647bln in FY22 (FY21: PKR~485bln), with the domestic market size for technology products and services estimated to be PKR~273bln in FY22 (FY21: PKR~218bln). Meanwhile, during FY22, exports of the total technology industry increased to PKR~374bln (FY21: PKR~267bln). In recent years, the Government has enhanced its focus on the tech industry and recognized the potential for growth and investment that exists.

Relative Position 25% of cellular traffic and 50% of financial market traffic runs through Multinet Pakistan Pvt. Limited

Revenues The Company has segregated revenue streams according to nature of clientele. Total revenue stood at PKR 4,866mln during QCY22 (CY21: PKR 4,417mln). Enterprise Business Units (EBU) contributed ~40% to the total revenue, clocking in PKR 2,143mln (CY21: PKR 1,919mln). Carrier Business Unit brought in PKR 1,599mln (CY21: PKR 1,685mln), Long Distance International Voice recorded PKR 749mln (CY21: PKR 522mln) while Fixed Local Loop stood at PKR 221mln (CY21: PKR 204mln).

Margins Gross profit margin for CY22 recorded a slight decrease at ~32% as compared to ~33% during CY21. This can be attributed to higher cost of goods sold in CY22 as compared to CY21. Operating margin improved to ~11.2% (CY21: ~10%) on account of higher sales revenue in CY22. On the contrary, net profit margin decreased to ~6.3% (CY21: ~10.6%) due to higher exchange loss and finance costs incurred.

Sustainability The Company plans to fiberize towers in Pakistan, which will be imperative for 5G technology and to cater the increasing user base. For this purpose, the management has arranged an Infrazamin credit guarantee backed long-term loan of PKR 2.1bln from HBL.

Financial Risk

Working Capital The working capital cycle is negative, signifying delayed payments to creditors and advance payments from customers. Net working capital day deteriorated to -51 days in CY22 (CY21:~-24days). This is attributable to higher payable days at 103 days as compared to 73 days as at CY21. Trade receivable days increased at 52 days (CY21: 49 days). Inventory days increased to 14 days (CY21: 10 days). Short-term trade and total leverage have consistently been negative at ~ -58.5% (CY21:~ -35.9%) and ~ -30.5% (CY21: ~ -29.1%) respectively indicating no room to borrow.

Coverages Multinet's coverages are a function of free cashflows and finance costs incurred. As compared to the annual figures, FCFO increased to PKR 932mln (CY21: PKR 777mln). Finance cost, on the other hand, increased to PKR 251mln (CY21: PKR 138mln). Consequently, interest coverage decreased to 4x (CY21: 7.2x). Debt coverage stayed stable at 0.6x while debt payback increased slightly to 4.3x (CY21: 3.7x)

Capitalization The Company has a modestly leveraged capital structure represented through a debt-to-equity ratio of ~25% as at CY22 (CY21: ~23%). This is a result of higher long-term borrowings of PKR 1,655mln in CY22 (CY21: PKR 1,278mln) . Short term borrowings decreased to PKR 47mln in CY22 (CY21:~48mln).

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Financial Summary

PKR mln

Multinet Pakistan Pvt. Limited	Mar-23	Dec-22	Dec-21	Dec-20
Technology	3M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	10,614	10,589	10,032	9,827
2 Investments	104	101	85	60
3 Related Party Exposure	975	894	856	648
4 Current Assets	3,174	2,808	2,397	2,377
a Inventories	*244*	*204*	*177*	*76*
b Trade Receivables	*1,028*	*810*	*581*	*616*
5 Total Assets	14,868	14,392	13,370	12,913
6 Current Liabilities	4,275	3,748	3,156	3,510
a Trade Payables	*1,987*	*1,714*	*1,024*	*747*
7 Borrowings	2,107	2,137	1,780	837
8 Related Party Exposure	68	71	42	64
9 Non-Current Liabilities	1,885	1,917	2,180	2,756
10 Net Assets	6,534	6,520	6,212	5,745
11 Shareholders' Equity	6,534	6,520	6,212	5,745
B INCOME STATEMENT				
1 Sales	1,029	4,866	4,417	3,837
a Cost of Good Sold	*(715)*	*(3,308)*	*(2,986)*	*(2,767)*
2 Gross Profit	314	1,557	1,431	1,070
a Operating Expenses	(277)	(1,013)	(996)	(810)
3 Operating Profit	37	545	435	260
a Non Operating Income or (Expense)	*62*	*141*	*46*	*152*
4 Profit or (Loss) before Interest and Tax	99	686	481	412
a Total Finance Cost	*(54)*	*(251)*	*(138)*	*(108)*
b Taxation	*(31)*	*(128)*	*124*	*(3)*
6 Net Income Or (Loss)	14	307	467	301
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*187*	*932*	*777*	*727*
b Net Cash from Operating Activities before Working Capital (	*227*	*895*	*771*	*616*
c Changes in Working Capital	*38*	*(19)*	*(687)*	*168*
1 Net Cash provided by Operating Activities	265	876	84	784
2 Net Cash (Used in) or Available From Investing Activities	(168)	(1,226)	(696)	(840)
3 Net Cash (Used in) or Available From Financing Activities	(33)	387	638	52
4 Net Cash generated or (Used) during the period	64	36	26	(4)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-15.4%	10.2%	15.1%	3.0%
b Gross Profit Margin	30.5%	32.0%	32.4%	27.9%
c Net Profit Margin	1.4%	6.3%	10.6%	7.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Ca	21.9%	18.8%	2.0%	23.3%
*e Return on Equity [Net Profit Margin * Asset Turnover * (To*	0.9%	4.8%	7.8%	5.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	81	52	49	70
b Net Working Capital (Average Days)	-83	-51	-24	-21
c Current Ratio (Current Assets / Current Liabilities)	0.7	0.7	0.8	0.7
3 Coverages				
a EBITDA / Finance Cost	2.9	4.7	8.5	11.8
b FCFO / Finance Cost+CMLTB+Excess STB	0.5	0.6	0.6	0.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fin	5.7	4.3	3.7	3.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity	25.0%	25.3%	22.7%	13.6%
b Interest or Markup Payable (Days)	95.5	71.2	74.3	35.6
c Entity Average Borrowing Rate	10.1%	12.6%	8.0%	9.3%

Credit Rating

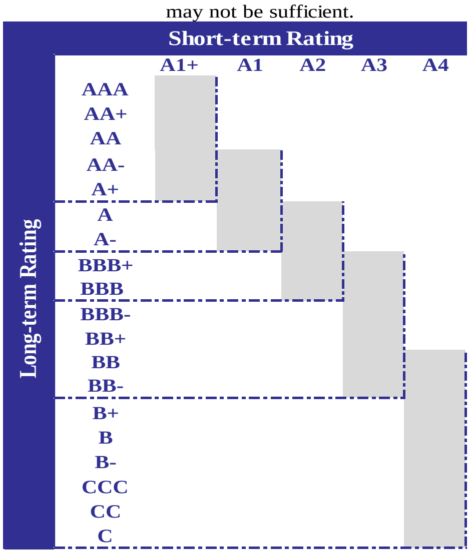
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** 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.
A+ A A-	**High credit quality.** 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.
BBB+ BBB BBB-	**Good credit quality.** 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.
BB+ BB BB-	**Moderate risk.** 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.
B+ B B-	**High credit risk.** 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.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. 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.
D	Obligations are currently in default.

Short-term Rating

Scale	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
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 surveill 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

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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 | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(f-VII)
Proprietary Information