



The Pakistan Credit Rating Agency Limited

Rating Report

Select Technologies (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Feb-2024	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Select Technologies (Private) Limited (hereafter as 'SELECT' or 'the Company') is a wholly owned subsidiary of Air Link Communication Limited. The Company is currently engaged in the manufacturing/assembling, and sales of smartphones & allied items in Pakistan under renowned and leading mobile phones brand. The ratings reflect SELECT's facility to do well in Pakistan's technology world through its sustainable business profile underpinned by solid group support. In 2022, SELECT joined hands with Xiaomi Inc. and is considered to be as its official partner for the assembling of smartphones in Pakistan by setting up state-of-the-art assembling line in Lahore. Presently, it holds assembling capacity of around 600,000 mobile units per month. Xiaomi has consistently ranked among the world's top smartphone manufacturers by offering quality products at reasonable pricing. Xiaomi smartphones totaled over 153mln unit shipments, accounting for almost 13 percent of the global smartphone market and trailing only Apple and Samsung in terms of market share. In its home market, Xiaomi has the fifth-highest market share behind other local brands in Honor, OPPO, and Vivo. Xiaomi and SELECT partnered up to ensure earnings from its business line and benefiting from Pakistan's telecom industry through efficient supply-chain management, competitive pricing model, and achieving growing market share. Providentially, the local industry is moving forward at a progressive rate. 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. Favorable policies, trade & investment liberalization, and healthy competition promoting shared industry prosperity. Following the trend, SELECT captures market share of around 40% in mobile phone assembling. During 1HFY24, the Company witnessed a significant growth in its topline and recorded PKR 31.5bln sales on a year-on-year basis as an outcome of both rising volume and higher prices of smartphones. The Company's net profitability matrix has also improved during review period fueled by sales growth. SELECT's capital structure is leveraged; mainly comprised of STBs to serve 100% cash margin requirements at the time of opening LCs for import of mobile parts / components. Financial risk profile is reflected by efficient working capital cycle, comfortable coverages, and healthy cash flows.

The ratings are dependent on the Company's ability to sustain its relative share amidst changing industry environment and its sustainable business partnership with global brand. As business grows, prudent financial discipline - particularly in capital structure, is essential to uphold the ratings.

Disclosure

Name of Rated Entity	Select Technologies (Pvt.) Limited
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-23)
Rating Analysts	Iqra Toqeer iqra.toqeer@pacra.com +92-42-35869504



Mobile Phone and Allied Products

Profile

Legal Structure Select Technologies (Private) Limited (hereinafter referred to as 'SELECT') was incorporated in Pakistan on October 13th, 2021 as a private limited entity under the Companies Act, 2017. The Company's registered head office is located at 152-1-M Quaid-e-Azam Industrial Area Kot Lakhpat, Lahore, Punjab, Pakistan.

Background SELECT is a wholly-owned subsidiary of Air Link Communication Limited (the Parent company). The Company was incorporated as an outcome of Sponsors' vision to set up state-of-the-art mobile phones assembly plant in Pakistan. The idea is to promote 'Made in Pakistan' products and to create employment opportunities. SELECT has partnered up with global smartphone giant 'Xiaomi' to manufacture different leading brands and models in Pakistan.

Operations The principal line of business is to set up, establish and operate plants for the assembly and production of mobile phones of all sorts and description. The Company's factory area is located on 120,000+ sq ft closed space, 60,000 sq ft cleaned room, and holds approximately 5.0mln production capacity as a collective per annum. On a single shift basis, the company is able to produce 600,000 mobile phones on per month basis.

Ownership

Ownership Structure The Company is a wholly-owned subsidiary of Air Link Communication Limited with ~99.99% stake whereas remaining minor shareholding stake rests with individual investors.

Stability The ownership structure of the Company seems stable as no major changes are expected in near future. Prime stake is held with the parent entity (Airlink).

Business Acumen The sponsoring family are primarily involved in the related business at group level. They have good understanding of the overall industry. Under their leadership, the parent company has showed tremendous growth over the years, and the same is reflected to translate in Select Technologies (Pvt.) Limited as well.

Financial Strength Sponsors of the Company do not have shareholding in other companies. Financial strength of sponsors is deemed adequate.

