The Pakistan Credit Rating Agency Limited

PAKISTAN MOBILE COMMUNICATIONS LIMITED

	MARCH [MAR-16]	PREVIOUS [APR-15]
Sukuk	AA	AA
Outlook	RW	Stable

REPORT CONTENTS

MARCH 2016

Profile &Ownership

- Pakistan Mobile Communications Limited (PMCL) is the largest cellular telecommunication service provider in Pakistan.
- The GSM cellular network operates under the brand name of Mobilink.
- The ultimate sponsors of the company are Vimpelcom with 51% indirect holding in PMCL via Global Telecom Holdings.

Governance

- The seven-member Board of Directors (BoD) is majorly composed of representatives from Vimpelcom
- The board comprises of three executive directors comprising CEO, CFO and the company secretary.
- The board comprises highly qualified and experienced professionals holding senior positions in group companies.
- Mr. Yogesh Malik is the new Chairman of the Board and holds the position of Chief Technical Officer in Vimpelcom, the parent company.

Management

- PMCL has an experienced top management team with requisite background and qualification.
- PMCL has witnessed changes at the positions of CFO, CCO and CTO in CY15
- The top management has been educated from distinguished educational institutions. In addition, the top management has both local and foreign experience.
- Mr. Jeffrey Hedberg, the CEO of Mobilink has more than twenty six years of experience, majorly in telecom sector.

Business Risk

- During CY15, despite a decrease in subscriber base (~6%) of Mobilink, PMCL aptly sustained its market share as the total subscriber base also declined owing to sim verification drive by PTA.
- Despite lower subscriber base YoY, PMCL's top-line largely remained the same (Sep15: PKR 69,775mln; Sep14: PKR 70,019mln) attributable to growth in ARPUs.
- Exchange losses and higher finance cost pushed the company into net loss before taxation as against profit in the same period last year (LBT Sep15: PKR 1,888mln; PBT Sep14: PKR 1,710mln).
- Going forward, the company would continue its efforts to further strengthen its market position.
- Merger with Warid is also on the table and would be finalized once approval from regulators falls through.
- The finalization of the merger would bring cost efficiencies, increase market share and add 4G services to PMCL's product portfolio.

Financial Risk

- The company maintains reasonably good cash conversion ratio; though it has declined considerably YoY (FCFO adjusted for WC/sales Sep15: 24%; Sep14: 46%) due to increase in working capital requirements.
- FCFO of the company witnessed decent improvement (Sep15: PKR 26,964mln; Sep14: PKR 21,024mln) owing to higher EBITDA; resultantly improvement in coverages was observed YoY (FCFO/Gross Interest Sep15: 7.7x; Sep14: 6.7x).
- The company continues to enjoy negative net cash cycle (Sep15: -73days, Dec14: -134days, Sep14: -113days,) mainly benefiting from stretched creditors' days as agreed with the suppliers.
- PMCL's capital structure, though improved yet remains moderately high leveraged and is expected to increase further post-merger(Debt/Debt+Equity Dec16F: 74%; Sep15: 56%; Sep14: 71%)
- PMCL's 3rd TFC of PKR 2,000mln issued in Apr-12 is expected to mature in Apr-16.
- The company has also issued a sukuk of PKR 6,900mln completely disbursed in Sep-15 and expected to mature in Dec-19.

RATING RATIONALE

PMCL is the largest cellular operator with 28% local market share at end-Dec15. The company has managed to sustain its market leadership position, which is likely to fortify with planned acquisition. Vimpelcom and Abu Dhabi Group have signed an agreement on November 26, 2015 to merge their telecom subsidiaries in Pakistan - PMCL and Warid respectively. The transaction is in the process of relevant approvals from the regulators. As per terms of agreement, PMCL will acquire 100% shares of Warid whereas Abu Dhabi Group will get 15% shares in the PMCL, thereby keeping the transaction non-cash. PACRA considers the merged entity better positioned to withstand competitive pressures; thus stronger business profile as the company would be enabled to, i) increase its market share and ii) establish its foorprint in fast emerging 4G/LTE services. Although leveraging of merged entity would be higher, cost efficiencies are expected to support EBITDA, in turn coverages.

