RATING REPORT

Pakistan Telecommunication Company Limited (PTCL)

REPORT DATE:
January 10, 2025

RATING ANALYSTS:
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RATING DETAILS	
Rating Category	**Preliminary Sukuk Rating**
Short-term Sukuk X	A1+ (plim)
Rating Date	January 10, 2025
Rating Action	Preliminary

COMPANY INFORMATION	
Incorporated in 1995	**External auditors:** EY Ford Rhodes.
Public Listed Company	
Key Shareholders (with stake 5% or more): The Government of Pakistan (62.18%) Etisalat International Pakistan (26%)	**President & CEO:** Mr. Hatem Mohamed Bamatraf **Board of Directors:** - Azfar Manzoor (Chairman) - Abdulrahim A. Al Nooryani - Khalid Murshed - Ms. Brooke Lindsay - Mr. Jawad Paul Khawaja - Dr. Mohamed Karim Bennis - Mr. Imad Ullah Bosal - Ahad Khan Cheema - Khalid Hegazy

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	RATING RATIONALE

***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.

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.

Short-Term Sukuk-10 ('STS-10'):

- PTCL plans to issue a rated, unsecured, privately placed Short Term Sukuk (STS-10), up to PKR 10 bln to finance the working capital requirements.
- The Sukuk will employ a suitable shariah compliant mode of short-term Islamic Finance facility.
- Tenor of the instrument is up to six (06) months from the date of issuance.
- The Sukuk is callable in full or part the outstanding face value of the Sukuk after three months from the issue date.
- Profit rate on the instrument will be 3 Month KIBOR+ 0.05%.
- Profit is payable at the time of the maturity of the Sukuk along with the principal payment.

Key Rating Drivers:

The rating takes into account Strong Sponsor profile

The assigned rating incorporates the strong sponsor profile, with the Government of Pakistan (GoP) holding a major shareholding of 62.2% while the Etisalat Group owning a 26% equity stake in the Company. Etisalat, with 48 years of operational experience, is one of the world's largest telecom operators, with a presence in 32 countries and 2 continents. Although Etisalat Group, being a significant minority shareholder, also has management rights of PTCL. The ratings also factor in the Government of Pakistan as sponsor, and its past precedent of unwavering financial and logistical support to its entities as well as management and financial expertise of Etisalat Group, which holds credit ratings of AA- from S&P and Aa3 from Moody's.

The business risk profile is considered low to medium, characterized by low sensitivity to economic cyclicality, high barriers to entry and a growing market for internet connectivity driven by a wave of digitalization and growing population.

The ratings are underpinned by the telecom sector's low to medium business risk profile, supported by its non-cyclical nature and the critical reliance of other telecom operators and Internet service providers on the Company's infrastructure. Additionally, the sector benefits from favorable long-term growth drivers, including increasing demand for internet connectivity fueled by accelerating digitalization trends, population growth, and the sector's highly regulated framework, which creates substantial barriers to entry and supports competitive stability. The Ratings further take into account the fact that the majority of telecom equipment has to be imported, which exposes the industry to exchange and transfer risk.

The rating incorporates leading market positions 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 the largest and state of the art International Submarine Cable network comprising of four diverse routes cables i.e., AAE1, SMW4, IMEWE and SMW3 and one new sea cable (Africa-1) in pipeline, PTCL is well positioned to serve the data needs of the country. The Company is also concentrating on growing its wholesale and corporate business segments to drive future growth.

Revenue of the company registered growth, 9MCY24 net margins came under-stress amid higher finance cost

The Company recorded a topline growth of 15.4% during CY23, reaching Rs. 96.3 billion (CY22: Rs. 83.4 billion), driven by robust performance across all segments, particularly in the Corporate and Wholesale segments. Revenue from broadband and IPTV services contributed 42.8% (CY22: 42.3%) to the total topline, supported by the aggressive Flash Fiber expansion and a significant increase in carrier services revenue, which grew by 106.8% YoY and 22.5% YoY, respectively. Corporate services revenue rose by 24.7% YoY, wherein PTCL maintaining its market leadership in IP Bandwidth, Cloud, Data Centers, and other ICT service segments.

