The Pakistan Credit Rating Agency Limited

ENTITY RATINGS REPORT

AIR LINK COMMUNICATION (PVT.) LIMITED

ENTITY	RATINGS	OUTLOOK	ACTION
Air Link Communication (Pvt.) Limited	Long Term: BBB+ Short Term: A2	Stable	Initial

RATING RATIONALE

The ratings denote Air Link's adequate operational sustainability underpinned by its solid market position, balanced earnings contributions from its mobile business, as well as its strong financial profile. Association with strong brands, Huawei & Samsung, enables Air Link to propel the growth wheel forward.

Over the last few years, the Company has improved its business profile. During FY17, the company's topline witnessed ample growth mainly because of increase in Samsung retail business and exports. FCFO of the company witnessed decent improvement owing to higher EBITDA. The company has witnessed a decrease in interest coverage ratio. Air Link has lately been converted into a private limited company with only a two member board. The company's import driven business model is secured mostly because of 100% cash margin. The ratings incorporate that Air Link operates in a fast moving market where timely introduction and sale of products is crucial.

KEY RATING DRIVER

The ratings are dependent on the company's ability to strengthening market position, gains in EBITDA and profitability margins. Diversifying revenue channels/income streams, any deterioration to margins and/or cash flows remains critical to the ratings. Upholding strong governance is essential.

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DECEMBER 2017

AIR LINK COMMUNICATION (PVT.) LIMITED PROFILE	
Incorporated	2012
Major Business	▪ Mobile distributors
Legal Status	Un-Listed
Head Office	Lahore

INDUSTRY SNAPSHOT

Pakistan has been one of the fastest growing cellular markets. The country's teledensity increased from 6.3% in FY04 to a high of 79.9% in FY14. With the advent of 3G/4G services in Pakistan, new avenues of telecom activities have opened that cellular operators can utilize to provide innovative services, generate revenues and stabilize their market position. Additionally, with continuous investments by some of the world's telecom giants including VEON, Telenor and China Mobile, coupled with introduction of new value added services and increased coverage areas, helped in sector growth. However, after years of exponential growth, cellular industry continues to face increasing challenges is the shape of market consolidation and price competition. However, cellular market penetration is expected to continue with the advent of next generation network services.

OWNERSHIP — GOOD

- The entire shareholding of the company is distributed between Mr. Muzaffar Hayat Piracha, Mrs. Saliha Basit w/o Mr. Muazzam Hayat Piracha (Late) and her four daughters. Mr. Shaukat Hayat Piracha u/o Mr. Muazzam Hayat and Mrs. Uzma Hayat s/o Mr. Muazzam Hayat are also shareholders of the company. The shareholding structure has changed from Dec 16 to Dec 17. Formerly it was between two brothers Mr. Muazzam Hayat (50%) and Mr. Muzaffar Hayat (50%). After death of elder brother Mr. Muazzam Hayat, shareholding transferred to his wife, daughters, sister and uncle under family inheritance.

GOVERNANCE — NEEDS IMPROVEMENT

- The overall control of the company vests in two member board of directors, including the CEO Mr. Muzaffar Hayat Piracha and Mrs. Saleha Basit, head of HR committee.
- There is no independent director on the board, hence the governance structure needs improvement.
- There are two sub-committees of the board namely; (i) Audit and (ii) HR
- The audit committee reports directly to the board. The committee comprises two members, Mr. Shaukat Hayat Piracha-Chairman & Mrs. Saleha Basit-Director; a weak governance practice.
- The auditors of the company Riaz & Co. Chartered Accountants, issued an unqualified audit opinion pertaining to annual financial statements for FY17.

MANAGEMENT — ADEQUATE

- Air Link has a well-defined organizational structure with an experienced management team; a balanced mix of professionals from industry.
- The organizational structure of the company is divided into various functional departments, namely: (i) Sales-Huawei (ii) Sales-Samsung (iii) Operations, (iv) Finance & Accounts, (v) Internal Audit and Human Resource/ Administration.
- Mr. Shaukat Hayat Piracha is Chairman and Mr. Muzaffar Hayat Piracha is CEO of the company. He is assisted by a team of professionals.
- 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, vi) Business Plan Committee

SYSTEMS & CONTROLS — GOOD

- Air Link is equipped with latest SAP an ERP solution. It was successfully implemented across the company.
- MIS reports for senior management are generated frequently and are detailed in nature. Reports pertaining to following information are generated frequently of each business unit: 1) Region wise business partner report including adjustments, 2) daily stock report for all warehouses 3) product wise report of region and corporate limits.

