



The Pakistan Credit Rating Agency Limited

Rating Report

Airlink Communication

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Nov-2023	A	A1	Stable	Maintain	-
22-Nov-2022	A	A1	Stable	Maintain	-
22-Nov-2021	A	A1	Stable	Upgrade	-
24-Dec-2020	A-	A1	Stable	Maintain	-
27-Dec-2019	A-	A1	Stable	Maintain	-
28-Jun-2019	A-	A1	Stable	Maintain	Yes
31-Dec-2018	A-	A1	Stable	Upgrade	-
10-Jul-2018	BBB+	A2	Stable	Maintain	-
29-Dec-2017	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Air Link Communication Limited (“Airlink” or “the Company”) is primarily engaged in two business verticals; as mobile phones’ distributor & retailer, and now increasingly taking part in the assembling of smartphones & allied items in Pakistan. The ratings reflect Airlink’s sustainable business fundamentals underpinned by its solid market position. The Company is considered to be an official partner of multiple leading global brands to ensure diversified earnings from its business line. Pakistan’s telecom industry is moving forward at a reasonable pace. With expanding net coverage, myriad options of mobile devices available, ever-increasing demand for technology, and ubiquity of mobile phones and their uses among a wide cross-section of ~220mln people, the local market depicts a great potential (rapidly transitioning from feature phones to smartphones). Further, local assembling industry is evolving from infancy to mounting stage post-execution of DIRBS, curbing illegal import channels in the country to target domiciliary production and then exports. PTA also issued MDM authorizations to 30+ foreign & local companies to create more jobs in technical sector and enable consumers to buy locally. In nine months of Jan’23 to Sep’23, the local plants manufactured/assembled ~13.02mln handsets as compared to ~1.09mln commercially imported ones. Favorable policies, trade & investment liberalization, and healthy competition promoting shared industry prosperity. Following the trend, Airlink captures market share of around ~22% in mobile phone distribution. It has a nationwide network linked with over 16+ hubs & regional offices, 1100 + wholesalers, and 4,000+ retailers with after-sales support service centers in all major cities. During 1QFY24, Airlink witnessed a significant topline growth of ~171.9% on a year-on-year basis primarily on back of rising volume from assembling operating segment, followed by higher prices of mobile devices. The Company’s revenue contribution from assembly side fueled as an outcome of its backward integration strategy when Airlink joined hands with Xiaomi to manufacture/assemble its mobile phones and allied items in Pakistan by incorporating a wholly owned subsidiary “Select Technologies (Pvt) Limited”. Besides, the Company retained its profitability matrix during review period. Airlink’s capital structure is moderately leveraged; mainly comprised of STBs. Financial risk profile is reflected by improved working capital cycle, comfortable coverages, and healthy cash flows.

The ratings are dependent on the Company’s ability to sustain its relative position amidst highly changing industry environment. As business grows, prudent financial discipline - particularly in working capital structure, is essential to uphold the ratings.

Disclosure

Name of Rated Entity	Airlink Communication
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jul-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Mobile Phone and Allied Products(Dec-22)
Rating Analysts	Iqra Toqeer iqra.toqeer@pacra.com +92-42-35869504

Profile

Legal Structure Air Link Communication Limited ('Airlink' or 'the Company') is a public listed entity with a free float of ~25% shares as to date Oct'23. The Company got listed on PSX during September, 2021.

Background In 2010, Airlink was formed as a partnership firm for the import & distribution of IT products, particularly mobile phones, & related services. In 2014, a new private company was incorporated to take over the business of the partnership firm running as a family business. Following July 2018, the entire business transferred to the Company's books. Airlink converted its status to Public Unlisted in Apr'19. Later, the Company got listed on PSX during Sep'21.

Operations Airlink is principally involved in the distribution of mobile phones and allied products of the leading brands in the mobile industry; Samsung, Huawei, Techno, Iphone, ITEL, Xiaomi, TCL, Realme, and Q-Mobile. The Company signed agreement with different globally renowned mobile phone brands for distribution services. Further, Airlink partnered with Xiaomi to manufacture and distribute Xiaomi mobile phones & accessories in Pakistan through its wholly-owned subsidiary "Select Technologies (Private) Limited."

Ownership

Ownership Structure The Company is owned by the sponsoring family; formerly by the brothers - Mr. Muazzam Hayat Piracha (Late) & Muzaffar Hayat Piracha (24.97%). After the death of Mr. Muazzam Hayat, his shares transferred to his wife, Ms. Saliha Basit (3.67%) and his four daughters (5.14% each). Mr. Shaukat Hayat Piracha, paternal uncle of the two owners, has lately transferred his stake to his son, Mr. Yasir Hayat Piracha, who now owns 24.23% shares in the Company. Other shareholders include Insurance Companies (3.81%), General Public (8.58%) and remaining is held by Banks, DFIs, NBFIs & others.