In line with the revenue growth, the Company's Gross Profit rose by 10.6% YoY in CY23. However, the gross margin inched down to 20.95% (CY22: 21.85%) due to inflationary pressures, elevated energy costs, and PKR depreciation against USD. Operating costs grew by 14.6%, reflecting the increased scale of operations and inflationary impact

Other income surged to Rs. 19.4 billion (CY22: Rs. 10.8 billion), primarily due to gains on asset disposals, exchange gains, and interest income from loans extended to subsidiaries. However, finance costs rose significantly to Rs. 10.4 billion (CY22: Rs. 2.2 billion), driven by higher interest rates and increased borrowings to support working capital needs and subsidiary financing. Consequently, despite strong revenue growth, the net profit saw a modest increase of 3.72%, reaching Rs. 9.4 billion (CY22: Rs. 9.05 billion), with a net margin to stood at 9.8% (CY22: 10.8%) in CY23.

For 9MCY24, the upward revenue trajectory continued, with topline growth of 11.0% Y/Y to Rs. 79.5 billion, fueled by broadband and Flash Fiber growth. The gross margin improved to 25.3% (9MCY22: 23.8%), supported by effective energy cost management and better pricing strategies. However, higher finance costs (up 94% YoY) and reduced other income weighed heavily on profitability, leading to an 87% decline in net profit compared to the same period last year. Resultantly, net margin declined notably to 1.3% in 9MCY24. Looking ahead, the reduction in interest rates is expected to alleviate pressure on finance costs, providing support to the Company's profitability

Liquidity Profile has come slightly under stress. However, coverage profile remains at manageable levels.

PTCL's liquidity position has come under slight stress relative to its historical benchmark, due to increased reliance on borrowings to finance investments in its subsidiaries, Consequently, the Company's current ratio inched down to 0.80x in CY23 (CY22: 0.83x). Additionally, the cash conversion cycle (CCC) stretched to 119 days (CY22: 71 days), primarily due to delays in receivables from associates. Despite this, the liquidity position remains manageable.

The Company's coverage profile has seen some strain due to elevated borrowings and rising interest rates. In CY23, Funds from Operations (FFO) decreased by 2% year-over-year, primarily due to higher financing costs. This led to a reduction in the FFO-to-Total Debt ratio to 0.38x (CY22: 1.23x), while the Debt Service Coverage Ratio (DSCR) moderated to 3.48x (CY22: 11.80x).

These borrowings were directed towards investments in PTCL's and Ufone's network, including deployment of the 4G spectrum. These strategic expenditures, contributed to enhanced revenues and operational improvements for both companies

The Short-Term Debt Coverage Ratio (ST-DCR) dropped significantly to 2.17x (CY22: 424.24x), as during the year as a result of continued reliance on short term debt. While it has increased the Company's exposure to rollover risk. However, the risk is mitigated by availability of ample short-term financing lines and implicit backing of its sponsors and PTCL's established reputation and strong presence in the capital markets.
As of 9MCY24, the current ratio reduced to 0.74x (CY23: 0.80x) Due to the nature of the company's business and products, there is no inventory, which naturally limits the contribution of this component to the current assets.

Additionally, the CCC stretched further to 132 days (CY23: 119 days) due to continued delays in receivables from associates, but still somewhat remains manageable.

In 9M'CY24, the DSCR clocked in at1.71x (CY23: 3.48x) amid continued reliance on debt for CAPEX and to provide financial support to subsidiaries and elevated level of interest rates. Despite this, the Company's coverage ratios remain at manageable level. Owing to the downward trend in the Benchmark interest rate going forward the Debt servicing of the company will be substantially reduced.

Capitalization profile remains satisfactory

The Company's equity base increased by 8.6% in CY23, primarily driven by profit retention. Historically, PTCL maintained an almost negligible gearing ratio, relying predominantly on its internal cash. However, since CY22, the Company utilized both long-term and short-term financing to finance investment in its network and provide financial assistance to its subsidiary, Ufone, particularly following the acquisition of 4G spectrum.
As a result, the Company experienced an increase in its gearing and leverage ratios, which stood at 0.66x (CY22: 0.22x; CY21: 0.02x) and 2.30x (CY22: 1.82x; CY21: 1.47x), respectively. Despite the rise, these ratios remain within a reasonable range

In 9M'CY24, the increasing trend in capitalization metrics persisted, with gearing further increased to 0.89x (end-CY23: 0.66x) respectively due to continued reliance on debt for CAPEX and to provide financial support to subsidiaries. Despite this, the Company's gearing ratios remain at manageable levels. Looking ahead, PTCL plans to optimize its debt structure by reducing reliance on short-term financing. The Company is in the process of arranging a syndicated long-term finance facility, which will be mainly utilized to settle short-term borrowings and for further capex requirement of the company. Going forward, capitalization indicators are expected to remain the same range during the rating horizon.