PERFORMANCE — GOOD

- Air Link's topline mix predominantly comprises domestic sales. The company's topline is generated from two products, 1) Huawei, and 2) Samsung.
- During FY17, Airlink recorded sales of PKR 13,274 mln, registering an increase of 32.58% YoY. Increase in revenue resulted from major increase in exports and retail of Samsung mobile phones, registering a growth of 1631% & 140% respectively. However, revenue from Huawei decreased by 13.32%. Increase in revenue was accompanied by equivalent increase in cost of sales leading to a stagnant gross margin of 13.8%.
- Operating margins decreased from 11.3% to 10.95% as a result of increase in Distribution and Admin costs as a percentage of sales i.e. from 0.82% to 1.54% and from 1.06% to 1.38% respectively.
- Going forward, the company, would continue its efforts to further strengthen its market position as a leading distributor in the cellphone market. In this regard, the company plans to develop new channels for smooth flow of distribution. This will be done through establishing corporate sales division to penetrate into corporate sector.

FINANCIAL RISK — GOOD

- FCFO of the company witnessed decent improvement (FY17: PKR 704mln; FY16: PKR 554mln) owing to higher EBITDA. The company has witnessed a decrease in interest coverage ratio (FY17: 4.8x, FY16: 11.5x, FY15: 29x).
- The company has traditionally a high inventory (FY17: PKR 1,789mln, FY16: 954mln). The increase pertains to increased stock of PKR 917mln along with an inventory of parts and accessories which did not exist in the previous year.
- Airlink has a leveraged capital structure, with its reliance on short term borrowings increasing (FY17: 2,046mln, FY16: 1,090mln). However, Debt to debt plus equity ratio remained nearly constant to ~49% at FY17, (FY16: ~49%) on account of increase in equity.

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Air Link Communication (private) Limited

BALANCE SHEET	30-Jun-17	30-Jun-16	30-Jun-15
Non-Current Assets	**99**	**50**	**27**
Investments (Others)	**-**	**-**	**-**
Current Assets	**5,690**	**3,830**	**1,704**
Inventory (Finished Goods)	949	659	166
Trade Receivables	2,069	2,127	941
Other Current Assets	2,337	494	556
Cash & Bank Balances	335	550	41
Total Assets	**5,789**	**3,880**	**1,731**
Debt	**2,068**	**1,103**	**572**
Short-term	2,046	1,090	560
Long-term (Inlc. Current Maturity of long-term debt)	**22**	**12**	**12**
Trade Payables	1,378	1,299	415
Other Liabilities	218	345	118
Shareholder's Equity	**2,124**	**1,133**	**626**
Total Liabilities & Equity	**5,789**	**3,880**	**1,731**
INCOME STATEMENT			
Turnover	**13,275**	**10,013**	**5,876**
Gross Profit	1,842	1,322	764
Operating Profit	1,454	1,134	670
Financial Charges	146	48	32
Taxation	(633)	(506)	(237)
Net Income	**674**	**580**	**401**
Cashflow Statement			
Free Cashflow from Operations (FCFO)	704	554	889
Net Cash changes in Working Capital	(2,110)	(458)	-
Net Cash from Operating Activities	(1,406)	95	889
Net Cash from InvestingActivities	(66)	(44)	-
Net Cash from Financing Activities	1,257	458	-
Net Cash generated during the period	(215)	509	889
Closing Balance of Cash & Equivalents	(215)	509	889
Ratio Analysis			
Performance			
Turnover Growth	32.6%	70.4%	#DIV/0!
Gross Margin	13.9%	13.2%	13.0%
EBITDA Margin	10.2%	11.1%	15.1%
Net Margin	5.1%	5.8%	11.1%
Coverages			
Debt Service Coverage			
1. (FCFO/Gross Interest+CMLTD) (X)	5.2	12.9	31.0
2. (FCFO/Gross Interest+CMLTD+Uncovered STB) (X)	5.2	12.9	31.0
Interest Coverage			
1. (FCFO/Gross Interest) (X)	4.8	11.5	28.2
2. (EBITDA/Gross Interest) (X)	9.2	22.9	28.2
Liquidity and Cashflows			
Current ratio excluding CMLTD (X)	1.6	1.4	1.6
Net Cash Cycle (Inventory Days + Receivable Days - Payable Day	56.2	51.8	36.0

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STANDARD RATING SCALES & DEFINITIONS

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 Ratings

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 or 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.** "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 Ratings

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.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

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'.

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, a suspended rating should be considered withdrawn.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.