Governance

Board Structure The board of Select Technologies (Pvt.) Limited consists of five members, including Mr. Muzaffar Hayat Paracha (Group CEO / Director), Mr. Amir Mehmood (Group CFO / Director), Mr. Adnan Aftab (CEO of SELECT), Ms. Hina Sarwat (Director), and Mr. Syed Nafees Haider (Director).

Members' Profile The board members are professionals with experiences of managing business affairs. Mr. Muzaffar Hayat, carrying extensive experience in the relevant field, is the Chairman of the Board. His leadership experience spans over two decades.

Board Effectiveness The Company has established an Audit and HR & Remuneration Committee for the improvement of board effectiveness. The company has inducted a female director in the board, which bodes well for the effective governance structure.

Financial Transparency An Internal Audit department is in place which closely monitors the policies governing the operational procedures and implementation thereof. The External Auditor of the Company is M/s EY Ford Rhodes, Chartered Accountants, one of the big four firms. They expressed an unqualified opinion on the company's financial statements for the year ended June 30, 2023.

Management

Organizational Structure The organizational structure of the Company is divided broadly into various functional departments and all the department heads directly report to CEO who further reports to the Group CEO. Within each department, the management hierarchy includes various cadres which enables the company to carry out smooth operations.

Management Team Management of the Company comprises of qualified and experienced professionals. Mr. Muzaffar Hayat, the Group CEO has an overall experience of over ~30 years. Mr. Adnan Aftab (CEO of the Company) and the top management is supported by a team of qualified professionals working under various sub-divisions to ensure smooth reporting.

Effectiveness Every department head is responsible to manage the affairs of their departments. Clearly defined rules and responsibilities in organization add to the effectiveness of the organization structure.

MIS The Company has implemented an all-in-one SAP consisting of different modules. MIS reports for senior management are generated frequently and are detailed in nature.

Control Environment The Corporate structure of the Company is diverged into various departments. The organizational is rapidly growing. The management has a good control structure but the efficiency will be improved further if adequate human resource will be available to every department.

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. Devaluation of currency against USD in FY23 and the rise in duty structure amplified the prices of imported phones, hence putting pressure on the demand of high end range mobile phones. In 1HFY24, industry has started to record a positive performance. 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 SELECT is one of the leading mobile phone assemblers of the country. The Company is working with the world's top brand 'Xiaomi' of mobile phones to assemble and distribute it smartphones in the local markets of Pakistan.

Revenues In 1HFY24, the Company showed a significant growth in its topline and recorded total sales of PKR 31,489mln. In FY23, the Company's sales stood at PKR 15,430mln when compared to PKR 3,066mln sales during its first year of operational business.

Margins A decline in the gross margins was noted during 1HFY24. The Company recorded gross, operating, and net margins at 5.2%, 4.1%, and 2.2%, respectively owing to effect of higher pricing of the imported components / parts. In FY23, the Company's gross margin stood at 8.1% (FY22: 13.6%), operating margin at 7.0% (FY22: 9.6%), and net margin at 0.4% (FY22: -3.9%).

Sustainability Xiaomi Inc., The Global Consumer Electronics & Smartphone Giant, has partnered with Select Technologies (Pvt.) Limited, as its manufacturing partner for Xiaomi smartphones in Pakistan. Xiaomi recently became the world's second-largest vendor by handset shipments in the 2nd Quarter of 2021. Thus, boding well for the sustainable and quality technology accessible to everyone in Pakistan.

Financial Risk

Working Capital The average gross working capital days of the Company stood at 29 days in 1HFY24 (FY23: 90 days; FY22: 259 days) Average net working capital days of the Company have significantly reduced when compared with preceding years (1HFY24: 4 days, FY23: 45 days, FY22: 253 days).

Coverages Free cash flow from operations (FCFO) ramped up to PKR ~1,483mln in 1HFY24 (FY23: PKR ~ 1,381mln, FY22: PKR ~326mln) on account of improvements in profitability before tax. Core operating coverages of the Company have also improved during review period (1HFY24: 2.3x, FY23: 1.2x, FY22: 1.9x). Debt payment capacity, currently remains comfortable.

