

## RATING REPORT

### Pakistan Telecommunication Company Limited (PTCL)

**REPORT DATE:**

September 16, 2024

**RATING ANALYSTS:**

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Rating Category	Sukuk Rating
Short-term Sukuk VI	A-1+
Rating Date	September 16, 2024
Rating Action	Final

**COMPANY INFORMATION**

<b>Incorporated in 1995</b>	<b>External auditors:</b> KPMG Taseer & Hadi Co., Chartered Accountants.
<b>Public Listed Company</b>	
<b>Key Shareholders (with stake 5% or more):</b> The Government of Pakistan (62.18%) Etisalat International Pakistan (26%)	<b>President &amp; CEO:</b> Mr. Hatem Mohamed Bamatraf <b>Chairman:</b> Capt. (Retd.) Muhammad Mahmood <b>Board of Directors:</b> <ul style="list-style-type: none"><li>- Mr. Abdulrahim A. Al Nooryani</li><li>- Mr. Ahad Khan Cheema</li><li>- Mr. Khaled Hegazy</li><li>- Mr. Imad Ullah Bosal</li><li>- Dr. Mohamed Karim Bennis</li><li>- Ms. Brooke Marie Lindsay</li><li>- Mr. Khalid Murshed</li><li>- Mr. Jawad Paul Khawaja</li></ul>

**APPLICABLE METHODOLOGY(IES)****Industrial Corporates**<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>**Rating the Issue**<https://docs.vis.com.pk/docs/Rating-the-Issue-Aug-2023>**VIS Issue/Issuer Rating Scale**<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

## Pakistan Telecommunication Company Limited

### OVERVIEW OF THE INSTITUTION

**Pakistan Telecommunication Company Limited (PTCL)**, originally established as a state owned corporation (PTC), was incorporated in 1995. PTCL is a major provider of telecommunication services in Pakistan, with an extensive network infrastructure and facilities that enable widespread service coverage across the country.

In 2006, PTCL was privatized through the sale of Class B shares. Etisalat International Pakistan (EIP), a 90% owned subsidiary of the Etisalat Group, emerged as the highest bidder, acquiring a 26% equity stake in PTCL along with management control. Each Class B share carries four voting rights specifically for the election of directors. The majority ownership remains with the Government of Pakistan (GoP), which retains 62% of the total shares in PTCL.

### RATING RATIONALE

#### Corporate Profile:

**Pakistan Telecommunication Company Limited (PTCL or "the Company")**, originally established as a state-owned entity under the Pakistan Telecommunication Corporation (PTC), was incorporated on December 31, 1995, and commenced operations on January 1, 1996. PTCL is listed on the Pakistan Stock Exchange (PSX) and was formed to take over the telecommunication business previously managed by PTC. The Company's registered office is located at the PTCL Head Office in Islamabad.

The Company is a leading provider of telecommunication services in Pakistan, owning and operating extensive telecommunication infrastructure across the country. It offers a wide range of domestic and international telephone and communication services. Additionally, the Company is licensed to provide these services in the regions of Azad Jammu and Kashmir and Gilgit Baltistan. The Company's portfolio includes wholly owned subsidiaries such as Pak Telecom Mobile Limited (UFONE), a prominent mobile service provider, and U-Microfinance Bank Limited, which operates in the microfinance banking sector.

#### Issued Short-Term Sukuk-6 ('STS-6'):

- PTCL issued a rated, unsecured, privately placed Sukuk (STS-6), of PKR 10 bln on July 15<sup>h</sup>, 2024.
- The proceeds from the issue will be utilized to finance the working capital requirements of the Company.
- The Sukuk employs a Musharakah structure, relying on Shirkat-ul-Aqd for participation in PTCL's service and trade activities.
- Tenor of the instrument is up to six (06) months from the date of drawdown.
- The Sukuk is callable after three months from the issue date.
- Profit rate on the instrument is set at 6M KIBOR + 20 bps per annum and is payable at the time of the maturity of the Sukuk along with the principal payment.

#### Key Rating Drivers:

##### **Strong Sponsors & Management Profile**

The assigned rating incorporates the strong sponsor profile, with the Government of Pakistan (GoP) holding a major shareholding of 62.2% and the Etisalat Group owning a 26% equity stake in the Company. Etisalat, with 46 years of operational experience, is one of the world's largest telecom operators, with a presence in 16 countries. Besides being a significant minority shareholder, Etisalat Group also exercises management control over PTCL. The ratings also factor in the financial strength and management expertise of Etisalat Group, which holds credit ratings of AA- from S&P and Aa3 from Moody's.

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

The Company offers a diverse range of products and services, including voice services, broadband internet, Fiber to the Home (FTTH), CharJi wireless internet, Smart TV (IPTV), Smart Link App, Touch App, and digital content streaming via Starzplay. It also provides enterprise solutions such as Smart Cloud, Tier-3 Certified Data Centers, and Managed and Satellite Services. The ratings are supported by PTCL's strong market leadership in Fixed-line Voice, Wireline Broadband, and IPTV. With a strategic focus on upgrading its existing customer base to premium FTTH services, PTCL has expanded its fiber network to 63,000 km, making it the second-largest FTTH operator in the country. The Company is also concentrating on growing its wholesale and corporate business segments to drive future growth.

