

## RATING REPORT

### Pakistan Telecommunication Company Limited

**REPORT DATE:**

May 08, 2023

**RATING ANALYSTS:**

Maham Qasim

[maham.qasim@vis.com.pk](mailto:maham.qasim@vis.com.pk)

Qudsia Abbas

[qudsia.abbas@vis.com.pk](mailto:qudsia.abbas@vis.com.pk)**RATING DETAILS**

| Rating Category | Preliminary Sukuk Rating |
|-----------------|--------------------------|
| Sukuk           | AAA                      |
| Rating Date     | May 8, 2023              |
| Rating Outlook  | Stable                   |
| Rating Action   | Preliminary              |

**COMPANY INFORMATION**

|                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                          |
|-------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Incorporated in 1995</b>                                                                                                   | <b>External auditors:</b> KPMG Taseer & Hadi Co.,<br>Chartered Accountants.                                                                                                                                                                                                                                                                              |
| <b>Public Listed Company</b>                                                                                                  |                                                                                                                                                                                                                                                                                                                                                          |
| <b>Key Shareholders (with stake 5% or more):</b><br>The Government of Pakistan (62%)<br>Etisalat International Pakistan (26%) | <b>President &amp; CEO:</b> Mr. Hatem Mohamed Bamatraf<br><b>Board of Directors:</b> <ul style="list-style-type: none"><li>- Mohsin Mushtaq Chandana (Chairman)</li><li>- Abdulrahim A. Al Nooryani</li><li>- Hatem Dowidar</li><li>- Hesham Al Qassim</li><li>- Dr. Mohamed Karim Bennis</li><li>- Burak Sevilengul</li><li>- Mikhail Gerchuk</li></ul> |

**APPLICABLE METHODOLOGY(IES)**

VIS Entity Rating Criteria: Corporate Rating Methodology (August 2021)

<https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf>

## Pakistan Telecommunication Company Limited

## OVERVIEW OF THE INSTITUTION

Pakistan Telecommunication Company Limited (PTCL) was incorporated in 1995 and provides telecommunication services in Pakistan through ownership of required facilities and infrastructure with a reach expanding across the country.

PTCL was privatized in 2006 through the sale of Class B shares. Etisalat International Pakistan (EIP), a 90% owned subsidiary of Etisalat group, being the highest bidder, acquired a 26% stake in PTCL with the management control. Each Class B share has four voting rights for election of directors.

The majority shareholding remains with Government of Pakistan (GoP) which holds 62% of PTCL shares.

## RATING RATIONALE

Pakistan Telecommunication Company Limited ('PTCL' or 'the Company') is the leading Integrated Information Communication Technology (ICT) Company in Pakistan, with the country's largest fixed-line network. The company's products and services include voice services, high-speed broadband internet, Fiber to the Home (FTTH) services, Charji wireless internet, Smart TV (IPTV) service, Smart TV App and Touch App, digital-content streaming services like Netflix and icflix, and enterprise-grade platforms like Smart Cloud, Tier-3 Certified Data Centers, Managed and Satellite Services. The rating incorporates the fact that by way of a privatization agreement, the minority shareholder, Etisalat Group, has the management control.

**Issue Details**

PTCL plans to issue a medium-term, rated, secured Sukuk (DSLRL Listed) to eligible investors amounting to Rs. 5.0b inclusive of a Green Shoe Option of Rs. 1.0b.

**Purpose:** The issue amount will be utilized by PTCL for its own CAPEX requirement in medium-term to long-term and equity/subordinated loan injection in Ufone, a subsidiary of PTCL, which will ultimately be utilized for prepayment of licensing fee/CAPEX in Ufone.

**Tenor & Repayments:** The instrument will have a tenor of five years starting from the issue date inclusive of a grace period of two years. Principal payments will be made in six semi-annual equal consecutive installments. The first such installment will fall due 30 months from the issue date and subsequently at the end of every six months.

**Profit Rate:** The instrument carries profit of base rate plus 90 bps per annum, where the base rate is defined as five years Pakistan Revaluation Rate (PKRV) prevailing on the base rate date. The Base Rate will be locked on the base rate date and will remain unchanged for an entire tenor of the instrument. The profit will be payable semi-annually in arrears on the outstanding principal amount and will be calculated on a 365/366-day-year basis. The first such profit payment will fall due six months from each issue date.

**Security Structure:** The Sukuk will be secured by creating the first pari passu hypothecation charge over all present and future fixed assets (excluding land, building, and licenses) of the Company with a 25% margin; the same amounted to Rs. 104.0b at end-FY22.

**Call Option:** The instrument will have a call option in place, giving the Issuer the right to partially/completely repay the principal amount of sukuk subject to 30 day prior notice any time after one year from the issue date.

**Entity Rating Requirement:** The Issuer needs to get rated by either of the two rating agencies operating in the country. The rating must be renewed annually.