KEY RATING DRIVERS

Technological infrastructure optimization coupled with expansion in network coverage has benefited PMCL's business profile, as data and voice ARPUs witnessed growth. 3G related debt funded CAPEX plan may result in higher leveraging, existing and new cashflows are expected to keep coverages adequate. Meanwhile, discretion of the sponsor in receiving management fee and availability of supplier credit add comfort. The ratings would remain under "Rating Watch" till the conclusion of ongoing transaction.

Pakistan Mobile Communications Limited PKR mln

BALANCE SHEET	30-Sep-15	31-Dec-14	31-Dec-13	31-Dec-12
	9M	Annual	Annual	Annual
Non-Current Assets	**126,540**	**137,047**	**98,781**	**116,154**
Investments (Others)	**5,317**	**5,301**	**6,292**	**7,847**
Current Assets	**12,443**	**11,553**	**17,074**	**19,731**
Inventory (Finished Goods)	252	222	250	676
Trade Receivables	2,888	1,980	1,960	2,290
Other Current Assets	5,699	3,821	3,943	10,217
Cash & Bank Balances	3,604	5,530	10,921	6,549
Total Assets	**144,300**	**153,901**	**122,147**	**143,732**
Debt	**41,149**	**40,875**	**20,519**	**49,640**
Short-term	-	-	23	500
Long-term (Inlc. Current Maturity of long-term debt)	**41,149**	**40,875**	**20,496**	**49,140**
Trade Payables	11,344	20,672	13,839	16,143
Due to Associates	442	136	18,940	12,762
Provision for Taxation	4,729	4,943	60	-
Other Liabilities	53,966	52,331	48,396	38,870
Shareholder's Equity	**32,670**	**34,944**	**20,393**	**26,317**
Total Liabilities & Equity	**144,300**	**153,901**	**122,147**	**143,732**
INCOME STATEMENT				
Turnover	**69,775**	**92,379**	**99,394**	**101,871**
Gross Profit	17,222	28,029	25,158	38,504
Operating Profit	(611)	7,193	(3,711)	11,205
Other Income	2,773	3,138	2,809	1,469
Financial Charges	(3,507)	(4,473)	(8,109)	(9,363)
Taxation	156	(8,957)	2,114	(4,141)
Net Income	**(1,732)**	**(1,438)**	**(5,947)**	**641**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	27,385	32,760	33,984	36,445
Net Cash changes in Working Capital	(10,015)	10,758	19,511	(1,546)
Net Cash from Operating Activities	14,945	40,269	49,053	28,845
Net Cash from InvestingActivities	(16,722)	(67,840)	(12,534)	(19,302)
Net Cash from Financing Activities	(149)	20,681	(30,647)	(5,347)
Net Cash generated during the period	(1,926)	(6,891)	5,872	4,196
Closing Balance of Cash & Equivalents	3,604	5,530	12,421	6,549
Ratio Analysis				
Performance				
Turnover Growth	-0.3%	-7.1%	-2.4%	13.7%
Gross Margin	24.7%	30.3%	25.3%	37.8%
EBITDA Margin	41.1%	40.1%	35.4%	36.6%
Net Margin	-2.5%	-1.6%	-6.0%	0.6%
ROE	-5.4%	-3.2%	-24.4%	2.3%
Coverages				
Debt Service Coverage				
1. (FCFO/Gross Interest+CMLTD) (X)	2.5	2.5	2.1	0.9
2. (FCFO/Gross Interest+CMLTD+Uncovered STB) (X)	1.0	2.5	2.1	0.9
Interest Coverage				
1. (FCFO/Gross Interest) (X)	7.8	7.3	4.2	3.9
2. (EBITDA/Gross Interest) (X)	8.2	8.3	4.3	4.0
Liquidity and Cashflows				
Current ratio excluding CMLTD (X)	0.2	0.2	0.3	0.5
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	-72.6	-133.7	-71.7	-68.7
Capital Structure (Total Debt/Total Debt+Equity)	55.7%	53.9%	50.2%	65.4%

The Pakistan Credit Rating Agency Limited

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.

