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-2024	A-	A2	Stable	Maintain	-
01-Aug-2023	A-	A2	Stable	Maintain	-
02-Aug-2022	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Multinet Pakistan (Pvt.) Limited (the "Company") rating reflects the strong sponsor profile, satisfactory market position, and adequate financial standing of the Company. The principal activity of Multinet Pakistan (Pvt.) Limited is 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. The Multinet brand encompasses a range of services, including Datacom, MyCloud, MyMS, Data Center, Clarity, and TowerNet. Additionally, 25% of cellular traffic and 50% of financial market traffic runs through Multinet Pakistan Pvt. Limited. The assigned rating takes into account the good governance framework, strong control environment, and qualified and experienced management team. Moreover, the Company has enhanced its governance frameworks, reflected in the strengthening of the Board. The Company exhibits strong financial transparency, supported by the appointment of EY and Baker Tilly as internal and external auditors, respectively. The Company has developed an effective mechanism for the identification, assessment, and reporting of all types of risk arising out of the business operations.
Multinet Pakistan (Pvt.) Limited's income stream remained stable, predominantly driven by the Enterprise Business and Carrier International segments. The Company has observed a decline in revenue, predominantly influenced by volatility in non-core business activities. Nevertheless, the core operations have continued to show steady growth. The overall profitability experienced a dip, attributed to inflationary pressures and an uptick in financing costs. Additionally, income from deposits and investments in associates provides further support to the bottom line. The financial risk profile is marked by a low-leverage capital structure, as demonstrated by a debt-to-capital ratio of approximately 24.4% as of CY23.

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 | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-24),Methodology | Corporate Rating(Jul-23)
Related Research	Sector Study | Technology(Jun-24)
Rating Analysts	Muhammad Atif Chaudhry | Atif.Chaudhry@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. Later in 2006, the 89% majority shareholding was acquired by TM International Limited (now called 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 The ownership of the company is predominantly concentrated, with Mr. Adnan Asdar Ali holding an 99.9% stake. The remaining shares are modestly distributed among the company's directors, CEO, and VP of Energy.

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. He co-founded the Company in 1996, and is responsible for building partnerships and synergies with renowned technology manufacturers.

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

Governance

Board Structure Board of Directors comprises of 4 members. Mr. Adnan Asdar Ali serves as an Executive Director, while Mr. Sohail P. Ahmad, Joozer JiwaKhan and Anwar Ali Khan serves as an Independent Director.

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 Last year, the Board established an audit committee to ensure the seamless execution of the audit process. Mr. Sohail P. Ahmad has been appointed as the chair of the committee.

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-23. The firm is QCR rated and is 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 The management comprises experienced and qualified individuals. Mr. Adnan Hayat Zaidi, the Chief Executive Officer, is an IT graduate. He has more than 22 years of experience in the technology industry, and has been a part of the Company since 2002. Mr. Umer Zahoor, the Head of Finance, is a Chartered Accountant and has an overall experience of 15+ 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 Hayat 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 developed oracle as its Enterprise Resource Planning (ERP) System.

Control Environment EY is the company's internal auditor, conducting quarterly reviews of internal controls and submitting reports to the Board of Directors to maintain strong operational control.

Business Risk

Industry Dynamics Pakistan's technology sector contributed ~1.7% to country's GDP in FY23 (SPLY: ~1.9%), with market size recording at PKR~1,320bln in FY23, an uptick of ~7.3% YoY. In 9MFY24, sector's market size recorded growth of ~10.5% YoY). Meanwhile, During FY23, exports of overall computer services remained stable at USD~2.1bln (FY22: USD~2.1bln). Software exports and Automation & Process exports registered YoY growth rates of ~-0.2% and ~0.6% during the year. In 9MFY24, these recorded growth rates of ~6.0% and ~46.0% YoY, while overall computer services exports registered ~19.9% YoY growth. As of FY23, the sector comprises over ~12,000 companies. Meanwhile, imports of computer services have exhibited CAGR of ~-4.5% during FY19-23 and were registered at USD~254bln in FY23.

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 4,564mln during CY23 (CY22: PKR 4,866mln). Enterprise Business Units (EBU) contributed ~63% to the total revenue, clocking in PKR 2,673mln (CY22: PKR 2,304mln). Carrier Business Unit brought in PKR 1,137mln (CY22: PKR 1,339mln), Long Distance International Voice recorded PKR 516mln (CY22: PKR 1001mln) and fixed local loop recorded PKR 235mln (CY22: 220mln). The company has witnessed a marginal decline in both revenue and profits, primarily attributable to non-core business fluctuations and inflationary pressures.

Margins Gross profit margin for CY23 recorded a slight decrease at ~30.2% as compared to ~32.0% during CY22. This can be attributed to lower sales revenue as compared to CY22. Operating margin deteriorated to ~5.1% (CY22: ~11.2%) on account of lower operating expenses. similarly, net profit margin decreased to ~2.4% (CY22: ~6.3%) due to higher exchange loss and finance costs incurred. During CY23, the company had a return on assets of 0.8%, compared to 2.2% last year. Similarly, the return on equity stood at 1.7% (CY22: 4.8%).

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 availed an Infrazamin credit guarantee backed long-term loan of PKR 2.1bln from HBL currently loan amount restricted to 1,038mln.