**Rating Drivers****Strong Sponsors & Management Profile**

The assigned ratings incorporate strong sponsor profile, given that major shareholding (62.2%) is held by the Government of Pakistan (GoP) while Etisalat Group holds equity stake of 26% in the Company. Having 46 years of operating experience, Etisalat is present in 16 countries and is one of the largest telecom operators in the world. In addition to being a minority shareholder, Etisalat Group also holds management control of PTCL. The assigned ratings incorporate the financial soundness and management acumen of Etisalat Group. The Group is rated AA- and Aa3 by S&P and Moody's, respectively.

### **The rating incorporates leading market positioning of PTCL in Fixed-Line Voice and Wireline Broadband & IPTV and Revenue Base Diversification**

Ratings draw support from PTCL's leading market position in Fixed-line Voice and Wireline Broadband & IPTV. Under Wireline Broadband, PTCL is focusing on Fiber to the Home (FTTH), wherein the Company continued to migrate its existing broadband subscribers to FTTH. PTCL holds the second position in FTTH segment, in terms of market share. Broadband & IPTV revenue share has increased on a timeline.

### **Sound Corporate Governance Framework**

- In accordance with the provisions of Share Purchase Agreement between GoP and Etisalat Group as well as under the Articles of Associations of PTCL, the GoP has four nominees while Etisalat Group has five nominees on the Board.
- Management team comprises qualified personnel and is supported by a well-designed organizational structure which has been made significantly leaner through 3 Voluntary Separation Schemes undertaken during the decade.
- PTCL has implemented a SAP-based Enterprise Resource Planning system. Detailed and timely annual report disclosures bode well from a transparency perspective and provide important information to stakeholders.

**Pakistan Telecommunication Company Limited**
**Annexure I**

| <b>FINANCIAL SUMMARY (Unconsolidated)</b> |                | <i>(amounts in PKR millions)</i> |                |                |  |
|-------------------------------------------|----------------|----------------------------------|----------------|----------------|--|
| <b><u>BALANCE SHEET</u></b>               | <b>2019</b>    | <b>2020</b>                      | <b>2021</b>    | <b>2022</b>    |  |
| Property, Plant, and Equipment            | 116,720        | 114,666                          | 121,508        | 131,490        |  |
| Trade Debts                               | 20,259         | 23,150                           | 27,937         | 39,293         |  |
| Income Tax Recoverable                    | 17,756         | 18,373                           | 18,548         | 21,138         |  |
| Short Term Investments                    | 7              | 6,212                            | -              | -              |  |
| Long Term Investments                     | 8,936          | 17,736                           | 30,736         | 44,736         |  |
| Cash & Bank Balances                      | 4,168          | 5,764                            | 2,556          | 5,685          |  |
| <b>Total Assets</b>                       | <b>209,994</b> | <b>223,600</b>                   | <b>245,735</b> | <b>305,160</b> |  |
| Trade and Other Payables                  | 78,262         | 88,457                           | 103,320        | 124,933        |  |
| Long-Term Debt (Inc. Lease Liab.)         | 1,105          | 1,409                            | 1,729          | 24,067         |  |
| Short Term Debt                           | -              | -                                | -              | 93             |  |
| <b>Total Debt</b>                         | <b>1,105</b>   | <b>1,409</b>                     | <b>1,729</b>   | <b>24,160</b>  |  |
| Paid up Capital                           | 51,000         | 51,000                           | 51,000         | 51,000         |  |
| Tier -1/Total Equity                      | 87,751         | 94,010                           | 99,653         | 108,054        |  |
| <b><u>INCOME STATEMENT</u></b>            |                |                                  |                |                |  |
| Revenue                                   | 71,548         | 71,804                           | 76,853         | 83,444         |  |
| Gross Profit                              | 16,979         | 14,997                           | 16,533         | 18,233         |  |
| Operating Profit                          | 4,939          | 3,447                            | 4,168          | 4,881          |  |
| Profit Before Tax                         | 9,331          | 8,493                            | 9,682          | 13,513         |  |
| Profit After Tax                          | 6,347          | 6,030                            | 6,874          | 9,053          |  |
| <b><u>RATIO ANALYSIS</u></b>              |                |                                  |                |                |  |
| Gross Margin (%)                          | 24%            | 21%                              | 22%            | 22%            |  |
| Net Margin                                | 9%             | 8%                               | 9%             | 11%            |  |
| Trade debts/Sales                         | 28%            | 32%                              | 36%            | 47%            |  |
| FFO                                       | 23,237         | 23,109                           | 25,560         | 26,683         |  |
| FFO to Total Debt                         | 21.0           | 16.4                             | 14.8           | 1.10           |  |
| FFO to Long-Term Debt                     | 21.0           | 16.4                             | 14.8           | 1.11           |  |
| Current Ratio (x)                         | 0.87           | 0.86                             | 0.76           | 0.85           |  |
| Debt Servicing Coverage Ratio (x)         | 194.77         | 71.59                            | 57.76          | 45.63          |  |
| Gearing (x)                               | 0.01           | 0.01                             | 0.02           | 0.22           |  |
| Leverage (x)                              | 1.39           | 1.38                             | 1.47           | 1.82           |  |
| ROAA (%)                                  | 3%             | 3%                               | 3%             | 3%             |  |
| ROAE (%)                                  | 7%             | 7%                               | 7%             | 9%             |  |