Regulatory and Supplementary Disclosure

Name of Issuer	Pakistan Mobile Communications Limited (PMCL)
Name of Issue	PMCL | Listed Sukuk
Sector	Communication
Type of Relationship	Solicited
Purpose of the Rating	Independent Risk Assessment
Ammortization Schedule	See Annexure B

Rating History

Dissemination Date	Long Term	Outlook	Action
30-Apr-15	AA	Stable	Update
19-Dec-14	AA	Stable	Initial
19-May-14	AA	Stable	Preliminary
07-Jan-14	AA	Stable	Preliminary

Instrument Details

Nature of Instrument	Size of Issue (PKR mln)	Tenor (yrs)	Trustee	Security Details			Book Value of Assets (PKR mln)
				Nature of Security	Quantum (PKR mln)	Nature of Assets	
Sukuk	6,900	5	Silk Bank Limited	1. 1st pari passu floating charge on all present and future assets.	25% over and above total value	Moveable Fixed Assets	100,000
				2. 1st pari passu floating charge on future and present collections of the Company	25% over and above total value	Receivables of the Company from Debtors	100,000
				3. Partial Credit Guarantee by Guarant Co.	966	3rd Party Guarantee	-

Related Criteria and Research
Telecom Industry - Viewpoint | Jan-16

Rating Methodology
Corporate Rating Methodology

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Rating Team Statement

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PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

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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

Regulatory and Supplementary Disclosure

Repayment Schedule Sukuk Annexure B

SUKUK Amount (PKR mln)	6,900
Period (years)	5
Repayment	Quarterly
Pricing	3 K + 0.88%

Pakistan Mobile Communications Limited | Sukuk | Redemption Schedule

Due Date Principle*	Opening Principal	Principal Repayment*	Due Date Markup/ Profit*	Markup/Profit Rate	3M Kibor	Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln					PKR in mln		
22-Dec-14	3,000							3,000
22-Mar-15			22-Mar-15	3 Month Kibor +0.88%	9.67%	78	78	3,000
22-Jun-15			22-Jun-15	3 Month Kibor +0.88%	8.18%	69	69	3,000
22-Sep-15	3,900		22-Sep-15	3 Month Kibor +0.88%	8.18%	69	69	6,900
22-Dec-15			22-Dec-15	3 Month Kibor +0.88%	8.18%	141	141	6,900
22-Mar-16			22-Mar-16	3 Month Kibor +0.88%	8.18%	141	141	6,900
22-Jun-16			22-Jun-16	3 Month Kibor +0.88%	8.18%	141	141	6,900
22-Sep-16			22-Sep-16	3 Month Kibor +0.88%	8.18%	141	141	6,900
22-Dec-16			22-Dec-16	3 Month Kibor +0.88%	8.18%	141	141	6,900
22-Mar-17		575	22-Mar-17	3 Month Kibor +0.88%	8.18%	129	704	6,325
22-Jun-17		575	22-Jun-17	3 Month Kibor +0.88%	8.18%	118	693	5,750
22-Sep-17		575	22-Sep-17	3 Month Kibor +0.88%	8.18%	106	681	5,175
22-Dec-17		575	22-Dec-17	3 Month Kibor +0.88%	8.18%	94	669	4,600
22-Mar-18		575	22-Mar-18	3 Month Kibor +0.88%	8.18%	82	657	4,025
22-Jun-18		575	22-Jun-18	3 Month Kibor +0.88%	8.18%	71	646	3,450
22-Sep-18		575	22-Sep-18	3 Month Kibor +0.88%	8.18%	59	634	2,875
22-Dec-18		575	22-Dec-18	3 Month Kibor +0.88%	8.18%	47	622	2,300
22-Mar-19		575	22-Mar-19	3 Month Kibor +0.88%	8.18%	35	610	1,725
22-Jun-19		575	22-Jun-19	3 Month Kibor +0.88%	8.18%	24	599	1,150
22-Sep-19		575	22-Sep-19	3 Month Kibor +0.88%	8.18%	12	587	575
22-Dec-19		575	22-Dec-19	3 Month Kibor +0.88%	8.18%	12	587	-
		6,900				**1,709**	**8,609**	