Stability The ownership structure of the Company is seen stable as no major changes are expected in near future. Prime stake is held with CEO of Airlink and his family.

Business Acumen Mr. Muzaffar Hayat - the main sponsor, is leading the Company since its inception. He is a seasoned professional possessing strong understanding of the industry. Business acumen is, thus, considered good.

Financial Strength Owners of the Company do not have any strategic stake in other companies. Mr. Muzaffar Hayat owns residential properties. Financial strength is, therefore, considered adequate.

Governance

Board Structure The Company has transformed its governance structure to comply with the Code of Corporate Governance for which appointment of three independent directors had been made. Other than that, there are four members on the Board.

Members' Profile Board member's business acumen is considered good as they have vast experience of the relevant industry. Mr. Aslam Hayat is carrying extensive experience in the relevant field. He is the Chairman of Board.

Board Effectiveness The board has two sub-committees; Audit and HR & Remuneration Committee, enabling the Board to keep an oversight of the business more closely.

Financial Transparency An internal audit department is in place, reporting independently to the Audit Committee. M/s EY Ford Rhodes - Chartered Accountants are the external auditors of the Company, categorized as an 'A' rated firm by SBP. They have expressed an unqualified opinion on the Company's financial statements for the period ended June 30, 2023.

Management

Organizational Structure The Company has a well-defined organizational structure. Various types of activities are properly segregated and managed through different departments. The HODs report to the CEO.

Management Team Mr. Muzaffar Hayat Piracha, CEO of the Company, is an MBA and has been associated with the company since its inception. He is involved in all strategic and key decisions of the business.

Effectiveness There are six management committees operating namely as; i) Credit Committee, ii) Risk Management Committee, iii) Sale Control Committee, iv) Cash Management Committee, v) Operational Control Committee and vi) Business Plan Committee, which help in ensuring overall operational efficacy.

MIS The Company has installed SAP - an ERP solution as its information system, which provides adherence to a sound reporting system within the Company.

Control Environment MIS reports for senior management are generated frequently and are detailed in nature. Many reports, including the following, are generated frequently of each business unit: i) region-wise business partner report including adjustments, ii) daily stock report for all warehouses, iii) product-wise report of region & corporate limits.

Business Risk

Industry Dynamics Pakistan has been one of the fastest growing cellular markets. The country's teledensity increased from 6% in FY04 to a high of 80% in FY23. The number of 3G & 4G users in Pakistan reached 127mln at end Sep'23. In FY23, the devaluation of currency against USD and the rise in duty structure amplified the prices of imported phones, hence putting pressure on the demand of high end range mobile phones. The global manufacturers/principles sell their mobile phones through networks of their authorized distributors. Currently, there are 4 top distributor chains in the country (Airlink ranks number one on list & owns approx. 21% of market share) with other small distributors for lower volumes.

Relative Position Airlink is one of the 4 mobile phone distributors of the country. The company is working with the world's top brands of mobile phones. Xiaomi (38.14%), Techno (28.68%) and Samsung (28.41%) contribute the highest to the company's revenue, followed by Realme (3.55%), Q-Mobile (0.50%), ITEL (0.35%), Alcatel (0.24%), Apple (0.12%), and Huawei (0.01%) contributed very less in company's revenue during period under review.

Revenues In FY23, the Company recorded a topline of PKR~36,934mln (FY22: PKR ~49,166mln) depicting negative growth of 24.9% on account of import restrictions on CKDs of mobile phones. However, the Company's diversity with distribution of Samsung, Huawei, Tecno, ITEL, Xiaomi, TCL/Alcatel, iPhone and now Realme & Q-Mobile also initiated to keep the business volumes intact and safeguard against any uncertain conditions in future. At end Sep'23, the Company showed significant growth of ~171.9% with topline recorded at PKR ~25,109mln.

Margins A slight decline in the margins was noted during the period. In FY23, gross profit margin decreased to 9.6% from 10.6% last year, mainly as a result of the effect of higher pricing of the imported components/parts. A similar trend was translated in the net profit margin (FY23: 2.6%, FY22: 3.1%). A rise of finance cost contributed to low earnings before tax. During 1QFY24, the Company's gross and net margin ratios stood at 6.4% and 3.1%, respectively.