\* Ratios Annualized

## ISSUE/ISSUER RATING SCALE &amp; DEFINITIONS

## Appendix II

## VIS Credit Rating Company Limited

### RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

#### Medium to Long-Term

##### AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

##### AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

##### A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

##### BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

##### BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

##### B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

##### CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

##### CC

A high default risk

##### C

A very high default risk

##### D

Defaulted obligations

#### Short-Term

##### A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

##### A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

##### A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

##### A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

##### B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

##### C

Capacity for timely payment of obligations is doubtful.

**Rating Watch:** VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. [www.vis.com.pk/images/criteria\\_watch.pdf](http://www.vis.com.pk/images/criteria_watch.pdf)

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. [www.vis.com.pk/images/criteria\\_outlook.pdf](http://www.vis.com.pk/images/criteria_outlook.pdf)

**(SO) Rating:** A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

**(blr) Rating:** A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. [www.vis.com.pk/images/policy\\_ratings.pdf](http://www.vis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

| REGULATORY DISCLOSURES                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Appendix III |                |               |             |             |            |                |               |                                       |  |  |  |  |              |     |  |        |             |
|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|----------------|---------------|-------------|-------------|------------|----------------|---------------|---------------------------------------|--|--|--|--|--------------|-----|--|--------|-------------|
| <b>Name of Rated Entity</b>             | Pakistan Telecommunication Company Limited                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |              |                |               |             |             |            |                |               |                                       |  |  |  |  |              |     |  |        |             |
| <b>Sector</b>                           | Telecommunication Industry                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |              |                |               |             |             |            |                |               |                                       |  |  |  |  |              |     |  |        |             |
| <b>Type of Relationship</b>             | Solicited                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |              |                |               |             |             |            |                |               |                                       |  |  |  |  |              |     |  |        |             |
| <b>Purpose of Rating</b>                | Sukuk Rating                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |              |                |               |             |             |            |                |               |                                       |  |  |  |  |              |     |  |        |             |
| <b>Rating History</b>                   | <p style="text-align: center;">Medium to</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 20%;">Rating Date</th> <th style="width: 20%;">Long Term</th> <th style="width: 20%;">Short Term</th> <th style="width: 20%;">Rating Outlook</th> <th style="width: 20%;">Rating Action</th> </tr> </thead> <tbody> <tr> <td colspan="5" style="text-align: center;"><b><u>RATING TYPE: INSTRUMENT</u></b></td> </tr> <tr> <td>May 08, 2023</td> <td>AAA</td> <td></td> <td>Stable</td> <td>Preliminary</td> </tr> </tbody> </table>                                       |              |                |               | Rating Date | Long Term   | Short Term | Rating Outlook | Rating Action | <b><u>RATING TYPE: INSTRUMENT</u></b> |  |  |  |  | May 08, 2023 | AAA |  | Stable | Preliminary |
| Rating Date                             | Long Term                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Short Term   | Rating Outlook | Rating Action |             |             |            |                |               |                                       |  |  |  |  |              |     |  |        |             |
| <b><u>RATING TYPE: INSTRUMENT</u></b>   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |              |                |               |             |             |            |                |               |                                       |  |  |  |  |              |     |  |        |             |
| May 08, 2023                            | AAA                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |              | Stable         | Preliminary   |             |             |            |                |               |                                       |  |  |  |  |              |     |  |        |             |
| <b>Statement by the Rating Team</b>     | VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.                                                                                                                                                                                                                                                                                                                                  |              |                |               |             |             |            |                |               |                                       |  |  |  |  |              |     |  |        |             |
| <b>Probability of Default</b>           | VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.                                                                                                                                                                                                                                                                                                                                      |              |                |               |             |             |            |                |               |                                       |  |  |  |  |              |     |  |        |             |
| <b>Disclaimer</b>                       | Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. . For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2023 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS. |              |                |               |             |             |            |                |               |                                       |  |  |  |  |              |     |  |        |             |
| <b>Due Diligence Meetings Conducted</b> | <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;">Name</th> <th style="width: 30%;">Designation</th> <th style="width: 20%;">Date</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> </tr> <tr> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>                                                                                                                                                                                                                                                                                             |              |                |               | Name        | Designation | Date       |                |               |                                       |  |  |  |  |              |     |  |        |             |
| Name                                    | Designation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Date         |                |               |             |             |            |                |               |                                       |  |  |  |  |              |     |  |        |             |
|                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |              |                |               |             |             |            |                |               |                                       |  |  |  |  |              |     |  |        |             |
|                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |              |                |               |             |             |            |                |               |                                       |  |  |  |  |              |     |  |        |             |