Capitalization Total debt of the Company increased in 1HFY24 and recorded at PKR 7,602mln. During FY23, it clocked at PKR ~4,528mln (FY22: PKR ~2,436mln). The Company has a leveraged capital structure. At end Dec'23, the leveraging ratio stood at 50.5% (FY23: 54.2%, FY22: 40.9%). Most of the debt book is composed of short-term loans to manage working capital needs. However, cautious management approach is necessitated.



Select Technologies (Pvt.) Limited Mobile Phones and Distribution	Dec-23 6M	Jun-23 12M	Jun-22 12M
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A BALANCE SHEET

1 Non-Current Assets	7,084	5,728	5,396
2 Investments	1,356	1,351	-
3 Related Party Exposure	-	-	-
4 Current Assets	12,791	9,076	3,323
a Inventories	5,090	4,088	2,175
b Trade Receivables	0	667	-
5 Total Assets	21,231	16,155	8,719
6 Current Liabilities	6,138	3,987	221
a Trade Payables	4,723	3,733	47
7 Borrowings	7,602	4,528	2,436
8 Related Party Exposure	-	1,908	948
9 Non-Current Liabilities	51	285	233
10 Net Assets	7,439	5,447	4,881
11 Shareholders' Equity	7,439	5,447	4,881

B INCOME STATEMENT

1 Sales	31,489	15,430	3,066
a Cost of Good Sold	(29,854)	(14,176)	(2,649)
2 Gross Profit	1,635	1,254	417
a Operating Expenses	(346)	(169)	(122)
3 Operating Profit	1,289	1,085	295
a Non Operating Income or (Expense)	118	185	-
4 Profit or (Loss) before Interest and Tax	1,407	1,269	295
a Total Finance Cost	(643)	(1,114)	(157)
b Taxation	(79)	(90)	(257)
6 Net Income Or (Loss)	686	66	(119)

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	1,483	1,359	320
b Net Cash from Operating Activities before Working Capital Changes	1,039	244	280
c Changes in Working Capital	(3,595)	890	(2,152)
1 Net Cash provided by Operating Activities	(2,556)	1,134	(1,872)
2 Net Cash (Used in) or Available From Investing Activities	(1,734)	(3,361)	(5,453)
3 Net Cash (Used in) or Available From Financing Activities	4,380	3,417	6,612
4 Net Cash generated or (Used) during the period	91	1,190	(713)

D RATIO ANALYSIS

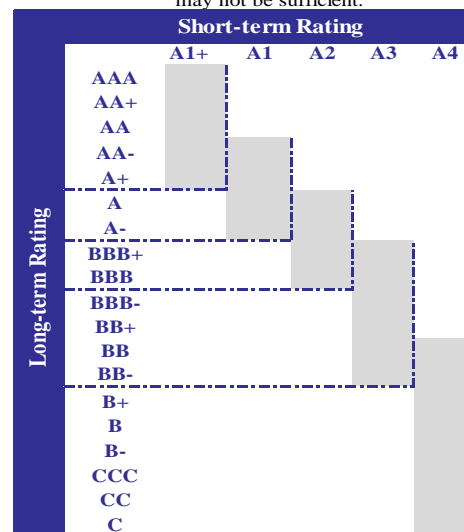
1 Performance			
a Sales Growth (for the period)	308.1%	403.2%	--
b Gross Profit Margin	5.2%	8.1%	13.6%
c Net Profit Margin	2.2%	0.4%	-3.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-6.7%	14.6%	-59.7%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shar	21.3%	1.3%	-2.4%
2 Working Capital Management			
a Gross Working Capital (Average Days)	29	90	259
b Net Working Capital (Average Days)	4	45	253
c Current Ratio (Current Assets / Current Liabilities)	2.1	2.3	15.1
3 Coverages			
a EBITDA / Finance Cost	2.3	1.8	2.6
b FCFO / Finance Cost+CMLTB+Excess STB	2.3	1.2	1.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.2	6.7	9.0
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	50.5%	54.2%	40.9%
b Interest or Markup Payable (Days)	52.3	39.7	247.4
c Entity Average Borrowing Rate	18.3%	15.8%	3.7%

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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(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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- (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).
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- (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)
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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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