Sustainability In 2022, Airlink joined hands with Xiaomi Global for assembling and distribution of globally renowned mobile phones. Signing continuous agreements with international brands ensure sustainability of the Company at all levels.

Financial Risk

Working Capital The average gross working capital days, albeit high, have almost stayed consistent in the recent years (FY23: 94 days, FY22: 81 days). Average net working capital days of the Company have slightly reduced when compared with last year (FY23: 70 days, FY22: 77 days). In 1QFY24, the Company's gross and net cycle reduced and stood at 32 days and 13 days, respectively.

Coverages Free cash flow from operations (FCFO) decreased to PKR ~2,874mln in FY23 (FY22: PKR ~3,231mln, FY21: PKR ~2,601mln) on account of decline in profitability before tax. Core operating coverages of the Company have also reduced during review period (FY23: 1.3x, FY22: 2.3x). Debt payment capacity, currently remains comfortable. FCFO marked at PKR ~1,291mln in 1QFY24 with interest and core coverage ratios stood at 3.6x and 2.1x, respectively.

Capitalization Total debt of the Company slightly increased in FY23. At end June-23, it clocked at PKR ~8,302mln (FY22: PKR ~8,021mln FY21: PKR ~7,381mln). The Company has a leveraged capital structure. During FY23, the leveraging ratio stood at 40.4% (FY22: 40.8%, FY21: 53.3%). Most of the debt book is composed of short-term loans to manage working capital needs. Cautious management approach is necessitated. Airlink's debt book increased to PKR 9,508mln with leveraging ratio stood at 42.2% at end Sep'23.



Air Link Communication Limited Communication	Sep-23 3M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	6,198	6,186	6,172	1,272
2 Investments	3,813	3,484	1,010	510
3 Related Party Exposure	-	-	-	-
4 Current Assets	24,565	18,964	14,479	13,967
<i>a Inventories</i>	6,934	7,175	5,334	3,534
<i>b Trade Receivables</i>	895	2,714	3,753	5,391
5 Total Assets	34,576	28,635	21,660	15,748
6 Current Liabilities	11,985	7,796	1,725	1,838
<i>a Trade Payables</i>	5,873	4,715	47	1,050
7 Borrowings	9,508	8,302	8,021	7,381
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	70	312	258	50
10 Net Assets	13,013	12,225	11,656	6,479
11 Shareholders' Equity	13,013	12,225	11,656	6,479
B INCOME STATEMENT				
1 Sales	25,109	36,934	49,166	47,373
<i>a Cost of Good Sold</i>	(23,490)	(33,399)	(43,968)	(42,571)
2 Gross Profit	1,619	3,535	5,198	4,802
<i>a Operating Expenses</i>	(422)	(1,105)	(1,548)	(1,306)
3 Operating Profit	1,197	2,430	3,649	3,496
<i>a Non Operating Income or (Expense)</i>	124	266	132	11
4 Profit or (Loss) before Interest and Tax	1,321	2,696	3,781	3,506
<i>a Total Finance Cost</i>	(470)	(1,828)	(1,175)	(1,102)
<i>b Taxation</i>	(62)	93	(1,076)	(899)
6 Net Income Or (Loss)	789	961	1,530	1,505
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	1,291	2,874	3,231	2,601
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	1,043	2,546	2,567	1,929
<i>c Changes in Working Capital</i>	(849)	51	(970)	608
1 Net Cash provided by Operating Activities	194	2,597	1,597	2,537
2 Net Cash (Used in) or Available From Investing Activities	-	(2,793)	(5,947)	(595)
3 Net Cash (Used in) or Available From Financing Activities	744	115	4,620	(1,924)
4 Net Cash generated or (Used) during the period	938	(81)	269	18
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	171.9%	-24.9%	3.8%	10.1%
<i>b Gross Profit Margin</i>	6.4%	9.6%	10.6%	10.1%
<i>c Net Profit Margin</i>	3.1%	2.6%	3.1%	3.2%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	1.8%	7.9%	4.6%	6.8%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	25.0%	8.0%	16.9%	27.2%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	32	94	81	70
<i>b Net Working Capital (Average Days)</i>	13	70	77	43
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.0	2.4	8.4	7.6
3 Coverages				
<i>a EBITDA / Finance Cost</i>	3.6	2.1	4.3	4.4
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.1	1.3	2.3	2.0
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.8	2.1	1.0	0.7
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	42.2%	40.4%	40.8%	53.3%
<i>b Interest or Markup Payable (Days)</i>	24.5	48.8	89.5	52.4
<i>c Entity Average Borrowing Rate</i>	17.9%	18.1%	12.7%	9.4%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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

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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)

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- (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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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