**Medium business risk profile characterized by low cyclicity, highly capital intensive nature, and high barriers to entry**

The ratings are further supported by the medium business risk profile of the telecom sector, driven by the industry's non-cyclical nature, the reliance of other operators on the Company's infrastructure, and the low sensitivity of operations to inflationary pressures. Additionally, the business risk profile takes into account the capital-intensive and highly regulated nature of the sector, which serves as a significant barrier to entry for new competitors.

**Sound Corporate Governance Framework**

- According to the provisions of the Share Purchase Agreement between the Government of Pakistan (GoP) and Etisalat Group, as well as the Articles of Association of PTCL, the Board of Directors comprises nine members, with four nominees representing the GoP and five nominees from the strategic investor, Etisalat Group. All board members are non-executive directors.
  - A formal and effective mechanism has been established for the annual evaluation of the Board's performance, as well as that of its committees.
  - The management team consists of qualified professionals supported by a well-structured organizational framework, which has been streamlined significantly through three Voluntary Separation Schemes executed over the past decade.
  - PTCL has also implemented a SAP-based Enterprise Resource Planning (ERP) system. The Company's detailed and timely annual report disclosures enhance transparency and provide valuable information to stakeholders.
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**Pakistan Telecommunication Company Limited**
**Annexure I**

FINANCIAL SUMMARY (Rs. in millions)				
BALANCE SHEET	FY21	FY22	FY23	1H FY24
Property, plant and equipment	121,507.9	131,489.6	144,017.8	153,721.3
Long term Investments	30,736.3	44,736.3	71,836.3	74,236.3
Stock-in-Trade	5,575.0	7,636.6	9,433.3	9,922.7
Trade Debts	27,936.7	39,293.5	52,587.4	55,351.8
Cash & Bank Balances	2,556.2	5,685.0	10,029.3	12,975.0
Total Assets	245,735.3	305,159.8	387,601.6	418,170.9
Trade and Other Payables	103,320.1	124,932.6	141,423.8	146,201.7
Long Term Debt	-	22,448.4	51,020.7	56,230.4
Short Term Debt	-	92.6	24,214.7	39,736.4
Total Debt	-	22,540.9	75,235.4	95,966.9
Total Liabilities	146,082.2	197,105.8	270,233.6	299,665.3
Paid Up Capital	51,000.0	51,000.0	51,000.0	51,000.0
Total Equity	99,653.1	108,054.0	117,368.2	118,505.2

INCOME STATEMENT	FY21	FY22	FY23	1H FY24
Net Sales	76,853.1	83,444.0	96,266.7	52,700.4
Gross Profit	16,532.7	18,232.7	20,165.0	13,518.0
Operating Profit	5,638.7	6,587.7	6,484.1	6,802.1
Profit Before Tax	9,682.4	13,512.5	13,905.9	1,734.9
Profit After Tax	6,874.7	9,053.4	9,390.5	1,137.1

RATIO ANALYSIS	FY21	FY22	FY23	1H FY24
Gross Margin (%)	21.5%	21.9%	20.9%	25.7%
Operating Margin (%)	7.3%	7.9%	6.7%	12.9%
Net Margin (%)	8.9%	10.8%	9.8%	2.2%
Trade debts/Sales	36.4%	47.1%	54.6%	105.0%
FFO*	26,367.6	28,308.0	25,002.1	28,173.4
FFO to Total Debt (%)*	N/A	1.26	0.33	0.29
FFO to Long Term Debt (x)*	N/A	1.26	0.49	0.50
Current Ratio (x)	0.76	0.83	0.80	0.77
Debt Servicing Coverage Ratio (x)*	N/A	13.41	3.17	2.82
Gearing (x)	N/A	0.21	0.64	0.81
Leverage (x)	1.47	1.82	2.30	2.53
(Stock in Trade+Trade Debts)/STD	N/A	506.90	2.56	1.64
ROAA (%)*	2.8%	3.3%	2.7%	0.6%
ROAE (%)*	6.9%	8.7%	8.3%	1.9%

\*Annualized

<b>REGULATORY DISCLOSURES</b>		<b>Appendix II</b>	
<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>	Short-term Sukuk VI Rating		
<b>Rating History</b>	<b>Rating Date</b>	<b>Ratings</b>	<b>Rating Action</b>
	<b>Short Term Sukuk VI</b>		
	09/16/2024	A-1+	Final
	07/11/2024	A-1+	Preliminary
<b>Instrument Structure</b>	<p>PTCL issued a rated, unlisted, unsecured, callable after three months from issue date, privately placed Short-Term Sukuk (STS-6) of PKR 10 billion on July 15, 2024, structured in accordance with Shariah principles. The funds will be utilized to meet the Company's working capital requirements. The sukuk has a tenor of six months from the drawdown date. Profit will be payable at maturity, calculated at a base rate of 6-Month KIBOR plus a spread of 20 basis points per annum.</p>		
<b>Statement by the Rating Team</b>	<p>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.</p>		
<b>Probability of Default</b>	<p>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.</p>		
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<b>Due Diligence Meetings Conducted</b>	N/A		