Financial Risk

Working Capital The working capital cycle is negative, signifying delayed payments to creditors and advance payments from customers. Net working capital days stood at -50 days, a improved from -45 days at CY23,This result indicates that the company collects cash faster and delayed in payments. This is also attributable to higher payable days at 144 days as compared to 103 days as at CY22. Trade receivable days stood at 72 days (CY22: 52days). Inventory days increased to 22 days (CY22: 14 days). Short-term trade and total leverage have consistently been negative at ~ -22.2% (CY22:-27).~ -34.7%) and ~ -32.6% (CY22: ~ -33.7%) 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 decreased to PKR 577mln (CY22: PKR 932mln). Finance cost, on the other hand, increased to PKR 330mln (CY22: PKR 251mln). Consequently, interest coverage decreased to 2.5x (CY22: 4.7x).

Capitalization The Company has a modestly leveraged capital structure represented through a debt-to-equity ratio of ~24.4% as at CY23 (CY22: ~25.3%). This is a result of lower long-term borrowings (CY23: PKR 1,571mln; CY22: PKR 1,655mln) . The Company has only availed short term borrowings of PKR 41mln as at CY23 as they are already efficiently managing their work capital requirements.

PACRA

The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Multinet Pakistan Pvt. Limited	Mar-24	Dec-23	Dec-22	Dec-21
Listed Public Limited	3M	12M	12M	12M
	Management	Audited	Audited	Audited
A BALANCE SHEET				
1 Non-Current Assets	10,690	10,630	10,589	10,032
2 Investments	-	-	-	-
3 Related Party Exposure	843	839	813	941
4 Current Assets	3,777	3,804	2,989	2,397
a Inventories	*405*	*349*	*204*	*177*
b Trade Receivables	*888*	*988*	*810*	*581*
5 Total Assets	15,309	15,273	14,392	13,370
6 Current Liabilities	4,744	4,608	3,748	3,156
a Trade Payables	*1,899*	*1,883*	*1,714*	*1,024*
7 Borrowings	1,993	2,073	2,137	1,780
8 Related Party Exposure	68	68	71	42
9 Non-Current Liabilities	1,839	1,893	1,917	2,180
10 Net Assets	6,666	6,631	6,520	6,212
11 Shareholders' Equity	6,665	6,631	6,520	6,212
B INCOME STATEMENT				
1 Sales	1,150	4,564	4,866	4,417
a Cost of Good Sold	*(759)*	*(3,185)*	*(3,309)*	*(2,986)*
2 Gross Profit	391	1,378	1,557	1,431
a Operating Expenses	(283)	(1,147)	(1,013)	(996)
3 Operating Profit	108	231	545	435
a Non Operating Income or (Expense)	*85*	*389*	*141*	*46*
4 Profit or (Loss) before Interest and Tax	193	621	686	481
a Total Finance Cost	*(116)*	*(330)*	*(251)*	*(138)*
b Taxation	*(43)*	*(179)*	*(128)*	*124*
6 Net Income Or (Loss)	34	112	307	467
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*174*	*577*	*932*	*777*
b Net Cash from Operating Activities before Working Capital Changes	*48*	*270*	*704*	*771*
c Changes in Working Capital	*124*	*327*	*(416)*	*(687)*
1 Net Cash provided by Operating Activities	173	597	288	84
2 Net Cash (Used in) or Available From Investing Activities	(93)	(422)	(1,051)	(696)
3 Net Cash (Used in) or Available From Financing Activities	(85)	(61)	388	638
4 Net Cash generated or (Used) during the period	(6)	114	(376)	26
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	0.8%	-6.2%	10.2%	15.1%
b Gross Profit Margin	34.0%	30.2%	32.0%	32.4%
c Net Profit Margin	3.0%	2.4%	6.3%	10.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	26.0%	19.8%	10.6%	2.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	2.1%	1.7%	4.8%	7.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	104	94	66	60
b Net Working Capital (Average Days)	-46	-50	-36	-13
c Current Ratio (Current Assets / Current Liabilities)	0.8	0.8	0.8	0.8
3 Coverages				
a EBITDA / Finance Cost	2.2	2.5	4.7	8.5
b FCFO / Finance Cost+CMLTB+Excess STB	0.4	0.4	0.6	0.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	11.8	11.1	4.2	3.9
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	23.6%	24.4%	25.3%	22.7%
b Interest or Markup Payable (Days)	48.5	79.5	71.2	74.3
c Entity Average Borrowing Rate	20.6%	14.3%	12.6%	8.0%

Credit Rating

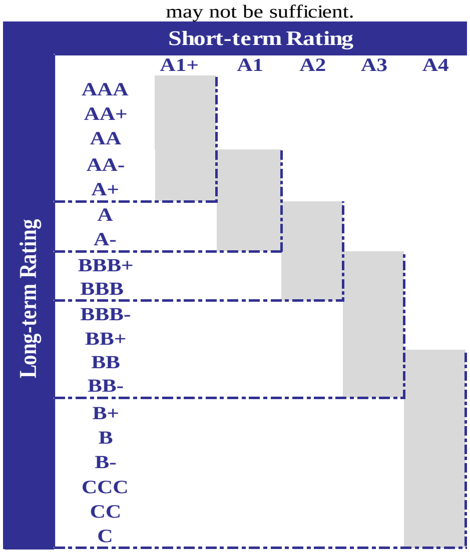
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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(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)
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(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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