Sound Corporate Governance Framework

- In accordance with the provisions of Share Purchase Agreement between Government of Pakistan (GOP) and Etisalat Group as well as under the Articles of Associations of PTCL, the GOP has four nominees while strategic investor, Etisalat Group, has five nominees on the Board. All members are non-executive directors.
- A formal and effective mechanism is put in place for an annual evaluation of the Board's own performance and of its committees.
- 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 an SAP-based Enterprise Resource Planning system. Detailed and timely annual report disclosures bode well from a transparency perspective and provide important information to stakeholders.

Financial Summary

(Amount in Million)

BALANCE SHEET	Dec'21	Dec'22	Dec'23	9M'24
Property, Plant & Equipment	121,508	131,490	144,018	158,213
Long-term Investments	30,736	44,736	71,836	74,236
Long-term Loan	9,077	20,181	32,225	45,411
Trade Debts	27,937	39,293	52,587	57,765
Loan and advances	4,931	5,344	4,628	5,026
Cash & Bank Balances	2,556	5,685	10,029	11,614
Other Assets	48,989	58,430	72,278	78,850
Total Assets	**245,735**	**305,159**	**387,602**	**431,115**
Trade and Other Payables	103,320	125,101	141,424	150,584
Short Term Borrowings	-	93	24,215	42,836
Long-Term Borrowings *(Inc. current matur)*	1,729	24,068	52,703	63,099
Deferred Liabilities	11,517	16,103	15,081	16,785
Other Liabilities	29,516	31,741	36,811	39,444
Total Liabilities	**146,082**	**197,105**	**270,234**	**312,748**
Issued, Subs, and Paid Up Capital	51,000	51,000	51,000	51,000
Equity	**99,653**	**108,054**	**117,368**	**118,368**
INCOME STATEMENT	**Dec'21**	**Dec'22**	**Dec'23**	**9M'24**
Net Sales	76,853	83,444	96,267	79,536
Gross Profit	16,533	18,233	20,165	20,109
Operating Profit	10,021	15,684	24,275	18,716
Profit Before Tax	9,682	13,513	13,906	1,469
Profit After Tax	6,874	9,053	9,391	1,000
FFO	27,784	29,617	29,018	18,308
RATIO ANALYSIS	**Dec'21**	**Dec'22**	**Dec'23**	**9M'24**
Gross Margin (%)	21.5%	21.9%	20.9%	25.3%
Net Margin (%)	8.9%	10.8%	9.8%	1.3%
FFO to Long-Term Debt*	16.07	1.23	0.55	0.39
FFO to Total Debt*	16.07	1.23	0.38	0.23
Debt Servicing Coverage Ratio (x)*	36.49	11.80	3.48	1.71
ROAA (%)*	2.9%	3.3%	2.7%	0.3%
ROAE (%)*	7.1%	8.4%	8.0%	1.1%
Gearing (x)	0.02	0.22	0.66	0.89
Debt Leverage (x)	1.47	1.82	2.30	2.64
Current Ratio	0.76	0.83	0.80	0.74
Inventory + Receivables/Short-term Borrowings	N/A	424.43	2.17	1.35
Cash Conversion Cycle	47	59	91	118

**Annualized*

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Pakistan Telecommunication Company Limited
Sector	Telecommunication Industry
Type of Relationship	Solicited
Purpose of Rating	Short-term Sukuk X Rating
Rating History	see table below
Instrument Structure	Pakistan Telecommunication Company Limited ("PTCL" or the "Company") intends to issue a Rated, Unlisted, Unsecured, Callable after three months from issue date and Privately Placed Short Term Sukuk (STS-10) of PKR 10 bn, based on Shariah compliant Structure. The funds will be will be utilized for fulfilling the working capital requirements of the Company. The issue has a tenor of six (06) months from the Issuance Date. Profit will be payable at the maturity.
Statement by the Rating Team	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.
Probability of Default	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.
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Due Diligence Meetings Conducted	N/A

Rating History:

Rating Date	Ratings	Rating Action
Short Term Sukuk X		
10/01/2025	A1+ (plim)	Preliminary